



State of New Jersey
Department of the Treasury

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***Substantial Impact From Federal “Fiscal Cliff” Tax Increases Felt As
New Jersey’s Fiscal Year 2014 Revenue Falls Below Projections***

TRENTON – Income, Sales and Corporate Tax revenues for April will be substantially below projections based on receipts to date, the State Treasurer’s Office announced today. The full scope of the unanticipated revenue shortfall was only detected in the course of tabulating collections after the April 15 income tax deadline. At this point, it is believed that the shortfall in income tax final payments is largely attributable to an underestimate of the impact of the imposition of higher federal taxes at the end of calendar year 2012.

Typically, a significant portion of April income tax receipts come to the State in the form of physical checks mailed by extremely high-income taxpayers. These payments, which are not normally received until some days after the April 15 deadline for final settlements and extensions, are heavily affected by swings in capital gains and business income, which are volatile and difficult to predict prior to processing.

April revenues for the Sales and Use Tax, the Gross Income Tax and the Corporate Business Tax are anticipated to be approximately \$600 million below budgeted expectations. Actual tax revenue collections for the first nine months for Fiscal Year 2014 for 16 major sources that are tracked on a monthly basis, excluding energy, sales and corporation business taxes for utilities, are approximately \$144 million (0.8 percent) lower than expected. Total anticipated revenues are about \$31.8 billion for Fiscal Year 2014, which is approximately \$807 million (2.5 percent) less than for Fiscal Year 2014 than anticipated in the Governor’s Fiscal Year 2015 Budget Message.

Approximately \$700 million or 85 percent of the anticipated shortfall in Fiscal Year 2014 revenues is attributable the Gross Income Tax. New Jersey’s highly progressive income tax is notoriously volatile due to its extreme reliance on a relative handful of taxpayers. In recent

years for example, just 400 taxpayers have accounted for almost 10 percent of New Jersey's Gross Income Tax, the top one percent of state income taxpayers accounted for almost 40 percent, and the top 10 percent of all income taxpayers accounted for approximately 70 percent of total income tax revenues.

The extent of the Gross Income Tax shortfall is also large relative to projections made by the Office of Legislative Services in early April. The OLS estimate for the Gross Income Tax for Fiscal Year 2014 was just \$87 million less than the amount projected in the Governor's Budget Message.

The difficulty in projecting final payment income tax revenue is not confined to New Jersey. For example, Connecticut today announced that shortfalls in income tax revenues will necessitate cuts in that state's spending. Connecticut's state analysts estimate that income tax revenues will be \$330 million below their projections.

"The State will take any and all actions necessary to offset the reductions in anticipated revenues, including the identification of additional lapses and savings opportunities, as well as the exercise of the full range and scope of executive authority, including, but not limited to, reserving and/or impounding budgeted appropriations," said State Treasurer Andrew Sidamon-Eristoff. "As a consequence of these actions, the ending fund balance for Fiscal Year 2014 will remain at the level anticipated in the Governor's Fiscal Year 2015 Budget Message."

With respect to Fiscal Year 2015, the State Treasurer is scheduled to testify before the budget committees of the Legislature on May 21 and May 22, 2014. At that time, the Treasurer will provide a detailed description of the specific actions to be taken with respect to the Fiscal Year 2015 budget. In all events, the State expects that the ending fund balance for Fiscal Year 2015 will remain at the level anticipated in the Governor's Fiscal Year 2015 Budget Message.

Through mid-April of this year, aggregate income tax revenue was in line with projections, and it appears at this time that, excluding final payments and extensions, other income tax revenues will be comparable to State projections.

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