

Preliminary Investigations into the Effects of Combined Reporting in New Jersey's Corporation Business Tax*



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* The views expressed are the authors' own and do not represent the views of the Office of Revenue & Economic Analysis nor the New Jersey Department of the Treasury. All figures presented are approximate and subject to revision.

Introduction

- CBT Overview:
 - New Jersey's Corporation Business Tax uses a tax base like the federal Corporation Income Tax, with some New Jersey-specific adjustments.
 - The tax rates are 6.5%, 7.5%, and 9%. Starting in Tax Year 2018 (TY18), there is also a temporary 2.5% surtax for corporations with more than \$1 million in taxable income.
- Combined Reporting:
 - Starting in TY19, unitary businesses are required to file combined returns via the CBT-100U form.
 - Separate filers continue to use the CBT-100 form.
- Presentation Scope:
 - To analyze how values of taxable income, liability, etc. reported on the CBT-100 and CBT-100U changed between TY18 and TY19; and how these changes differ between separate and combined filers.

Year-Over-Year Growth

Table 1: New Jersey CBT Summary Statistics for Tax Years 2017–2019, Combining CBT-100 and CBT-100U

| Year | Single Returns or Group Members | Entire Net Income | Tax Base | Tax After Credits | Surtax | Final Liability |
|-------------------|---------------------------------|---------------------|------------------|-------------------|---------------|-----------------|
| TY17 | 126,662 | \$861,523,301,699 | \$20,402,295,047 | \$1,661,910,201 | \$0 | \$1,755,863,766 |
| TY18 | 125,695 | \$1,155,791,122,702 | \$28,550,597,548 | \$2,289,726,440 | \$541,906,744 | \$2,922,084,991 |
| TY18 Y/Y Change | -967 | \$294,267,821,003 | \$8,148,302,500 | \$627,816,239 | \$541,906,744 | \$1,166,221,225 |
| TY18 Y/Y % Change | -0.8% | 34.2% | 39.9% | 37.8% | N/A | 66.4% |
| TY19 | 182,374 | \$2,053,628,648,923 | \$32,317,920,336 | \$2,525,859,897 | \$718,612,985 | \$3,359,395,287 |
| TY19 Y/Y Change | 56,679 | \$897,837,526,221 | \$3,767,322,788 | \$236,133,457 | \$176,706,241 | \$437,310,296 |
| TY19 Y/Y % Change | 45.1% | 77.7% | 13.2% | 10.3% | 32.6% | 15.0% |

- In TY19, the number of returns (counting all members of combined groups as whole units) increased by ~45.1%, and pre-allocation entire net income increased by 77.7%.
- However, in part because of a substantial decrease in the average allocation fraction, the TY19 increase in final liabilities was a more modest ~15.0%.
- TY18 saw a larger increase in final liability, in part because of the introduction of the surtax and the base-broadening features of the federal Tax Cuts and Jobs Act (TCJA).

Combined Returns as Share of Total

Table 2: Combined Returns as Percentage Share of Total CBT

| Year | Single Returns or Group Members | Entire Net Income | Tax Base | Tax After Credits | Surtax | Final Liability |
|---------------------|---------------------------------|---------------------|------------------|-------------------|---------------|-----------------|
| TY17 | 126,662 | \$861,523,301,699 | \$20,402,295,047 | \$1,661,910,201 | \$0 | \$1,755,863,766 |
| TY18 | 125,695 | \$1,155,791,122,702 | \$28,550,597,548 | \$2,289,726,440 | \$541,906,744 | \$2,922,084,991 |
| TY19: Total | 182,374 | \$2,053,628,648,923 | \$32,317,920,336 | \$2,525,859,897 | \$718,612,985 | \$3,359,395,287 |
| TY19: Group Members | 77,881 | \$1,738,062,547,490 | \$27,520,367,699 | \$2,116,063,358 | \$652,864,711 | \$2,802,184,057 |
| TY19: Single Filers | 104,493 | \$315,566,101,433 | \$4,797,552,637 | \$409,796,539 | \$65,748,274 | \$557,211,230 |
| TY19: Group % | 42.7% | 84.6% | 85.2% | 83.8% | 90.9% | 83.4% |
| TY19: Single % | 57.3% | 15.4% | 14.8% | 16.2% | 9.1% | 16.6% |

- In TY19, although combined groups accounted for only 42.7% of returns (even when separately counting combined group members), they accounted for 83.4% of final liability.
- As there were approximately 7,343 combined group returns, the average number of members per group was about 10.6.

Matching Returns, Part 1: 2017–2018

Table 3: Results of Matching Taxpayer IDs Between TY17 and TY18

| Year | Single Returns or Group Members | Entire Net Income | Tax Base | Tax After Credits | Surtax | Final Liability | |
|-------------------|---------------------------------|-------------------|---------------------|-------------------|-----------------|-----------------|-----------------|
| Totals | TY17 | 126,662 | \$861,523,301,699 | \$20,402,295,047 | \$1,661,910,201 | \$0 | \$1,755,863,766 |
| | TY18 | 125,695 | \$1,155,791,122,702 | \$28,550,597,548 | \$2,289,726,440 | \$541,906,744 | \$2,922,084,991 |
| Matched Returns | TY17 Values | 108,999 | \$835,034,924,469 | \$19,673,172,391 | \$1,597,908,391 | \$0 | \$1,680,611,182 |
| | TY18 Values | 108,999 | \$1,106,457,991,756 | \$27,441,472,024 | \$2,192,334,889 | \$521,985,783 | \$2,795,376,401 |
| | % Change | N/A | 32.5% | 39.5% | 37.2% | N/A | 66.3% |
| Unmatched Returns | TY17 Only | 17,663 | \$26,488,377,230 | \$729,122,657 | \$64,001,810 | \$0 | \$75,252,584 |
| | TY18 Only | 16,696 | \$49,333,130,946 | \$1,109,125,524 | \$97,391,551 | \$19,920,960 | \$126,708,590 |
| | % Change | -5.5% | 86.2% | 52.1% | 52.2% | N/A | 68.4% |

- Of the 126,662 TY17 CBT-100 returns filed, ~86.1% had a matching return in TY18.
- Similarly, ~86.7% of the 125,695 TY19 returns had a match in TY20.
- Most of the liability growth from TY17 to TY18 is attributable to growth *within* the pre-existing population (again, due to factors like the surtax and the TCJA).

Matching Returns, Part 2: 2018–2019

Table 4: Results of Matching Taxpayer IDs Between TY18 and TY19

| Year | | Single Returns or Group Members | Entire Net Income | Tax Base | Tax After Credits | Surtax | Final Liability |
|-------------------|-------------|---------------------------------|---------------------|------------------|-------------------|---------------|-----------------|
| Member-Level Sums | TY18 | 125,695 | \$1,155,791,122,702 | \$28,550,597,548 | \$2,289,726,440 | \$541,906,744 | \$2,922,084,991 |
| | TY19 | 182,374 | \$2,909,779,035,677 | \$31,122,804,765 | \$2,396,969,213 | \$682,574,015 | \$3,193,594,548 |
| Matched Returns | TY18 Values | 106,120 | \$1,097,696,860,931 | \$25,905,942,641 | \$2,056,322,589 | \$512,701,488 | \$2,647,284,780 |
| | TY19 Values | 106,120 | \$1,528,826,463,080 | \$25,670,780,803 | \$1,959,223,514 | \$564,535,017 | \$2,616,040,195 |
| | % Change | N/A | 39.3% | -0.9% | -4.7% | 10.1% | -1.2% |
| Unmatched Returns | TY18 Only | 19,575 | \$58,094,261,771 | \$2,644,654,907 | \$233,403,851 | \$29,205,256 | \$274,800,211 |
| | TY19 Only | 76,254 | \$1,380,952,572,597 | \$5,452,023,962 | \$437,745,699 | \$118,038,998 | \$577,554,353 |
| | % Change | 289.5% | 2277.1% | 106.2% | 87.5% | 304.2% | 110.2% |

Note: Because of intra-group eliminations, etc., variables aggregated from the member level do *not* match group totals.

- Contrastingly, the growth in liability from 2018 to 2019 is primarily attributable to the addition of *new* taxpayers and group members. Whereas 84.4% of the 125,695 taxpayer IDs from TY18 returned in TY19, only 58.2% of the 182,374 TY19 taxpayer IDs can also be found in TY18.
- Of the 76,254 IDs found in TY19 but not TY18, 59,908 (or 78.6%) were members of combined groups.
- Within the population of repeating taxpayer IDs, tax liabilities were relatively stable.

Conclusions

- Between TY17 and TY18, although the population of CBT payers remained relatively stable at around 125,000–126,000, liabilities increased by about \$1.2 billion, or 66%, due in part to the surtax and the TCJA.
- In contrast, between TY18 and TY19, combined reporting had the effect of adding roughly 60,000 combined group members that were not previously taxed in New Jersey, thus increasing the total number of taxpayers and/or combined group members to approximately 182,000.
- Between TY18 and TY19, tax liability increased by about \$400 million, or 15%. As the liability of repeating taxpayers was mostly stable (a ~1% decrease), much of the 15% increase is likely attributable to combined reporting.
- In TY19, unitary (CBT-100U) returns accounted for ~83% of CBT liability.