
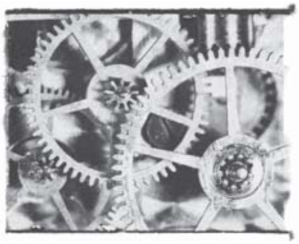

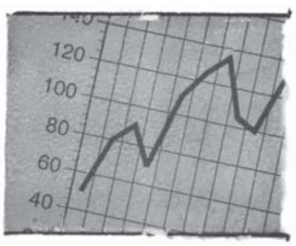


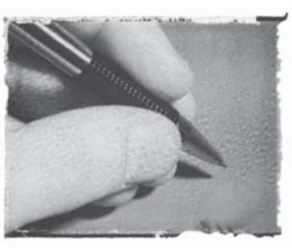


ANALYSIS OF THE NEW JERSEY BUDGET

TAX AND REVENUE OUTLOOK

FISCAL YEAR 2018-2019

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • APRIL 2018

NEW JERSEY STATE LEGISLATURE

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This report was prepared by the Revenue, Finance and Appropriations Section of the Office of Legislative Services under the direction of the Legislative Budget and Finance Officer. The primary authors were Jordan M. DiGiovanni and Scott A. Brodsky.

Questions or comments may be directed to the OLS Revenue, Finance and Appropriations Section (609-847-3835) or the Legislative Budget and Finance Office (609-847-3105).

The FY 2018 and FY 2019 Tax and Revenue Outlook

Introduction

The Office of Legislative Services (OLS) has prepared this report to assist the members of the Senate Budget and Appropriations Committee and the Assembly Budget Committee as they develop the FY 2019 annual appropriations bill. The OLS revenue estimates rely on a review of current State revenue collections, revisions to State and federal laws, historical revenue collection patterns, and a variety of economic data and forecasts, as well as professional judgment.

The OLS projects that combined FY 2018 and FY 2019 revenues will be $180.0 million less than the estimates in the FY 2019 Governor's Budget Recommendation:

- For FY 2018, the OLS revenue estimates are $3.4 million below the Executive budget estimates, essentially identical (page 2).

- For FY 2019, the OLS revenue estimates are $176.6 million, or 0.5%, below the Executive budget estimates (page 3).

Contents	Page

Fiscal Year 2018 Revenue Estimates

Figure 1
Fiscal Year 2018 Revenue Estimates
($ millions)

	Appropriations Act Certified	Governor's Budget Message: Revised Amount	Governor's Budget Message: Change	OLS Est. Amount	OLS vs. GBM Difference
Gross Income Tax	$14,382.2	$14,980.3	$598.1	$15,139.4	$159.1
Sales Tax*	9,704.9	9,545.8	-159.1	9,545.8	0.0
Corporation Business Tax*	2,375.4	2,200.1	-175.3	2,048.6	-151.5
CBT Banks & Financials	201.4	170.4	-31.0	150.6	-19.8
Petroleum Products GR Total	1,487.2	1,442.2	-45.0	1,354.2	-88.0
Less PPGR Capital Reserves	*-940.2*	*-845.7*	*94.5*	*-770.5*	*75.2*
Inheritance Taxes	745.8	609.6	-136.2	582.8	-26.8
Insurance Premiums Tax	578.2	525.0	-53.2	580.1	55.1
Realty Transfer Fee	382.8	381.8	-1.0	363.1	-18.7
$1 Million Assessed Properties	153.0	157.4	4.4	139.2	-18.2
Alcoholic Beverage Excise	107.0	104.8	-2.2	107.0	2.2
Other Revenues*	5,540.4	6,205.5	665.1	6,233.5	28.0
Grand Total, All Funds	**$34,718.1**	**$35,477.2**	**$759.1**	**$35,473.8**	**-$3.4**

See appendices for additional detail. Numbers may not add due to rounding.
GBM = Governor's Budget Message. * Sales and corporate energy revenues are in Other Revenues.

Figure 1 presents the FY 2018 revenue certification from the Appropriations Act (July 2017), the Executive's revisions as presented in the March 2018 Governor's Budget Message, and the OLS forecast. Highlights of the revenue estimates include:

Executive

- Revised estimates for total revenues are up by $759.1 million from the level certified in the FY 2018 Appropriations Act.
- The estimate for the gross income tax is up $598.1 million.
- The estimate for the sales tax is down $159.1 million.
- The estimate for the corporation business tax is down $175.3 million.
- The total petroleum products tax, including the Capital Reserves, is down $45.0 million.
- The inheritance taxes estimate is down $136.2 million.
- The estimate for the insurance premiums tax is down $53.2 million.
- Other revenues are up by $665.1 million from the levels certified in the FY 2018 Appropriations Act.

Office of Legislative Services

- The total revenue estimate for FY 2018 is **$3.4 million below** the Executive's revised projection.
- The estimate for the gross income tax is $159.1 million above the Executive's.
- The estimate for the sales tax is the same as the Executive's.
- The estimate for the corporation business tax is $151.5 million below the Executive's.
- The petroleum products tax estimate is $88.0 million below the Executive's.
- The inheritance taxes estimate is $26.8 million below the Executive's.
- The estimate for the insurance premiums tax is $55.1 million above the Executive's.
- The estimate for other revenues is $28.0 million above the Executive's.

Fiscal Year 2019 Revenue Estimates

Figure 2
Fiscal Year 2019 Revenue Estimates
($ millions)

	Governor's Budget Message		OLS Estimates		
	Amount	Annual Change	Amount	Annual Change	OLS vs. GBM Difference
Gross Income Tax	$16,231.6	8.4%	$16,260.4	7.4%	$28.8
Sales Tax*	10,440.9	9.4%	10,440.9	9.4%	0.0
Corporation Business Tax*	2,436.8	10.8%	2,228.6	8.8%	-208.2
CBT Banks & Financials	183.1	7.5%	161.9	7.5%	-21.2
Petroleum Products GR Total	1,442.2	0.0%	1,354.2	0.0%	-88.0
Less PPGR Capital Reserves	*-809.1*	*-4.3%*	*-718.3*	*-6.8%*	*90.8*
Inheritance Taxes	466.3	-23.5%	466.3	-20.0%	0.0
Insurance Premiums Tax	525.0	0.0%	580.1	0.0%	55.1
Realty Transfer Fee	395.1	3.5%	375.8	3.5%	-19.3
$1 Million Assessed Properties	156.2	-0.8%	135.5	-2.7%	-20.7
Alcoholic Beverage Excise	107.9	3.0%	107.5	0.5%	-0.4
Other Revenues*	5,921.0	-4.6%	5,927.5	-4.9%	6.5
Grand Total, All Funds	**$37,497.0**	**5.7%**	**$37,320.4**	**5.2%**	**-$176.6**

See appendices for additional detail. Numbers may not add due to rounding.
GBM = Governor's Budget Message. * Sales and corporate energy revenues are in Other Revenues.

Figure 2 displays the Executive FY 2019 revenue estimates as presented in the March 2018 Governor's Budget Message and the OLS forecast. Highlights of the revenue estimates include:

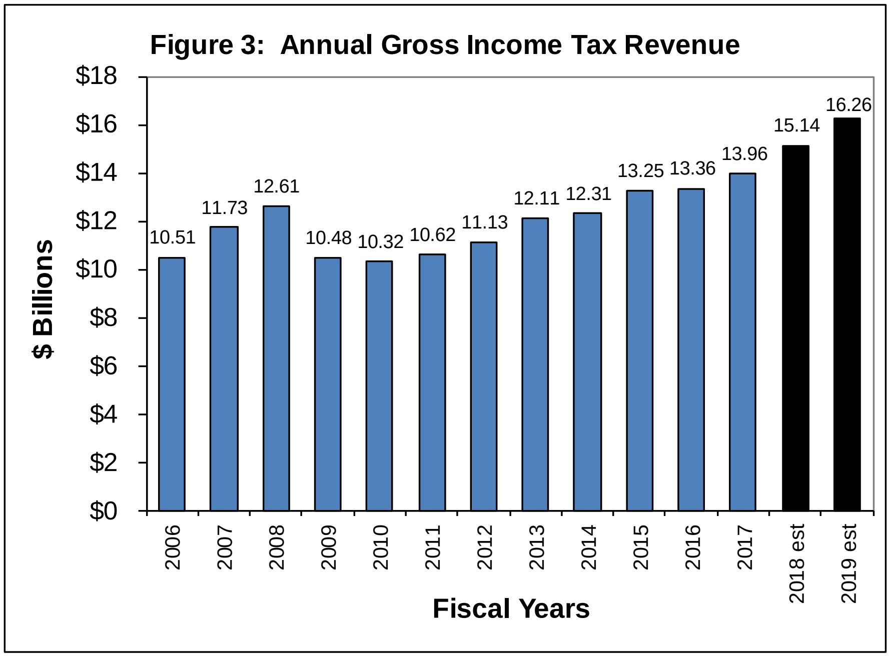
Executive

- The total revenue estimate for FY 2019 is $2.018 billion above FY 2018, a 5.7% increase. Several proposed tax law changes contribute to the robust rate of growth.
- The gross income tax estimate is up $1.251 billion, or 8.4%.
- The sales tax estimate is up $895.1 million, or 9.4%.
- The corporation business tax estimate is up $236.7 million, or 10.8%.
- The CBT banks and financials tax estimate is up $12.8 million, or 7.5%.
- The petroleum products tax estimate is flat.
- The inheritance taxes estimate is down $143.3 million, or 23.5%.
- The insurance premiums tax estimate is flat.

Office of Legislative Services

- The total revenue estimate for FY 2019 is **$176.6 million below** the Executive's projection, and 5.2% above the OLS estimated FY 2018 total.
- The gross income tax estimate is $28.8 million above the Executive's.
- The sales tax estimate is the same as the Executive's.
- The corporation business tax estimate is $208.2 million below the Executive's.
- The CBT banks and financials tax estimate is $21.2 million below the Executive's.
- The petroleum products tax estimate is $88.0 million below the Executive's.
- The inheritance taxes estimate is the same as the Executive's.
- The insurance premiums tax estimate is $55.1 million above the Executive's.

Gross Income Tax



Note: Unless otherwise referenced, all graphs display actual or OLS estimated revenues.

The gross income tax (GIT) continues to be the State's largest revenue. FY 2017 was the seventh consecutive year of annual growth, but that growth averaged just 4.4% compared to a long-run average growth of about 6.0%, reflecting the slow economic recovery. Growth is projected to continue for FY 2018 and FY 2019.

Fiscal Year 2018

Through the first eight months of FY 2018, the GIT was up 13.7%, about $1.134 billion above the same period last year. A large part of this growth came in the form of direct payments in December and January, which were up about $495.0 million above the prior years. **A large part of the year-to-date growth is attributable to non-recurring, one-time effects of changes in the federal tax code which likely influenced taxpayer behavior**.

First, under the federal Emergency Economic Stabilization Act of 2008, hedge fund managers who deferred compensation into accounts in offshore banks under IRC section 457A had until December 31, 2017 to repatriate this deferred compensation income for federal income tax purposes. Hedge fund managers must source compensation deferred to this State if it was attributable to New Jersey at the time it was earned and deferred. Any GIT revenue realized from this federal tax law provision will be limited to taxpayers' tax year 2017 returns.

Second, the federal Tax Cuts and Jobs Act, enacted on December 22, 2017, placed a $10,000 cap on the federal income tax deduction for state and local taxes (SALT) starting in tax year 2018. Prior to the Tax Cuts and Jobs Act, the deduction was unlimited for many taxpayers. Both the Executive and the OLS believe that in order to maximize deductions in tax year 2017, some taxpayers made larger estimated payments at the end of the year. While the exact impact of this taxpayer behavior is not known, both the Executive and OLS conclude that about half of the surge in late-year direct payments from taxpayers is non-recurring, and much of the balance is a shift within the same fiscal year.

In addition, year-to-date withholding receipts were up 5.5% after adjusting for the receipt of one extra withholding payment in FY 2018 to date over the same period in FY 2017. This payment schedule shift will even out by the end of March. Refunds declined by about 1.7%.

For FY 2018, the Executive has increased its GIT estimate by $598.1 million from the amount certified in July, to $14.980 billion, 7.3% growth over FY 2017. Given enhanced collections in December and January from one-time revenue sources and other trends to date, attaining the Executive's estimate is plausible.

The OLS also assumes improvement in the GIT trend over the rest of the year. As is true in most years, the forecast is tied to how the minority of taxpayers who pay the majority of the GIT fared during the prior year. Typically, high-income taxpayers derive a larger share of their annual income from more volatile sources than salaries and wages. As a result, they pay the bulk of April final payments and quarterly estimated payments. Taxpayers with significant non-wage income may have had income gains in tax year 2017. Financial markets were up at the end of last year, as indicated by a 19.4% rise in the S&P 500 index.

The nature of this year's "April Surprise," however, is unusually difficult to predict, given that three countervailing effects provided an incentive for taxpayers to shift income between tax years 2016, 2017, and 2018.

Bolstering expectations for a rise in April tax payments is the assumption that taxpayers were incentivized to push income out of 2016 and into 2017 in anticipation of federal tax cuts, and thus are likely to realize more capital gains income in 2017.

Similarly bolstering expectations for a rise in April tax payments is the incentive for taxpayers to accelerate income realization from 2018 to 2017 in anticipation of an increase in the top marginal State GIT rate for tax year 2018.

The off-setting tax planning incentive to shift income from tax year 2017 to tax year 2018 is the federal tax reforms that will take effect in tax year 2018. Any shift of income into tax year 2018 will lower April tax payments in FY 2018.

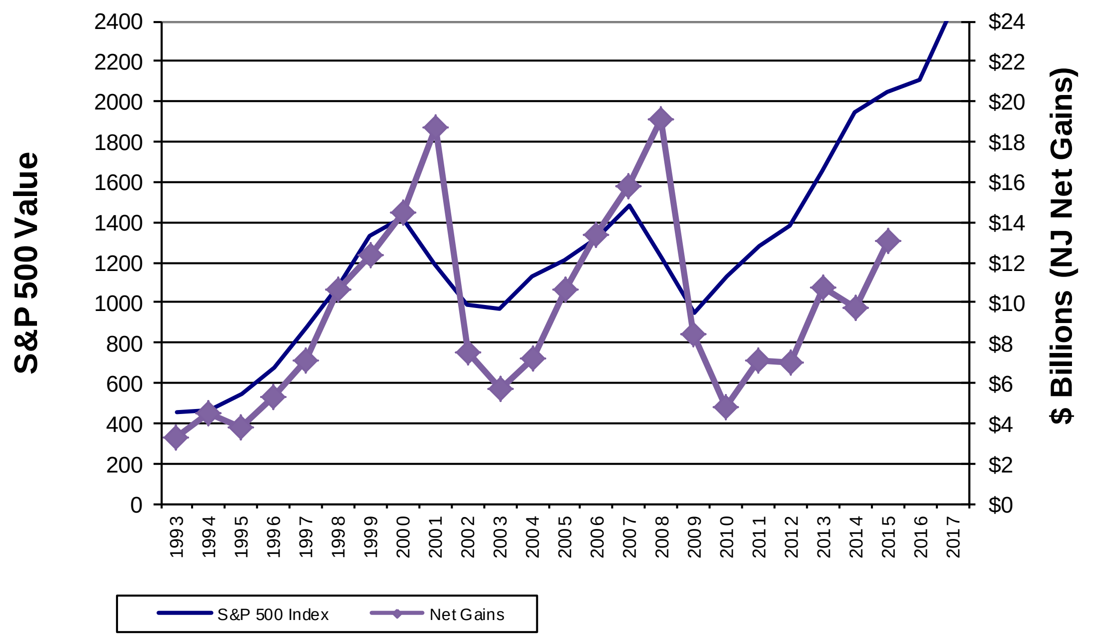
Capital gains income is not tracked on a monthly basis, and the OLS does not explicitly project capital gains. **Figure 4**, on the following page, shows how closely capital gains ("net gains" according to the *NJ Statistics of Income*) are correlated to the performance of the financial markets.

All told, the OLS projects growth of approximately 6.0% in final and estimated payments this spring.

The OLS assumes that refunds will remain flat year-over-year for the remainder of the fiscal year. Lastly, the OLS assumes that the underlying year-to-date trend of about 5.5% growth in withholding payments will continue.

Accordingly, the OLS estimates the GIT will total $15.139 billion for FY 2018, 8.5% growth over FY 2017. That OLS estimate is $159.1 million above the Executive's estimate.

Figure 4: NJ Net (Capital) Gains and the S&P 500 Index



Net Gains (capital gains) data from the NJ Statistics of Income through Tax Year 2015, http://www.state.nj.us/treasury/taxation/soiintro.shtml.

Fiscal Year 2019

The Executive's FY 2019 estimate is impacted by multiple legislative proposals to generate a net increase in GIT revenues. Most notably, the Executive is proposing to increase the marginal tax rate on income over $1.0 million from 8.97% to 10.75%, which is estimated by the Executive to yield $765.0 million. Overall, the Executive projects 8.4% growth for the GIT in FY 2019, yielding $16.232 billion.

The OLS accepts the Executive's estimate of $765.0 million for the tax rate increase and the estimates of other policy changes affecting the GIT. However, the OLS projects a lower growth rate of 7.4% off the OLS' higher FY 2018 base, yielding $16.260 billion, or $28.8 million more than the Executive.

The OLS' GIT estimate for FY 2019 assumes further growth in withholding receipts at a rate of 5.0%, as the labor market continues to tighten and wage growth continues. Withholding accounts for about three-quarters of total GIT collections each year, so the assumption of continued withholding growth is a primary driver of the OLS' overall forecast for FY 2019.

Additionally, the OLS' FY 2019 GIT estimate rests on the assumption of continued positive growth in quarterly estimated payments and final payments by high-income taxpayers. Estimated payments in FY 2019 will not benefit from the one-time revenues present in the FY 2018 base. However, partially offsetting the loss of these one-shot revenues is the expectation that high-income taxpayers realized capital gains income, previously deferred in prior years, in the beginning of

2018 and that the fluctuations in financial markets in the first quarter of 2018 caused asset sales, and capital gain realizations, by investors.

The Executive has included the impact of three policy changes in its estimate that suppress GIT revenues, mostly in the form of higher refunds. These proposals are as follows: increase the property tax deduction cap from $10,000 to $15,000 ($82.0 million); increase the Earned Income Tax Credit from 35% to 37% of the federal earned income tax credit ($27.2 million); and establish a new Child and Dependent Care Tax Credit ($14.0 million). The OLS anticipates steady growth of 2.0% in refund payments in FY 2019 and has included the Executive's estimates in its projections.

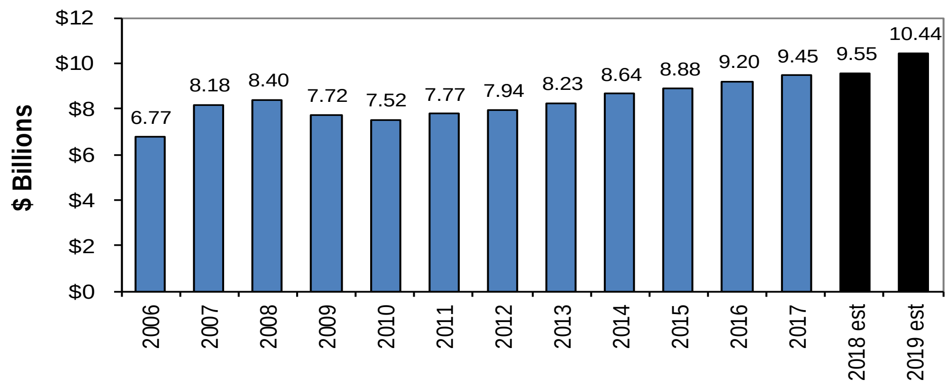
Estimating GIT revenue is inherently subject to uncertainty and volatility. GIT revenue growth is highly influenced by the performance of the financial markets, which impacts high-income taxpayers through capital gains, certain kinds of business income, as well as bonus income. Income changes for a small portion of the tax-paying population can have a large impact on GIT revenues. For example, the number of resident tax returns with income over $500,000 reached a new high of 63,596 in Tax Year 2015. These taxpayers accounted for 1.5% of total taxable returns, 23.6% of gross income, and 41.1% of tax payments. Changes in these high-income returns are highly correlated with fluctuations in financial markets. Forecasting the GIT is largely dependent on evaluating the income gains and losses, and the tax planning decisions, of these high-income taxpayers.

The OLS GIT forecast is constructed from an analysis of four separate components of the GIT cash flow:

- **Withholding**: Paid throughout the year by employers from amounts deducted from workers' paychecks (including bonuses and some stock options);
- **Estimated Payments**: Generally paid quarterly in April, June, September, and December/January by taxpayers with significant non-wage income, such as capital gains, dividends, and partnership income;
- **Final Year-End Payments**: Due each April, reconciling the prior tax year liability. Generally paid by taxpayers with significant non-wage income;
- **Refund Payments**: Paid by the State to taxpayers whose tax filings show tax payments exceeding tax liability.

Sales Tax

Figure 5: Annual Sales Tax Revenue



The sales tax[1] in FY 2018 is impacted by a reduction in the tax rate from 6.875% to 6.625%, effective January 1, 2018. Generally, this tax is among the steadiest of the major tax revenues, providing reliable, moderate rates of growth. From a growth perspective, FY 2018 performance is up 1.9% through the end of February compared to the same months last year.

The Executive decreased its estimate from the $9.705 billion certified last July to $9.546 billion, a drop of $159.0 million, largely attributable to the inclusion of $200.0 million in the FY 2018 certified sales and use tax estimate for certain tax enforcement initiatives which has since been allocated to other major revenues. The Executive expects the sales tax to grow by 1.0% in FY 2018.

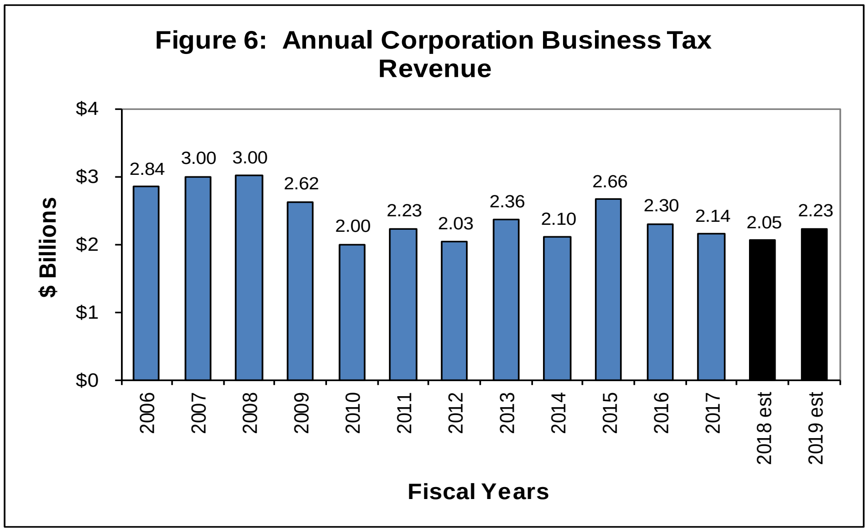
For FY 2019, the Executive is proposing to restore the sales tax rate to 7.0%, which the Executive estimates would yield an additional $546.0 million. The Executive is also proposing to expand the sales tax to transient accommodations ($15.0 million) and ridesharing services ($12.0 million). Furthermore, the Executive's estimate includes $40.0 million from enhancing use tax enforcement efforts related to remote sales. All told, the Executive estimates $10.441 billion in FY 2019 sales tax collections, a 9.4% increase over its revised FY 2018 estimate. Absent the proposed initiatives, the rate of growth, including the annualization of the effect of the January 2018 rate reduction, would be 3.0%.

Nationally, sales tax revenue growth has been low, with median state growth of 2.4% in FY 2017 and median projected state growth of 4.2% for FY 2018, according to an annual survey compiled by the National Association of State Budget Officers.

Given current trends and the impact of the tax rate reduction, the OLS agrees with the Executive's estimate for FY 2018. In FY 2019, the OLS accepts the Executive's estimates for increasing the sales tax rate, expanding the taxable base, and enforcement efforts, and agrees with the Executive's estimate of $10.441 billion for FY 2019.

[1] The analysis of the sales tax in this section excludes revenues from energy sources.

Corporation Business Tax



The corporation business tax (CBT) is among the most difficult revenues to project, in part because of the lack of a clear correlation between corporate profits and CBT collections. Confounding any such clear correlation, annual collections typically include both payments and refunds from multiple tax years. Corporate accounting practices also affect annual payments. Furthermore, FY 2018 and FY 2019 are likely to be impacted by myriad federal tax law changes due to the enactment of the federal Tax Cuts and Jobs Act.

An additional factor complicating CBT projections involves the impact of CBT tax credits, which depress growth. The Division of Taxation's *Tax Expenditure Report* estimates that various CBT tax credits will reduce annual collections by $520.3 million in FY 2018 and $826.0 million in FY 2019. These projections are difficult to tie directly to individual fiscal year CBT revenue forecasts because once awarded, credits can be delayed, transferred to other taxpayers and applied to other taxes, or adjusted for tax planning purposes.

The Executive's revised estimates reduce the certified FY 2018 projection of $2.375 billion to $2.200 billion, 2.7% growth over FY 2017. For FY 2019, the Executive projects $2.437 billion, 10.8% growth over FY 2018.

The Executive's FY 2019 estimate includes approximately $110.0 million from anticipated CBT revisions, which the Executive characterizes as modernization efforts, some of which require legislation. This proposal includes combined reporting with a limited "water's edge" election; market-based sourcing; reinstitution of the taxation of international holding companies; a one-time tax on the redeemed repatriation of foreign-held assets; and various changes to avert impacts of the Tax Cuts and Jobs Act.

Preliminary data for March in the State accounting system indicate CBT revenues are down 8.6% year-to-date. Given that current collections are trailing the Executive's FY 2018 target, the OLS estimates $2.049 billion, a 4.3% decline below FY 2017, and $151.5 million below the Executive's estimate. The OLS accepts the Executive's $110.0 million estimate attributable to CBT revisions in FY 2019. However, the OLS is projecting slower underlying growth of 3.4% in FY 2019, in comparison to the Executive's underlying growth projection of 5.8%, and estimates $2.229 billion in FY 2019, 8.8% growth from the OLS' lower FY 2018 base.

Petroleum Products Gross Receipts Tax and Motor Fuels Tax

Figure 7: Petroleum Products Gross Receipts Tax
Millions of Dollars

	FY17 Actual	FY18 Certified	Certified % Change	FY18 Revised	Revised % Change	FY19 Estimated	Estimated % Change
PPGRT Total	$862.4	$1,487.2	72.4%	**$1,354.2**	**57.0%**	**$1,354.2**	**0.0%**
Capital Reserves	$330.8	$940.2		**$770.5**		**$718.3**	
Adjusted PPGRT	$531.6	$547.0	2.9%	**$583.7**	**9.8%**	**$635.9**	**8.9%**

New Jersey imposes two taxes on the sale of gasoline and diesel fuels, the petroleum products gross receipts tax (PPGRT) and the motor fuels tax (which are at times collectively referred to as the "gas tax"). **Figure 7** displays PPGRT revenues between FY 2017 and FY 2019, incorporating OLS estimates.

Last July, the Governor certified $1,487.2 million for FY 2018. The Executive decreased that estimate to $1.442 billion, or 67.0% growth over last year. A portion of this revenue, $845.7 million, is earmarked to the PPGRT Capital Reserves for dedicated transportation purposes. The residual $596.5 million remains in the General Fund to support transportation debt service payments.

For FY 2019, the Executive estimates the PPGRT will remain the same as in FY 2018. The Capital Reserves portion declines to $809.1 million, while the General Fund portion increases to $633.1 million. This reflects the dynamic between total gas tax revenue and the amount budgeted for debt service.

Through the end of February, total PPGRT revenues of $831.2 million are running 134.8% above the same months last year. This growth stems primarily from the annualization of the 2016 tax rate increase which was not in effect during the early months of FY 2017.

The Executive's FY 2018 estimate requires the remaining months of FY 2018 to grow by approximately 19.3%, or an average monthly collection of $122.2 million. FY 2018 monthly collections have averaged $118.7 million, and collections have varied on a month-to-month basis from as low as $92.6 million to as high as $137.5 million.

The lack of historical PPGRT trend data under the increased rate and inconsistent month-to-month collections lead the OLS to a lower estimate for FY 2018 and FY 2019 of $1.354 billion. The OLS estimate does not take into consideration the potential impact of certain provisions of P.L.2016, c.57 that calibrate PPGRT revenue to achieve the target known as the highway fuel cap. To the extent that PPGRT revenue would change from the impact, that differential would flow to the Capital Reserve.

The Executive reduced its FY 2018 estimate for the **motor fuels tax** from $552.5 million certified last July, to $503.0 million, a 5.6% decline below FY 2017, and is projecting $503.0 million for FY 2019.

While motor fuels tax revenue is down 5.6% year-to-date through the end of February, the OLS notes that the latter months of FY 2017 were historically weaker. Thus, the OLS estimates $515.8 million for FY 2018, a 3.2% decline below FY 2017, and $500.3 million for FY 2019, a continuation of the projected decline in FY 2018.

Other Selected Revenues

Figure 8: Cigarette Tax Estimates and Distributions
Millions of Dollars

	Actual	Executive Estimates		OLS Estimates		OLS Difference	
	FY2017	FY2018	FY2019	FY2018	FY2019	FY2018	FY2019
Total Collections All Sources	**\$672.0**	**\$627.6**	**\$615.2**	**\$649.8**	**\$630.3**	**\$22.2**	**\$15.1**
Anticipated E-Cigarette Taxes	**\$0.0**	**\$0.0**	**\$65.0**	**\$0.0**	**\$65.0**	**\$0.0**	**\$0.0**
Less, Health Care Subsidy Fund	-396.5	-396.5	-396.5	-396.5	-396.5	0.0	0.0
Less, Dedication for Debt Service	-104.5	-97.9	-94.8	-97.9	-94.8	0.0	0.0
Less, Dedication for Anti-Smoking	0.0	0.0	-6.8	0.0	-6.3	0.0	0.5
Total Collections On-Budget	**\$171.0**	**\$133.2**	**\$182.1**	**\$155.4**	**\$197.7**	**\$22.2**	**\$15.6**

Cigarette Tax

In recent fiscal years, the cigarette tax has generated close to \$700 million in annual State receipts. But only a portion of this amount appears as budgeted General Fund revenue (see **Figure 8**). In FY 2017, the State received \$671.9 million in total cigarette tax collections. Of that total, \$396.5 million supported the off-budget Health Care Subsidy Fund, \$104.5 million was used off-budget to pay debt service on cigarette tax revenue securitization bonds, and \$171.0 million was accounted for on-budget as General Fund revenue.

The Executive projects \$133.2 million in FY 2018 on-budget cigarette tax receipts. This estimate assumes a 6.6% rate of decline in taxed cigarette sales from FY 2017. The OLS expects decline, but at a more modest rate of 3.3%. Through February, the rate of decline was 6.0%. The OLS deems it unlikely that sales will post the 13.8% decrease required in the remaining months of FY 2018 to fall to the Executive's estimate. Cigarette tax revenues traditionally decline annually by 2.5% to 3.0% as consumers purchase fewer cigarette packs. Consequently, the OLS forecasts \$155.4 million in FY 2018 collections, a 9.1% decrease in on-budget revenues from FY 2017.

The Executive forecasts \$182.1 million in FY 2019 on-budget receipts, or a 36.7% increase from its FY 2018 estimate. The Executive estimate includes \$65.0 million in revenues generated by the taxation of e-cigarettes. The Executive's projection also assumes that taxed cigarette sales will decline by 1.9%. The OLS accepts the Executive's estimate for the taxation of e-cigarettes, but projects that cigarette sales will decline by 3.0%, in line with historical rates. The OLS estimates \$197.7 million for FY 2019, or a 27.2% increase from its higher FY 2018 base.

The anticipated underlying year-over-year decrease for FY 2019 reflects the structure of the cigarette tax's revenue dedications. Additionally, on November 1, 2017, the legal age to purchase cigarettes, and other tobacco products was increased from 19 to 21. Furthermore, FY 2019 will see the first dedication of 1.0% of cigarette tax revenues (and tobacco products wholesale gross receipts tax revenues) for anti-smoking initiatives.

Realty Transfer Fees

The Executive estimates $381.8 million in FY 2018 realty transfer fee (RTF) revenue, 10.5% growth over FY 2017, and $395.1 million in FY 2019, 3.5% growth over FY 2018. The OLS shares the expectation of rising collections, but is less optimistic for FY 2018, considering that FY 2018 year-to-date collections through February are up 9.1%. Over the remaining months of the fiscal year, RTF revenues would have to grow by 12.8% to reach the Executive's year-end projection.

Based on the assumption that the current growth trend will weaken due to a decline in collections in recent months and a strong base in March and June of 2017, the OLS estimates $363.1 million in FY 2018, 5.1% growth.

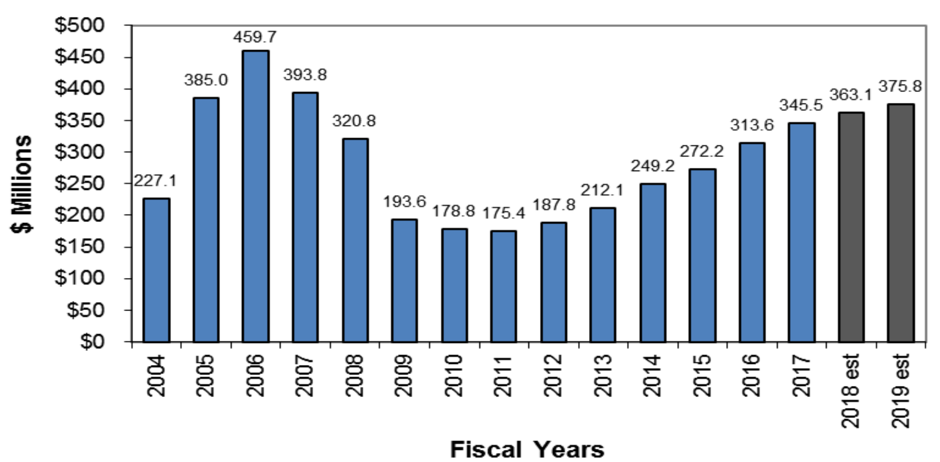
The OLS' forecasts $375.8 million in FY 2019, 3.5% growth, due to caution regarding increasing mortgage rates, the tightening supply of homes available for purchase, and recently enacted federal tax changes. Changes that have the potential to impact home prices include the cap on the state and local tax deduction, a reduction in the deductible portion of mortgage interest for certain taxpayers, and other changes affecting taxpayers' tax liabilities.

The Executive has increased the outlook for the **separate one-percent assessment on property sales valued over $1 million** in FY 2018, but expects a slight decline in FY 2019. The Executive now forecasts $157.4 million, or 9.6% growth, in FY 2018 assessment collections and $156.2 million in FY 2019, reflecting a 0.8% decline.

Through March, actual collections of $93.5 million are down 7.5%, or $7.6 million, below FY 2017. To achieve the Executive's FY 2018 projection, collections over the remaining months of the current fiscal year, which totaled $42.5 million in FY 2017, would have to grow by $20.9 million, or nearly 50%. The OLS estimates a lower $139.2 million in FY 2018, a 3.1% decline below FY 2017.

Additionally, the OLS projects a further decline in FY 2019, for the reasons stated prior for the RTF, of 2.7%. Thus, the OLS estimates $135.5 million for FY 2019, $20.7 million below the Executive.

Figure 9: Annual Realty Transfer Fee Revenue



Inheritance Taxes

Inheritance tax collections consist of revenues from two inter-related taxes: the transfer inheritance tax and the estate tax. Prior to P.L.2016, c.57, which increased the estate tax exclusion to $2.0 million on January 1, 2017 and fully eliminated the estate tax on January 1, 2018, each tax had produced about 50.0% of the overall total.

The Executive decreased its estimate for these combined taxes in FY 2018 from the $745.8 million certified last June to $609.6 million, assuming a decline of 18.6% from FY 2017. Actual collections this fiscal year are down 20.0% through February, with preliminary data for March in the State accounting system indicating an even steeper decline year-to-date.

Since the current rate of decline is greater than assumed by the Executive's revised estimate, the OLS estimates a lower level of $582.8 million for FY 2018, down 22.1% from last year, and $26.8 million below the Executive's revised estimate.

For FY 2019, the Executive estimates a further decline to $466.3 million, down 23.5%. The OLS agrees with the Executive's estimate; however, the OLS is projecting from a lower FY 2018 base. Thus, the OLS' projected rate of decline is 20.0%. The OLS' estimate derives from the assumption that strong recent growth in asset values will be largely offset by the elimination of the estate tax.

CBT on Banks and Financial Institutions

The corporation business tax on banks and financial institutions (CBT B&F) raises a fraction of the revenue of the "regular" CBT. Through the end of February, the CBT B&F is running 14.3% behind the same period last year. The Executive decreased its estimate for FY 2018 from the $201.4 million certified last July to $170.4 million. The Executive's projection assumes a decline from FY 2017 of 15.0%, indicating caution for the remainder of FY 2018. For FY 2019, the Executive assumes an increase to $183.1 million, up 7.5%.

In the final quarter of FY 2017, the CBT B&F surged to the highest quarterly receipt in this revenue's history, booking $126.8 million, nearly 63.3% of the entire FY 2017 total. The OLS does not expect such a robust quarter to be repeated and agrees with the Executive that caution is warranted for the remainder of the year. Additionally, based on preliminary data in the State accounting system, refund activity appears to have increased through February.

The OLS is more conservative in its estimate for FY 2018, projecting $150.6 million, $19.8 million below the Executive's revised estimate. For FY 2019 the OLS estimates $161.9 million, growth of 7.5% from the lower base in FY 2018, and $21.2 million less than the Executive's estimate.

Insurance Premiums

The insurance premiums tax is imposed on the prior year's premiums collected by every insurance company transacting business in the State, with payment dates of March 1 and June 1. Consequently, the third and fourth quarters of each fiscal year account for roughly 95% of total insurance premiums tax collections.

For the insurance premiums tax, the Executive projects $525.0 million in both FY 2018 and FY 2019. Year-to-date collections through February were weak, down 1.5%. However, February, which falls within the third quarter of the fiscal year, is up 10.6% year-over-year. Preliminary data for March in the State accounting system indicate continued growth in receipts, with year-to-date collections increasing by roughly 7.5%. Accordingly, the OLS estimates $580.1 million in FY 2018, $55.1 million above the Executive's revised estimates. For FY 2019, the OLS remains cautious due to volatility associated with tax credits and estimates flat revenues of $580.1 million, also $55.1 million above the Executive.

Casino Tax Revenue

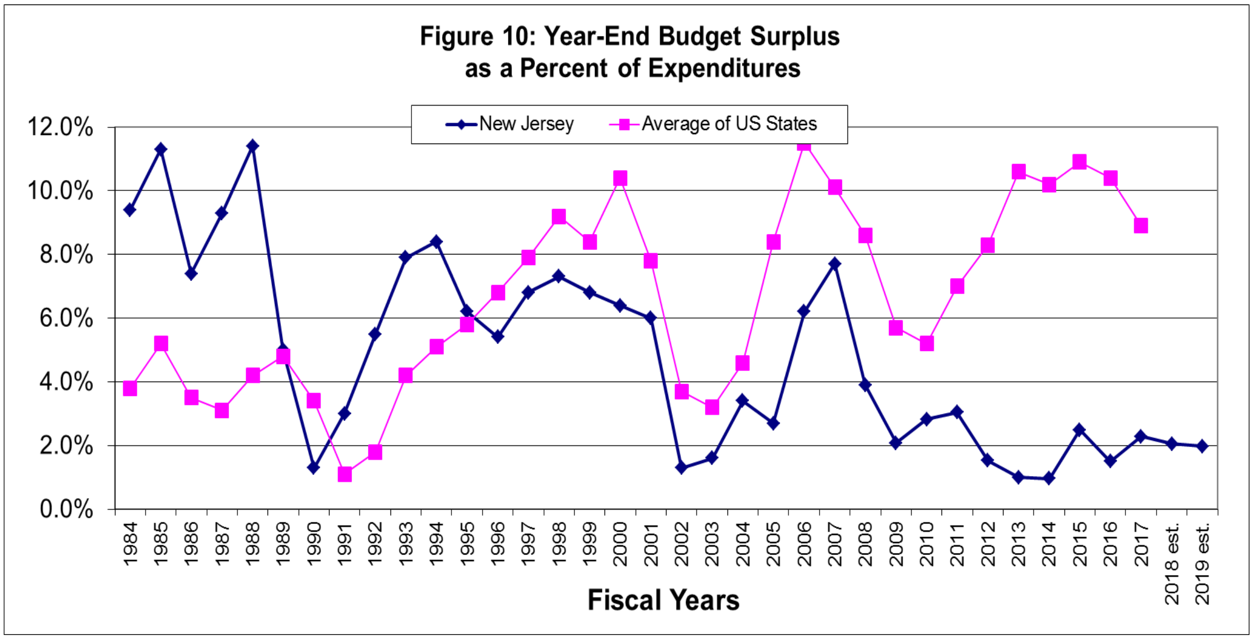
From FY 2006 to FY 2013, casino tax collections deposited into the Casino Revenue Fund plummeted 51.0%, from $413.3 million to $201.9 million. The decline halted briefly in FY 2014, as the $208.1 million total was boosted by new internet gambling revenues, but resumed in FY 2015, falling to $196.8 million. Growth returned in FY 2016 and FY 2017, with collections rising to $210.6 million.

To supplement casino tax collections, internet gaming began late in 2013. Actual collections in FY 2014 yielded $10.7 million followed by $19.8 million in FY 2015, $25.8 million in FY 2016, and $33.5 million in FY 2017. Through the first eight months of FY 2018, internet gaming has booked $22.0 million.

The Executive projects growth to continue in FY 2018 and FY 2019, with collections projected to reach $217.5 million, 3.4% growth, and $227.7 million, 4.7% growth, respectively. The OLS anticipates that casino tax revenues will remain flat in FY 2018 and increase in FY 2019.

Through the end of February, overall casino tax revenues are flat year-over-year. The OLS believes it unlikely that casino tax revenues will achieve the 8.2% growth necessary in the final four months of FY 2018 to meet the Executive's target. The OLS projects no growth in casino tax revenues, and concludes that FY 2018 revenues will match last year's $210.6 million. The OLS concurs that with the anticipated opening of two new casinos, casino tax revenues will increase by 5.0% in FY 2019, bringing total collections to $221.2 million.

The Budget's Year-End Balance



Revenue shortfalls and unplanned expenditures can destabilize the budgets of governments with balanced budget requirements. Contingency reserves, such as rainy day funds, are intended to mitigate potentially disruptive short-term fiscal stress by providing emergency budget resources out of previously saved surplus balances.

The Executive projects an FY 2019 year-end balance of $741.8 million, 2.0% of budgeted expenditures. As part of its annual analysis, the OLS recalculates the State's year-end budgeted balance based solely on the revenue forecast differences between the Executive and the OLS. All other things being equal, the $180.1 million lower OLS revenue estimates would produce a year-end balance of $561.7 million or 1.5% of FY 2019 appropriations.

The Executive's projected 2.0% surplus is low by both historical and national standards. As reflected in **Figure 10**, over the last 30 years the State's actual surplus has exceeded 2.0% of expenditures 24 times, largely tracking, although rarely meeting, the average attained by other states. And while two of the seven completed fiscal years during which State surpluses fell below 2.0% were impacted by economic recessions (FY 1990 and FY 2002), four of those low points have occurred since FY 2012. According to an annual survey compiled by the National Association of State Budget Officers, the long-run average state surplus for that period is 6.8%. Unlike New Jersey, the national average of all states' surpluses has not fallen below 2.0% since FY 1992, has exceeded 4.0% in each of the last 14 completed fiscal years, and has topped 8.0% since FY 2012.

Ultimately, the actual year-end balance will be determined by numerous spending decisions as well as revenue collections. Decisions on these and other matters will be made by the Executive, both budget committees and the full Legislature during the next three months and throughout the next fiscal year.

Appendices Contents

Page

Detailed Fiscal Year 2018 Revenue Estimates

Millions of $

Revenue Source	Appropriations Act (July 2017)	Executive Revised	OLS	Diff: OLS - Executive
Major Taxes:				
Sales Tax, Total	**$9,066.9**	**$9,661.5**	**$9,661.5**	**$0.0**
Sales Tax, Base	*9,704.9*	*9,545.8*	*9,545.8*	*0.0*
Dedicated Transfer to PTRF	*-761.0*	*-747.6*	*-747.6*	*0.0*
Sales Tax, Energy	*123.0*	*74.8*	*74.8*	*0.0*
Sales Tax, Energy Tax Receipts	*0.0*	*788.5*	*788.5*	*0.0*
Corporation Business Tax, Total	**$2,377.8**	**$2,205.1**	**$2,053.6**	**-$151.5**
Corporation Business Tax, Base	*2,375.4*	*2,200.1*	*2,048.6*	*-151.5*
Corporation Business Tax, Energy	*2.4*	*5.0*	*5.0*	*0.0*
Inheritance Taxes	745.8	609.6	582.8	-26.8
Motor Fuels Tax	552.5	503.0	515.8	12.8
Insurance Premiums Tax	578.2	525.0	580.1	55.1
Realty Transfer Fee	382.8	381.8	363.1	-18.7
Motor Vehicle Fees	508.2	500.2	500.2	0.0
Cigarette Tax	181.3	133.2	155.3	22.1
Petroleum Products Gross Receipts Tax	1,487.2	1,442.2	1,354.2	-88.0
Less: Petroleum Products GR Capital Reserves	*-940.2*	*-845.7*	*-770.5*	*75.2*
Corp. Business Tax - Banks and Financial	201.4	170.4	150.6	-19.8
Alcoholic Beverage Excise Tax	107.0	104.8	107.0	2.2
Tobacco Products Wholesale Tax	24.5	23.7	23.7	0.0
Public Utilities Excise Tax	18.4	18.4	18.4	0.0
Subtotal, Major Taxes	**$15,291.8**	**$15,433.2**	**$15,295.8**	**-$137.4**
Misc. Taxes, Fees and Revenues				
Medicaid Uncomp. Care Reimbursement	334.2	327.4	327.4	0.0
Settlements	300.0	56.0	56.0	0.0
Federal Funds - Graduate Medical Education	141.0	138.7	138.7	0.0
Public Utility Taxes (State Retention)	133.0	133.0	133.0	0.0
Assessment on Property Sold Over $1 Million	153.0	157.4	139.2	-18.2
Telephone Assessment	124.0	122.0	122.0	0.0
Hotel Occupancy Tax	106.4	103.9	103.9	0.0
Asset Sales	321.8	321.8	321.8	0.0
Fringe Benefit Recoveries (Interdepartmental)	659.1	642.6	642.6	0.0
Interdepartmental Accounts, Other	116.5	159.1	159.1	0.0
Other	1,110.8	1,362.3	1,362.3	0.0
Subtotal, Misc. Revenues	**$3,499.8**	**$3,524.2**	**$3,506.0**	**-$18.2**
Interfund Transfers				
Unclaimed Personal Property Trust Fund	170.0	170.0	170.0	0.0
State Disability Benefit Fund	38.5	38.7	38.7	0.0
Enterprise Zone Assistance Fund	66.0	65.2	65.2	0.0
Other	210.2	221.0	221.0	0.0
Subtotal, Interfund Transfers	**$484.7**	**$494.9**	**$494.9**	**$0.0**
TOTAL GENERAL FUND	**$19,276.3**	**$19,452.3**	**$19,296.7**	**-$155.6**
Property Tax Relief Fund (Income Tax)	**$14,382.2**	**$14,980.3**	**$15,139.4**	**$159.1**
PTRF Transfer from GF (Sales Tax)	***$783.9***	***$768.6***	***$768.6***	***$0.0***
Casino Revenue Fund (CRF)	**$225.0**	**$225.3**	**$218.4**	**-$6.8**
CRF Taxes	$217.5	$217.5	$210.6	-$6.8
CRF Other	$7.5	$7.8	$7.8	$0.0
Casino Control Fund	**$50.0**	**$50.0**	**$50.0**	**$0.0**
Gubernatorial Elections Fund	**$0.7**	**$0.7**	**$0.7**	**$0.0**
GRAND TOTAL, ALL FUNDS	**$34,718.1**	**$35,477.2**	**$35,473.8**	**-$3.3**

Detailed Fiscal Year 2019 Revenue Estimates

Millions of $

Revenue Source	March 2018 Gov's Budget	GBM % Change	April 2018 OLS	OLS % Change	Diff: OLS - Executive
Major Taxes:					
Sales Tax, Total	**$10,515.6**	**8.8%**	**$10,515.6**	**8.8%**	**$0.0**
Sales Tax, Base	*10,440.9*	9.4%	*10,440.9*	9.4%	*0.0*
Dedicated Transfer to PTRF	*-785.4*		*-785.4*		
Sales Tax, Energy	*71.6*	-4.3%	*71.6*	-4.3%	*0.0*
Sales Tax, Energy Tax Receipts	*788.5*	0.0%	*788.5*	0.0%	*0.0*
Corporation Business Tax, Total	**$2,442.8**	**10.8%**	**$2,234.6**	**8.8%**	**-$208.2**
Corporation Business Tax, Base	*2,436.8*	10.8%	*2,228.6*	8.8%	*-208.2*
Corporation Business Tax, Energy	*6.0*	20.0%	*6.0*	20.0%	*0.0*
Inheritance Taxes	466.3	-23.5%	466.3	-20.0%	0.0
Motor Fuels Tax	503.0	0.0%	500.3	-3.0%	-2.7
Insurance Premiums Tax	525.0	0.0%	580.1	0.0%	55.1
Realty Transfer Fee	395.1	3.5%	375.8	3.5%	-19.3
Motor Vehicle Fees	463.3	-7.4%	463.3	-7.4%	0.0
Cigarette Tax	182.1	36.7%	197.7	27.3%	15.6
Petroleum Products Gross Receipts Tax	1,442.2	0.0%	1,354.2	0.0%	-88.0
Less: Petroleum Products GR Capital Reserves	*-809.1*		*-718.3*	*-6.8%*	*90.8*
Corp. Business Tax - Banks and Financial	183.1	7.5%	161.9	7.5%	-21.2
Alcoholic Beverage Excise Tax	107.9	3.0%	107.5	0.5%	-0.4
Marijuana Tax	80.0		80.0	237.6%	0.0
Tobacco Products Wholesale Tax	25.4	7.2%	25.4	7.2%	0.0
Public Utilities Excise Tax	19.1	3.8%	19.1	3.8%	0.0
Subtotal, Major Taxes	**$16,541.8**	**7.2%**	**$16,363.5**	**7.0%**	**-$178.3**
Misc. Taxes, Fees and Revenues					
Medicaid Uncomp. Care Reimbursement	318.6	-2.7%	318.6	-2.7%	0.0
Settlements	200.0	257.1%	200.0	257.1%	0.0
Federal Funds - Graduate Medical Education	138.2		138.2		0.0
Public Utility Taxes (State Retention)	133.0	0.0%	133.0	0.0%	0.0
Assessment on Property Sold Over $1 Million	156.2	-0.8%	135.5	-2.7%	-20.7
Telephone Assessment	135.0	10.7%	135.0	10.7%	0.0
Hotel Occupancy Tax	108.0	3.9%	108.0	3.9%	0.0
Fringe Benefit Recoveries (Interdepartmental)	708.2		708.2		0.0
Interdepartmental Accounts	79.8	-49.8%	79.8	-49.8%	0.0
Other	1,182.9	-13.2%	1,182.9	-13.2%	0.0
Subtotal, Misc. Revenues	**$3,159.9**	**-10.3%**	**$3,139.2**	**-10.5%**	**-$20.7**
Interfund Transfers					
Unclaimed Personal Property Trust Fund	180.0	5.9%	180.0	5.9%	0.0
State Disability Benefit Fund	38.7	0.0%	38.7	0.0%	0.0
Enterprise Zone Assistance Fund	48.9	-25.0%	48.9	-25.0%	0.0
Other	199.4	-9.8%	199.4	-9.8%	0.0
Subtotal, Interfund Transfers	**$467.0**	**-5.6%**	**$467.0**	**-5.6%**	**$0.0**
TOTAL GENERAL FUND	**$20,168.7**	**3.7%**	**$19,969.7**	**3.5%**	**-$199.0**
Property Tax Relief Fund (Income Tax)	**$16,231.6**	**8.4%**	**$16,260.4**	**7.4%**	**$28.8**
PTRF Transfer from GF (Sales Tax)	***$806.7***		***$806.7***		
Casino Revenue Fund (CRF)	**$237.5**	**5.4%**	**$231.0**	**5.8%**	**-$6.5**
CRF Taxes	$227.7	4.7%	$221.2	5.0%	-$6.5
CRF Other	$9.8	25.6%	$9.8	25.6%	$0.0
Casino Control Fund	**$49.8**	**-0.4%**	**$49.8**	**-0.4%**	**$0.0**
Gubernatorial Elections Fund	**$0.7**	**0.0%**	**$0.7**	**0.0%**	**$0.0**
GRAND TOTAL, ALL FUNDS	**$37,495.0**	**5.7%**	**$37,318.3**	**5.2%**	**-$176.7**

Executive Tax and Revenue Changes Requiring Legislation

The table below summarizes the Executive's tax and revenue changes for FY 2019 that require legislation. The OLS adopts the specific amounts for the purposes of comparing total revenues within this report. Legislation has been introduced for some, but not all of these proposed changes. Based on future study and research, subsequent OLS Fiscal Notes analyzing the specific bills implementing these proposals may present different amounts than shown in this report.

FY 2019 Executive Revenue Initiatives Requiring Legislation
$ in Millions

		Executive's Estimates
1	Gross Income Tax - Increase top marginal rate to 10.75% for income over $1.0 million	$765.0
2	Gross Income Tax - Increase cap on property tax deduction from $10,000 to $15,000	-$82.0
3	Gross Income Tax - Increase Earned Income Tax Credit (EITC) from 35% to 37% of the federal credit	-$27.2
4	Gross Income Tax - Create a Child and Dependent Care Tax Credit	-$14.0
5	Sales and Use Tax - Increase tax rate to 7.0%	$581.0
6	Sales and Use Tax - Expand base to include ridesharing services	$12.0
7	Sales and Use Tax - Expand base to include transient accommodations	$15.0
8	Corporation Business Tax - Various reforms including combined reporting with a limited “water's-edge” election; market-based sourcing; and the reinstitution of the taxation of international holding companies	$110.0
9	Corporation Business Tax - Restructure Neighborhood Revitalization Tax Credit	-$5.0
10	Other Taxes - Legalization and taxation of marijuana	$80.0
11	Other Taxes - Impose new tax on electronic cigarettes	$65.0
12	Other Taxes - Expand telephone assessment (the 9-1-1 system fee) to prepaid phones	$13.0
13	Other Taxes - Firearm sales tax	$1.4
	Total	**$1,514.2**

Revenue from Taxes on Energy and Utility Services

Energy utilities are subject to the corporation business tax (CBT) and collect and remit sales tax on their energy sales. Telecommunications utilities are subject to the CBT, while other utilities are taxed on the basis of their gross receipts. Currently, revenues are divided into two categories: municipal use, which is classified as "off-budget," and State use, which is classified as "on-budget."

Figure A displays public utility revenues from FY 2000 through FY 2019. **Figures B through E** display the actual and anticipated revenues from FY 2016 through FY 2019 in greater detail.

Under current law, from a budgeting perspective, the municipal use tax revenues are credited to the Energy Tax Receipts Property Tax Relief Fund (ETR Fund), and allocated to municipalities under a statutory formula. These amounts, considered "off-budget," are not included in either the anticipated Schedule 1 revenues or the amount of State aid appropriated in the annual appropriations act. This amount has been held at $788.5 million by annual budget language since FY 2005. After the allocation of $788.5 million to the ETR Fund, the remaining revenues come "on-budget" for State use in the General Fund.

However, the Governor's FY 2019 Budget Recommendation proposes to include the amounts currently considered to be "off-budget," $788.5 million in both FY 2018 and FY 2019, as part of on-budget sales tax revenue. The Governor's FY 2019 Budget-in-Brief states that the proposed shift "mitigates structural rigidities between the General Fund and the Property Tax Relief Fund precipitated by statutory revisions enacted since 2016."

Total State use "on-budget" collections from all energy and utility sources were $279.9 million in FY 2017 and are estimated at $231.2 million in FY 2018 and $229.7 million in FY 2019.

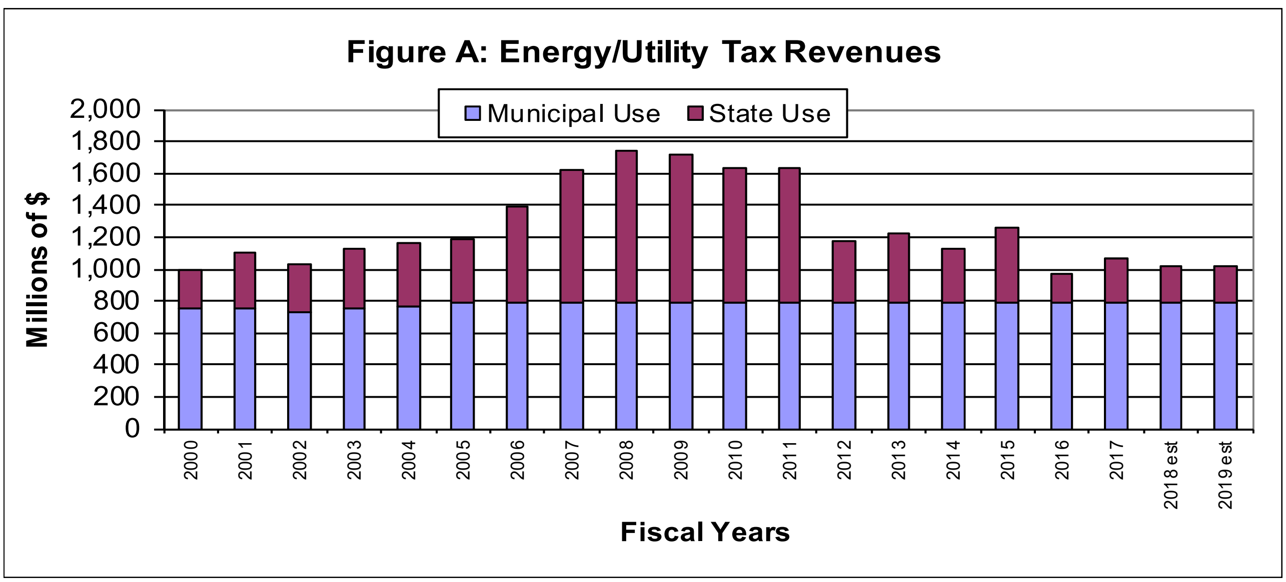


Figure B
Actual Energy/Utility Tax Revenue Fiscal Year 2016
Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municipal Use)	Total
Sales and Use Tax	$42.0	$755.1	$797.1
Corporation Business Tax	$3.6	$33.4	$37.0
Franchise and Gross Receipts Tax Water and Sewer Utilities	$124.2		$124.2
Public Utility Excise Tax Water and Sewer Utilities	$17.2		$17.2
Total	**$187.0**	**$788.5**	**$975.5**

Source: Department of the Treasury, March 2017.

Figure C
Actual Energy/Utility Tax Revenue Fiscal Year 2017
Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municipal Use)	Total
Sales and Use Tax	$123.4	$770.3	$893.7
Corporation Business Tax	$2.5	$18.2	$20.7
Franchise and Gross Receipts Tax Water and Sewer Utilities	$136.5		$136.5
Public Utility Excise Tax Water and Sewer Utilities	$17.5		$17.5
Total	**$279.9**	**$788.5**	**$1,068.4**

Source: Department of the Treasury, March 2018.

Figure D

Anticipated Energy/Utility Tax Revenue Fiscal Year 2018

Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municipal Use)*	Total
Sales and Use Tax	$74.8	$773.5	$848.3
Corporation Business Tax	$5.0	$15.0	$20.0
Franchise and Gross Receipts Tax			
Water and Sewer Utilities	$133.0		$133.0
Public Utility Excise Tax Water and Sewer Utilities	$18.4		$18.4
Total	**$231.2**	**$788.5**	**$1,019.7**

Source: Department of the Treasury, March 2018.

** FY 2018 amounts have been proposed to be shifted on-budget.*

Figure E

Anticipated Energy/Utility Tax Revenue Fiscal Year 2019

Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municipal Use) *	Total
Sales and Use Tax	$71.6	$770.0	$841.6
Corporation Business Tax	$6.0	$18.5	$24.5
Franchise and Gross Receipts Tax			
Water and Sewer Utilities	$133.0		$133.0
Public Utility Excise Tax Water and Sewer Utilities	$19.1		$19.1
Total	**$229.7**	**$788.5**	**$1,018.2**

Source: Department of the Treasury, March 2018.

** FY 2019 amounts have been proposed to be shifted on-budget.*

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Individuals wishing information and committee schedules on the FY 2019 budget are encouraged to contact:

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