

ASSEMBLY, No. 40

STATE OF NEW JERSEY 209th LEGISLATURE

INTRODUCED MARCH 27, 2000

Sponsored by:

Assemblyman JACK COLLINS

District 3 (Salem, Cumberland and Gloucester)

Assemblyman PAUL DIGAETANO

District 36 (Bergen, Essex and Passaic)

SYNOPSIS

Establishes a New Jersey Earned Income Tax Credit.

CURRENT VERSION OF TEXT

As introduced.



1 AN ACT providing an earned income tax credit, amending and
2 supplementing Title 54A of the New Jersey Statutes and amending
3 P.L.1981, c.239.

4

5 **BE IT ENACTED** by the Senate and General Assembly of the State
6 of New Jersey:

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8 1. (New section) The Legislature finds and declares that:

9 a. Since its enactment in 1975, the federal earned income tax credit
10 has received bipartisan support and has proven to be one of the
11 nation's most effective anti-poverty programs for working families by
12 encouraging work, supplementing earnings and lifting nearly five
13 million people out of poverty each year, approximately half of them
14 children;

15 b. The federal earned income tax credit has contributed to a
16 significant increase in labor force participation among New Jersey
17 families;

18 c. A New Jersey Earned Income Tax Credit will build upon the
19 federal program by cutting taxes for families struggling to provide for
20 their children, reducing child poverty, supporting welfare-to-work
21 efforts and making New Jersey a better place to live, work and raise
22 a family;

23 d. Over the last six years, New Jersey's unemployment rate has
24 fallen to its lowest rate in nearly a decade, and a significant number of
25 the State's families who were dependent on welfare have made the
26 transition from public assistance to work, often beginning in low-wage
27 or entry-level positions; and

28 e. A New Jersey Earned Income Tax Credit can further promote
29 work and job retention by supplementing the incomes of nearly
30 280,000 low-income working families as they move up the career
31 ladder and remain independent from public assistance.

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33 2. (New section) There is established the New Jersey Earned
34 Income Tax Credit program in the Division of Taxation in the
35 Department of the Treasury.

36 a. (1) A resident individual with gross income of \$20,000 or less
37 for the taxable year who files as a head of household or surviving
38 spouse for federal income tax purposes for the taxable year, or a
39 married resident individual with combined gross income of \$20,000 or
40 less for the taxable year who files a joint return for federal income tax
41 purposes for the taxable year, shall be allowed a credit for the taxable
42 year equal to a percentage, as provided in paragraph (2) of this
43 subsection, of the federal earned income tax credit allowed to and

EXPLANATION - Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

1 claimed by the individual under section 32 of the federal Internal
2 Revenue Code of 1986, 26 U.S.C.s.32, for the same taxable year for
3 which a credit is claimed pursuant to this section, subject to the
4 restrictions of subsections b., c., d. and e. of this section.

5 (2) For the purposes of the calculation of the New Jersey earned
6 income tax credit, the percentage of the federal earned income tax
7 credit referred to in paragraph (1) of this subsection shall be:

8 (a) 10% for the taxable year beginning on or after January 1, 2000,
9 but before January 1, 2001;

10 (b) 15% for the taxable year beginning on or after January 1, 2001,
11 but before January 1, 2002;

12 (c) 17.5% for the taxable year beginning on or after January 1,
13 2002, but before January 1, 2003; and

14 (d) 20% for taxable years beginning on or after January 1, 2003.

15 (3) To qualify for the New Jersey earned income tax credit:

16 (a) the claimant's federal earned income tax credit for the taxable
17 year must be a credit that is based on having at least one "qualifying
18 child" within the meaning of section 32 of the federal Internal Revenue
19 Code of 1986, 26 U.S.C.s.32; and

20 (b) if the claimant is married, except for a claimant who files as a
21 head of household or surviving spouse for federal income tax purposes
22 for the taxable year, the claimant shall file a joint return or claim for
23 the credit.

24 (4) As used in this section, "gross income" means gross income
25 required to be reported pursuant to the "New Jersey Gross Income
26 Tax Act," N.J.S.54A:1-1 et seq., other than income excludable from
27 the gross income tax return but before reduction thereof by any
28 applicable exemptions, deductions and credits received during the
29 taxable year by the claimant. In the case of a part-year resident, gross
30 income means gross income that a part-year resident would have
31 reported if the part-year resident had been a resident for the entire
32 taxable year.

33 b. In the case of a part-year resident claimant, the amount of the
34 credit allowed pursuant to this section shall be pro-rated, based upon
35 that proportion which the total number of months of the claimant's
36 residency in the taxable year bears to 12 in that period. For this
37 purpose, 15 days or more shall constitute a month.

38 c. The amount of the credit allowed pursuant to this section shall
39 be applied against the tax otherwise due under N.J.S.54A:-1-1 et seq.,
40 after all other credits and payments. If the credit exceeds the amount
41 of tax otherwise due, that amount of excess shall be an overpayment
42 for the purposes of N.J.S.54A:9-7 if subsection (f) of N.J.S.54A:9-7
43 does not apply. The credit provided under this section as a credit
44 against the tax otherwise due and the amount of the credit treated as
45 an overpayment shall be treated as a credit towards or overpayment of
46 gross income tax, subject to all provisions of N.J.S.54A:1-1 et seq.,

1 except as may be otherwise specifically provided in P.L. , c. (C.)
2 (pending before the Legislature as this bill).

3 d. The Director of the Division of Taxation in the Department of
4 the Treasury shall have discretion to establish a program for the
5 distribution of earned income tax credits pursuant to the provisions of
6 this section.

7 e. Any earned income tax credit pursuant to this section shall not
8 be taken into account as income or receipts for purposes of
9 determining the eligibility of an individual for benefits or assistance or
10 the amount or extent of benefits or assistance under any State program
11 and, to the extent permitted by federal law, under any State program
12 financed in whole or in part with federal funds.

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14 3. (New section) There shall be annually appropriated to the
15 Department of the Treasury such amount as the Director of the
16 Division of Budget and Accounting in the Department of the Treasury
17 shall determine is necessary for the administrative cost of
18 implementing the provisions of this act.

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20 4. (New section) The Department of the Treasury shall make
21 available to the Department of Human Services necessary statistical
22 information obtained with respect to the New Jersey Earned Income
23 Tax Credit program, in a usable format and in a timely manner, to
24 prepare federal and other reports.

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26 5. a. The Director of the Division of Taxation in the Department
27 of the Treasury shall adopt regulations in accordance with the
28 "Administrative Procedure Act," P.L.1968, c.410 (C.52:14B-1 et seq.)
29 and prescribe forms to administer the provisions of this act.

30 b. Notwithstanding the provisions of P.L.1968, c.410 to the
31 contrary, the director may adopt, immediately upon filing with the
32 Office of Administrative Law, such regulations as the director deems
33 necessary to implement the provisions of this act, which regulations
34 shall be effective for a period not to exceed 180 days from the date of
35 the filing. The regulation may thereafter be amended, adopted or
36 readopted by the director as the director deems necessary in
37 accordance with the requirements of P.L.1968, c.410.

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39 6. N.J.S.54A:8-7 is amended to read as follows:

40 54A:8-7. If the amount of a taxpayer's Federal taxable income or
41 earned income tax credit reported on his Federal income tax return for
42 any taxable year is changed or corrected by the United States Internal
43 Revenue Service or other competent authority, or as the result of a
44 renegotiation of a contract or subcontract with the United States, the
45 taxpayer shall report such change or correction in Federal taxable
46 income or earned income tax credit within 90 days after the final

1 determination of such change, correction, or renegotiation, or as
2 otherwise required by the director, and shall concede the accuracy of
3 such determination or state wherein it is erroneous. Any taxpayer
4 filing an amended Federal income tax return shall also file within 90
5 days thereafter an amended return under this act, and shall give such
6 information as the director may require. The director may by
7 regulation prescribe such exceptions to the requirements of this
8 section as he deems appropriate.

9 (cf: P.L.1976, c.47, s.54A:8-7)

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11 7. Section 1 of P.L.1981, c.239 (C.54A:9-8.1) is amended to read
12 as follows:

13 1. Whenever any taxpayer or resident shall be entitled to any
14 refund of taxes pursuant to the "New Jersey Gross Income Tax Act"
15 (N.J.S.54A:1-1 et seq.), including an earned income tax credit
16 provided as a refund pursuant to P.L. , c. (C.)(pending before the
17 Legislature as this bill), or whenever any individual is eligible to
18 receive an NJ SAVER rebate or a homestead rebate pursuant to
19 P.L.1990, c.61 (C.54:4-8.57 et al.) or P.L.1999, c.63 (C.54:4-8.58a
20 et al.), and if the rebate is not required to be paid over to the municipal
21 tax collector under the provisions of section 8 of P.L.1990, c.61
22 (C.54:4-8.64), and at the same time the taxpayer or resident shall be
23 indebted to any agency or institution of State Government, to the
24 Victims of Crime Compensation Board for the portion of an
25 assessment ordered pursuant to N.J.S.2C:43-3.1 for deposit in the
26 Victims of Crime Compensation Board Account or restitution ordered
27 to be paid to the board pursuant to N.J.S.2C:44-2 for deposit in the
28 Victims of Crime Compensation Board Account, or for child support
29 under Title IV-A, Title IV-D, or Title IV-E of the federal Social
30 Security Act (42 U.S.C.s.601 et seq.), or other indebtedness in
31 accordance with section 1 of P.L.1995, c.290 (C.2A:17-56.11b) the
32 Department of the Treasury shall apply or cause to be applied the
33 refund, NJ SAVER rebate or homestead rebate, or all, or so much of
34 any or all as shall be necessary, to satisfy the indebtedness. Child
35 support indebtedness shall take precedence over all other
36 indebtedness. The Department of the Treasury shall retain a
37 percentage of the proceeds of any collection setoff as shall be
38 necessary to provide for any expenses of the collection effort.

39 (cf: P.L.1999, c.63, s.12)

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41 8. This act shall take effect immediately and apply to taxable years
42 beginning on or after January 1, 2000.

STATEMENT

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This bill establishes the New Jersey Earned Income Tax Credit (EITC) program in the Division of Taxation in the Department of the Treasury. This program will assist New Jersey families struggling to provide for their children, reduce child poverty, help to keep workers employed, help families to afford better care for their children, support welfare-to-work efforts and foster employment Statewide. Along with the federal earned income tax credit, the New Jersey EITC will lift thousands of children and minimum wage-earning families out of poverty.

New Jersey families with gross incomes of \$20,000 or less for the taxable year, who receive a federal earned income tax credit, will be eligible for the refundable New Jersey EITC. The amount of the New Jersey EITC will be equal to a percentage of the family's federal earned income tax credit, to be phased in over four years at the rate of: 10% in taxable year 2000, 15% in taxable year 2001, 17.5% in taxable year 2002, and 20% in taxable year 2003 and each year thereafter.

The New Jersey EITC will offset any New Jersey State Gross Income Tax liability owed by families with incomes between \$15,000 and \$20,000 in taxable year 2000, with the balance of the credit paid to the family as a "refund." In taxable years 2001 and beyond, when the threshold for State income tax rises to \$20,000, New Jersey families with zero tax liability will receive their full "refundable" New Jersey EITC.

The table below displays the amount of the tax credit that will be available under the program.

Annual NJ Gross Income	Estimated NJ EITC Benefit for a Family with 1 Child				Estimated NJ EITC Benefit for a Family with 2 or More Children			
	TY00	TY01	TY02	TY03	TY00	TY01	TY02	TY03
\$500	\$18	\$28	\$33	\$39	\$22	\$33	\$39	\$45
\$10,000	\$238	\$363	\$430	\$499	\$394	\$599	\$710	\$823
\$15,000	\$196	\$299	\$354	\$410	\$338	\$515	\$609	\$707
\$20,000	\$114	\$173	\$205	\$238	\$229	\$349	\$413	\$480

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Experience in other states suggests that about 85% of eligible families will participate in the New Jersey EITC program, or nearly 240,000 New Jersey families. The estimated cost of the New Jersey EITC program for the first year is \$48 million.