

LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

SENATE, No. 3693

STATE OF NEW JERSEY 221st LEGISLATURE

DATED: OCTOBER 22, 2024

SUMMARY

- Synopsis:** Revises statutes implementing certain property tax relief programs pursuant to recommendations promulgated by Stay NJ Task Force.
- Type of Impact:** Net impact on State costs.
Increase in State revenues.
- Agencies Affected:** Department of the Treasury.
Municipalities.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2025 & FY 2026</u>	<u>FY 2027 & FY 2028</u>
Net State Cost Impact	Indeterminate	Indeterminate
State Revenue Increase	\$60 million to \$70 million	\$102 million to \$120 million

- The Office of Legislative Services (OLS) concludes that the bill will have an indeterminate impact on State costs and result in an increase in State revenues.
- The provisions of the bill modifying the method for calculating Stay NJ benefits will have a net neutral impact on State costs. The revised method for calculating these benefits will not increase total State expenditures for the Affordable New Jersey Communities for Homeowners and Renters, or ANCHOR, property tax relief program; the homestead property tax reimbursement (“Senior Freeze”) program; and the Stay NJ Property Tax Credit (“Stay NJ”) program. Instead, these provisions will result in the realignment of the State costs of property tax relief benefits among these programs.
- By establishing a new definition of “income” for purposes of determining eligibility for the Senior Freeze and Stay NJ programs, the bill may result in an indeterminate reduction in State costs. The OLS notes that this definition of income, which includes certain categories of previously excluded income, may cause property taxpayers to lose their eligibility for the Stay NJ program to the extent that their income would now exceed the \$500,000 eligibility limit.

- The bill extends the duration of the Stay NJ Task Force. To the extent that the State incurs additional expenditures related to the Task Force, the bill will result in increased State cost. The FY 2025 Appropriations Act provided \$2 million for the Stay NJ Task Force.
- The bill is also expected to increase State revenues by limiting the amount of the gross income tax deduction that may be claimed for property taxes paid. Specifically, the bill requires the amount of allowable deduction from gross income to be reduced by the value of ANCHOR and Stay NJ property tax benefits received by the taxpayer. As a result, taxpayers will report a higher amount of gross income and have higher gross income tax liabilities.

BILL DESCRIPTION

The bill amends and supplements the statutes concerning the homestead property tax benefit program, the homestead property tax reimbursement program, and the Stay NJ property tax credit program in order to implement the recommendations of the Stay NJ Task Force. The statutes controlling the homestead property tax benefit program also provide statutory authority for the ANCHOR Property Tax Relief Program established by the FY 2023 Appropriations Act. The changes to current law proposed by the bill are intended to align the various administrative and eligibility requirements in order to provide for the efficient implementation of property tax benefits. This bill description addresses only those aspects of the bill that have a fiscal impact.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

When considered in its entirety, the OLS concludes that the bill have an indeterminate net impact on State costs. The bill will also result in an increase in State revenues associated with the reduction in the allowable gross income tax deduction for property taxes paid.

State Costs – Property Tax Relief Programs

The OLS concludes that the provisions of the bill modifying the method for calculating Stay NJ benefits will have a net neutral impact on State costs. Although the bill changes the method for determining the amount of property tax relief benefits that may be distributed to eligible claimants through the ANCHOR, Senior Freeze, and Stay NJ programs, the bill will not change the total State costs related to the provision of property tax relief benefits under the programs. Instead, the bill will result in a redistribution of the cost of property tax relief benefits among those programs.

Benefit Calculation. Current law entitles an eligible claimant to the greater of the Stay NJ property tax credit or the combined amount of the ANCHOR property tax rebate and the Senior Freeze reimbursement. The maximum Stay NJ property tax credit is 50 percent of an eligible claimant's property tax bill, not to exceed \$6,500 in tax year 2026, with annual adjustment in future years based on the annual increase in the average residential property tax bill. Under current law,

nearly all eligible claimants would receive their property tax benefits through the Stay NJ Program because the Stay NJ property tax credit is likely to be greater than the combined amounts provided through other property tax relief programs.

The bill provides that an eligible claimant will receive the full amount of the Senior Freeze reimbursement and an ANCHOR property tax rebate during any year in which they qualify for those benefits. If an eligible claimant also qualifies for a Stay NJ property tax credit, the amount of the credit would be equal to the amount of the claimant's allowable Stay NJ property tax credit, less the amount of the ANCHOR rebate and the Senior Freeze reimbursement. If the total amount provided to an eligible claimant through the ANCHOR and Senior Freeze programs exceeds 50 percent of their property tax bill, they will not receive a Stay NJ property tax credit in that year.

If the bill is enacted into law, most eligible claimants will receive property tax benefits through a combination of the Senior Freeze, ANCHOR, and Stay NJ programs rather than through the Stay NJ property tax credit program only. Although the proposed changes to the Stay NJ program will affect the amount of property tax relief benefits that an eligible claimant receives through each property tax relief program, these changes will not affect the total amount of property tax relief benefits provided to each eligible claimant or the total cost of these programs collectively.

Calculation of Income. The bill revises the definition of income for purposes of determining eligibility for the Senior Freeze and Stay NJ property tax credit programs. The OLS anticipates that the proposed definition of income will result in an indeterminate decrease in State costs.

Under the Stay NJ program, income is determined based on an eligible claimant's gross income, not including any category of excluded income, before the application of any deduction, exemption, or credit. For the Senior Freeze, income is currently determined based on an eligible claimant's total income, including income that is excluded from gross income under the New Jersey Gross Income Tax Act. Under the new definition of income for both programs, an eligible claimant's income will be determined using gross income, before the application of exclusions and deductions, plus income from the following sources that are excluded from income under current law: (1) all payments received under the federal Social Security Act; (2) all pension and annuity income; (3) interest income; (4) other retirement income; and (5) distributions from a Roth Individual Retirement Account.

If the bill is enacted into law, certain sources of income that are currently included in the definition of income for the purposes of determining Senior Freeze eligibility would no longer be included in that calculation. The proposed changes to the definition of income may allow some applicants to gain eligibility for the Senior Freeze because the amount of income reported for purposes of the Senior Freeze would be lower than the amount required to be reported under current law.

The OLS notes that the income eligibility limit for the calendar year 2024 (or FY 2025) Senior Freeze is \$163,050. Current law requires the income eligibility limit to increase annually based on the Social Security cost-of-living increase. The United States Social Security Administration has announced that the Social Security cost-of-living increase for calendar year 2024 will be 2.5 percent. At that rate, the income eligibility limit will increase to \$167,126. The income eligibility limit for the Stay NJ program is \$500,000. Therefore, a property taxpayer who is currently not eligible for Senior Freeze may be eligible for the Stay NJ property tax credit. Under the bill, the Stay NJ property tax credit would equal the difference between the total amount of an eligible claimant's allowable Stay NJ benefit, less the combined amount of the claimant's ANCHOR and Senior Freeze benefits. To the extent that the bill allows an eligible claimant to receive a homestead property tax reimbursement, they will receive a lower Stay NJ property tax credit. This aspect of the revised definition of income will have no impact on State costs.

In contrast, the revised definition of income for the Stay NJ program would be more inclusive than the definition provided in current law, thereby causing some claimants to lose eligibility for

the Stay NJ program. The OLS anticipates that this will result in an indeterminate decrease in State costs, but anticipates that this provision of the bill will impact a small number of eligible claimants. As previously noted, the income eligibility limit for the Stay NJ property tax credit program is \$500,000. Information published by the Department of the Treasury in the Statistics of Income: 2018 Gross Income Tax Returns indicates that about 27,800 of tax returns with at least one filer over age 65 reported income of \$250,000 to \$500,000. This represents about 3.6 percent of all gross income tax returns with at least one filer over age 65. The OLS cannot predict how many property taxpayers would not qualify for a Stay NJ property tax credit because their income will exceed the eligibility limit under the new definition.

Benefit Distribution. Under current law, there are different methods of distribution for property tax relief benefits. The Senior Freeze is distributed as a check while the ANCHOR rebate is provided by check or direct deposit. Current law also requires the Stay NJ benefit to be provided as a credit against an eligible claimant's property tax bill. The bill requires Stay NJ property tax credits to be paid and distributed as either a check or by direct deposit in the first year the program is implemented. The bill also permits the distribution of Senior Freeze reimbursements by check, direct deposit, or as a property tax credit.

The OLS estimates that these provisions of the bill will have an indeterminate impact on State costs. The State will incur additional costs associated with the printing and mailing of Stay NJ checks to eligible claimants. However, these costs may be offset by a reduction in expenditures associated with the printing and mailing of checks to eligible claimants who receive a Senior Freeze reimbursement if these benefits are instead provided through direct deposit or as a property tax credit.

State Costs – Stay NJ Task Force

The bill extends the duration of the Stay NJ Task Force. Under current law, the Stay NJ Task Force is scheduled to expire on the 30th day following the enactment of legislation implementing the task force's recommendations. The bill requires the Stay NJ Task Force to continue to meet quarterly to assist the Director of the Division of Taxation in developing a process for the payment of the homestead property tax reimbursement and Stay NJ property tax benefits as property tax credits. To the extent that the State incurs additional expenditures related to the task force, the bill would result in increased State costs. The OLS notes that the FY 2025 Appropriations Act provided \$2 million for the Stay NJ Task Force; of that amount, about \$7,000 has been expended.

State Revenues

The Property Tax Deduction Act allows homeowners who pay property taxes on a primary residence in New Jersey, either directly or through rent, to deduct the total amount of property taxes paid, not to exceed \$15,000, from their gross income. Tenants may deduct 18 percent of rent paid during the tax year. According to guidance published by the Division of Taxation, taxpayers are not required to deduct property tax relief payments from the amount of property taxes deducted from gross income. The bill amends current law to clarify that amounts deducted from gross income will be limited to property taxes paid by the taxpayer as opposed to the amount billed to the taxpayer.

The bill requires taxpayers to reduce the total amount of property taxes or rent deducted from gross income by the total amount of ANCHOR rebates and Stay NJ credits received during the tax year. This will reduce the amount of property taxes that taxpayers deduct from their gross income for property taxes or rent. As a result, taxpayers will report a higher amount of gross income that is subject to State taxation, and in turn, result in higher gross income tax liabilities. The OLS notes that this provision of the bill applies to all gross income taxpayers who receive ANCHOR property tax rebates and Stay NJ property tax credits.

This provision of the bill takes effect immediately and will first apply to property tax relief benefits received by taxpayers in calendar year 2024. Calendar year 2024 gross income tax returns will be filed in FY 2025. The OLS estimates that this provision of the bill will result in additional State revenues of approximately \$60 million to \$70 million per year in fiscal years 2025 and 2026. The State revenue gain will increase to \$101.7 million to \$119.7 million per year in fiscal years 2027 and 2028 because taxpayers will be able to reduce the amount of property taxes deducted from gross income by the value of Stay NJ property tax credits total amount of property taxes they received in calendar years 2026 and 2027.

The OLS notes taxpayers who receive the Senior Freeze only are allowed to deduct from gross income the amount of property taxes paid in their base year. The amount they deduct from gross income has already been adjusted to reflect the amount of the homestead property tax reimbursement. Accordingly, the estimated amount of Senior Freeze benefits to be provided in FY 2025 through FY 2028 were not included in the calculation of the additional State revenues resulting from this provision of the bill.

Section: Revenue, Finance, and Appropriations

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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).