

July 1, 2018

**ASSEMBLY COMMITTEE SUBSTITUTE FOR
ASSEMBLY BILL NO. 3088**

To the General Assembly:

Pursuant to Article V, Section I, Paragraph 14 of the New Jersey Constitution, I am returning Assembly Committee Substitute for Assembly Bill No. 3088 with my recommendations for reconsideration.

I am very pleased to have reached a deal with my partners in the Legislature concerning the Fiscal Year 2019 State budget and supporting revenue bills. Our agreed upon spending plan implements almost all of the investments in New Jersey's future that I recommended to the Legislature in March. I thank the Legislature for including all of these important priorities in the State's spending plan for Fiscal Year 2019. With the budget I signed this evening, we are truly building a stronger and fairer New Jersey.

This bill presently includes four components, all of which were part of the budget recommendations I presented to the Legislature in March. First, this bill would increase the maximum deduction from taxable gross income for homestead property taxes paid from \$10,000 to \$15,000. Second, the bill would increase the Earned Income Tax Credit from 35% to 40% of the federal earned income tax credit over the next three years. Third, the bill would establish a new nonrefundable child and dependent care tax credit. And fourth, the bill would close the "carried interest loophole" that enables the inappropriate avoidance of New Jersey taxes by some taxpayers.

As I noted publicly and in meetings with legislative leadership, I had some problems with the revenue side of the Legislature's original Fiscal Year 2019 budget. In particular, I questioned whether the original legislative revenue plan adequately supported the investments that we all want for the

people of New Jersey, including investments in schools, in mass transit, and in property tax relief and other core programs to assist individuals and families, in a sustainable manner. These long-term commitments require real, reliable, long-term revenues. Because of magnanimous concessions on all sides, I am satisfied that the plan we agreed to today will appropriately begin the multi-year process of fixing New Jersey's fiscal woes in a fair and responsible manner.

One such revenue is a modest increase in the income tax for multi-millionaires to ensure that all New Jerseyans begin to pay a fair share to support important investments like those included in this bill. Accordingly, I am recommending one small technical change to the child and dependent care credit in order to limit its application only to New Jersey residents. I also am recommending that the bill be amended to include a fifth component in the form of a millionaire's tax consistent with the terms of the Fiscal Year 2019 budget deal struck with legislative leadership.

Therefore, I herewith return Assembly Committee Substitute for Assembly Bill No. 3088 and recommend that it be amended as follows:

Page 6, Section 5, Line 44: After "A" insert "resident"

Page 13, Line 38: Insert new section 10:

"10. N.J.S.54A:2-1 is amended to read as follows:

54A:2-1. Imposition of tax. There is hereby imposed a tax for each taxable year (which shall be the same as the taxable year for federal income tax purposes) on the New Jersey gross income as herein defined of every individual, estate or trust (other than a charitable trust or a trust forming part of a pension or profit-sharing plan), subject to the deductions, limitations and modifications hereinafter provided, determined in accordance with the following

tables with respect to taxpayers' taxable income:

a. For married individuals filing a joint return and individuals filing as head of household or as surviving spouse for federal income tax purposes:

(1) for taxable years beginning on or after January 1, 1991 but before January 1, 1994:

If the taxable income is:	The tax is:
Not over \$20,000.00	2% of taxable income
Over \$20,000.00 but not over 50,000.00	\$400.00 plus 2.5% of the excess over \$20,000.00
Over \$50,000.00 but not over \$70,000.00	\$1,150.00 plus 3.5% of the excess over \$50,000.00
Over \$70,000.00 but not over \$80,000.00	\$1,850.00 plus 5.0% of the excess over \$70,000.00
Over \$80,000.00 but not over \$150,000.00	\$2,350.00 plus 6.5% of the excess over \$80,000.00
Over \$150,000.00	\$6,900.00 plus 7.0% of the excess over \$150,000.00

(2) for taxable years beginning on or after January 1, 1994 but before January 1, 1995:

If the taxable income is:	The tax is:
Not over \$20,000.00	1.900% of taxable income
Over \$20,000.00 but not over \$50,000.00	\$380.00 plus 2.375% of the excess over \$20,000.00
Over \$50,000.00 but not over \$70,000.00	\$1,092.50 plus 3.325% of the excess over \$50,000.00
Over \$70,000.00 but not over \$80,000.00	\$1,757.50 plus 4.750% of the excess over \$70,000.00
Over \$80,000.00 but not over \$150,000.00	\$2,232.50 plus 6.175% of the excess over \$80,000.00
Over \$150,000.00	\$6,555.00 plus 6.650% of the

excess over
\$150,000.00

(3) for taxable years beginning on or after January 1, 1995 but before January 1, 1996:

If the taxable income is:	The tax is:
Not over \$20,000.00	1.700% of taxable income
Over \$20,000.00 but not over \$50,000.00	\$340.00 plus 2.125% of the excess over \$20,000.00
Over \$50,000.00 but not over \$70,000.00	\$977.50 plus 2.975% of the excess over \$50,000.00
Over \$70,000.00 but not over \$80,000.00	\$1,572.50 plus 4.250% of the excess over \$70,000.00
Over \$80,000.00 but not over \$150,000.00	\$1,997.50 plus 6.013% of the excess over \$80,000.00
Over \$150,000.00	\$6,206.60 plus 6.580% of the excess over \$150,000.00

(4) for taxable years beginning on or after January 1, 1996 but before January 1, 2004:

If the taxable income is:	The tax is:
Not over \$20,000.00	1.400% of taxable income
Over \$20,000.00 but not over \$50,000.00	\$280.00 plus 1.750% of the excess over \$20,000.00
Over \$50,000.00 but not over \$70,000.00	\$805.00 plus 2.450% of the excess over \$50,000.00
Over \$70,000.00 but not over \$80,000.00	\$1,295.50 plus 3.500% of the excess over \$70,000.00
Over \$80,000.00 but not over \$150,000.00	\$1,645.00 plus 5.525% of the excess over \$80,000.00
Over \$150,000.00	\$5,512.50 plus 6.370% of the excess over \$150,000.00

(5) for taxable years beginning on or after January 1, 2004 but before January 1, 2018:

<u>If the taxable income is</u>	<u>The tax is:</u>
Not over \$20,000.00	1.400% of taxable income
Over \$20,000.00 but not over \$50,000.00	\$280.00 plus 1.750% of the excess over \$20,000.00
Over \$50,000.00 but not over \$70,000.00	\$805.00 plus 2.450% of the excess over \$50,000.00
Over \$70,000.00 but not over \$80,000.00	\$1,295.50 plus 3.500% of the excess over \$70,000.00
Over \$80,000.00 but not over \$150,000.00	\$1,645.00 plus 5.525% of the excess over \$80,000.00
Over \$150,000.00 but not over \$500,000.00	\$5,512.50 plus 6.370% of the excess over \$150,000.00
Over \$500,000.00	\$27,807.50 plus 8.970% of the excess over \$500,000.00

(6) for taxable years beginning on or after January 1, 2018:

<u>If the taxable income is:</u>	<u>The tax is:</u>
<u>Not over \$20,000.00</u>	<u>1.400% of taxable income</u>
<u>Over \$20,000.00 but not over \$50,000.00</u>	<u>\$280.00 plus 1.750% of the excess over \$20,000.00</u>
<u>Over \$50,000.00 but not over \$70,000.00</u>	<u>\$805.00 plus 2.450% of the excess over \$50,000.00</u>
<u>Over \$70,000.00 but not over \$80,000.00</u>	<u>\$1,295.50 plus 3.500% of the excess over \$70,000.00</u>
<u>Over \$80,000.00 but not over \$150,000.00</u>	<u>\$1,645.00 plus 5.525% of the excess over \$80,000.00</u>
<u>Over \$150,000.00 but not over \$500,000.00</u>	<u>\$5,512.50 plus 6.370% of the excess over \$150,000.00</u>
<u>Over \$500,000.00 but not over \$5,000,000.00</u>	<u>\$27,807.50 plus 8.970% of the excess over \$500,000.00.</u>

Over	\$431,457.50
<u>\$5,000,000.00</u>	<u>plus 10.75% of</u>
	<u>the excess over</u>
	<u>\$5,000,000.00.</u>

b. For married individuals filing separately, unmarried individuals other than individuals filing as head of household or as a surviving spouse for federal income tax purposes, and estates and trusts:

(1) for taxable years beginning on or after January 1, 1991 but before January 1, 1994:

If the taxable income is:	The tax is:
Not over \$20,000.00	2% of taxable income
Over \$20,000.00 but not over \$35,000.00.	\$400.00 plus 2.5% of the excess over \$20,000.00
Over \$35,000.00 but not over \$40,000.00.	\$775.00 plus 5.0% of the excess over \$35,000.00
Over \$40,000.00 but not over \$75,000.00	\$1,025.00 plus 6.5% of the excess over \$40,000.00
Over \$75,000.00	\$3,300.00 plus 7.0% of the excess over \$75,000.00

(2) for taxable years beginning on or after January 1, 1994 but before January 1, 1995:

If the taxable income is:	The tax is:
Not over \$20,000.00	1.900% of taxable income
Over \$20,000.00 but not over \$35,000.00.	\$380.00 plus 2.375% of the excess over \$20,000.00
Over \$35,000.00 but not over \$40,000.00	\$736.25 plus 4.750% of the excess over \$35,000.00
Over \$40,000.00 but not over \$75,000.00	\$973.75 plus 6.175% of the excess over \$40,000.00
Over \$75,000.00	\$3,135.00 plus 6.650% of the excess over \$75,000.00

(3) for taxable years beginning on or after January 1, 1995 but before January 1, 1996:

If the taxable income is:	The tax is:
Not over \$20,000.00	1.700% of taxable income
Over \$20,000.00 but not over \$35,000.00	\$340.00 plus 2.125% of the excess over \$20,000.00
Over \$35,000.00 but not over \$40,000.00	\$658.75 plus 4.250% of the excess over \$35,000.00
Over \$40,000.00 but not over \$75,000.00	\$871.25 plus 6.013% of the excess over \$40,000.00
Over \$75,000.00	\$2,975.80 plus 6.580% of the excess over \$75,000.00

(4) for taxable years beginning on or after January 1, 1996 but before January 1, 2004:

If the taxable income is:	The tax is:
Not over \$20,000.00	1.400% of taxable income
Over \$20,000.00 but not over \$35,000.00	\$280.00 plus 1.750% of the excess over \$20,000.00
Over \$35,000.00 but not over \$40,000.00	\$542.50 plus 3.500% of the excess over \$35,000.00
Over \$40,000.00 but not over \$75,000.00.	\$717.50 plus 5.525% of the excess over \$40,000.00
Over \$75,000.00	\$2,651.25 plus 6.370% of the excess over \$75,000.00

(5) for taxable years beginning on or after January 1, 2004 but before January 1, 2018:

If the taxable income is:	The tax is:
Not over \$20,000.00	1.400% of taxable income
Over \$20,000.00 but not over \$35,000.00	\$280.00 plus 1.750% of the excess over \$20,000.00
Over \$35,000.00 but not over \$40,000.00	\$542.50 plus 3.500% of the excess over \$35,000.00

	excess over \$35,000.00
Over \$40,000.00 but not over \$75,000.00	\$717.50 plus 5.525% of the excess over \$40,000.00
Over \$75,000.00 but not over \$500,000.00	\$2,651.25 plus 6.370% of the excess over \$75,000.00
Over \$500,000.00	\$29,723.75 plus 8.970% of the excess over \$500,000.00

(6) for taxable years beginning on
or after January 1, 2018:

<u>If the taxable income is:</u>	<u>The tax is:</u>
<u>Not over \$20,000.00</u>	<u>1.400% of taxable income</u>
<u>Over \$20,000.00 but not over \$35,000.00</u>	<u>\$280.00 plus 1.750% of the excess over \$20,000.00</u>
<u>Over \$35,000.00 but not over \$40,000.00</u>	<u>\$542.50 plus 3.500% of the excess over \$35,000.00</u>
<u>Over \$40,000.00 but not over \$75,000.00.</u>	<u>\$717.50 plus 5.525% of the excess over \$40,000.00</u>
<u>Over \$75,000.00 but not over \$500,000.00</u>	<u>\$2,651.25 plus 6.370% of the excess over \$75,000.00</u>
<u>Over \$500,000.00 but not over \$5,000,000.00</u>	<u>\$29,723.75 plus 8.970% of the excess over \$500,000.00</u>
<u>Over \$5,000,000.00</u>	<u>\$433,373.75 plus 10.75% of the excess over 5,000,000.00</u>

c. For the purposes of this section, an individual who would be eligible to file as a head of household for federal income tax purposes but for the fact that such taxpayer is a nonresident alien, shall determine tax pursuant to subsection a. of this section.

d. For the purposes of this section, for taxable year 2018, withholding by every employer from salaries, wages and other remuneration paid by an employer for services rendered described in subsection a. and b. of this section, in excess of \$5,000,000

during that taxable year, shall be at the rate of 15.6% as soon as practicable but no later than September 1, 2018. The Director of the Division of Taxation is authorized to do all things necessary to implement the withholding tax prescribed by this section for taxable year 2018.

e. No additions to tax or penalty shall be imposed under N.J.S.54A:9-6 for insufficient payment of estimated tax that may otherwise be due on salaries, wages and other remuneration received before September 1, 2018, on which there is a rate of tax imposed pursuant to subsections a. and b. of this section.

f. An employer maintaining an office or transacting business within this State and making payment of any salaries, wages and remuneration subject to New Jersey gross income tax or making payment of any remuneration for employment subject to contribution under the New Jersey "unemployment compensation law," pursuant to R.S.43:21-1 et seq., that is subject to New Jersey gross income tax shall not be subject to interest, penalties or other costs that may otherwise be imposed for insufficient withholding of salaries, wages and other remuneration made before September 1, 2018, that is directly attributable to the enactment of the taxable income tables and tax rates in subsections a. and b. of this section."

Page 13, Section 10, Line 39: Delete "10." and insert "11."

Page 14, Section 11, Line 1: Delete "11." and insert "12."

Respectfully,

[seal]

/s/ Philip D. Murphy

Governor

Attest:

/s/ Kate E. McDonnell

Deputy Chief Counsel to the Governor