ASSEMBLY, No. 5724

STATE OF NEW JERSEY

222nd LEGISLATURE

INTRODUCED OCTOBER 29, 2026

Sponsored by:
Assemblyman GERRY SCHARFENBERGER
District 13 (Monmouth)

SYNOPSIS

Provides gross income tax credit for portion of employment-related dependent care expenses incurred by certain resident taxpayers.

CURRENT VERSION OF TEXT

As introduced.

AN ACT providing a gross income tax credit for certain employment-related dependent care expenses, and supplementing Title 54A of the New Jersey Statutes, and amending P.L.2018, c.45.

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

1. (New section) a. A resident taxpayer with New Jersey taxable income of no more than $300,000 shall be allowed a credit against the tax imposed pursuant to the "New Jersey Gross Income Tax Act," N.J.S.54A:1-1 et seq., in an amount equal to a percentage of the employment-related expenses incurred by the taxpayer during the taxable year for a dependent of the taxpayer who has not attained age 13, in accordance with the following schedule, but not to exceed $5,000 per dependent per taxable year:

NJ taxable income is:	Credit amount is:
Not over $75,000	20% of employment-related expenses
over $75,000 but not over $150,000	15% of employment-related expenses
over $150,000 but not over $225,000	10% of employment-related expenses
over $225,000 but not over $300,000	5% of employment-related expenses

b. Any expenses for which a credit is claimed pursuant to section 5 of P.L.2018, c.45 (C.54A:4-17) shall not be allowed as a credit for the purposes of this section.

c. The order of priority of the application of the credit allowed pursuant to this section, and any other credits allowed against the tax imposed pursuant to N.J.S.54A:1-1 et seq. for a taxable year, shall be as prescribed by the director. The amount of the credit applied under this section against the tax imposed pursuant to N.J.S.54A:1-1 et seq. for a taxable year, when taken together with any other payments, credits, deductions, and adjustments allowed by law, shall not reduce a taxpayer's tax liability to an amount less than zero. The amount of the tax credit otherwise allowable under this section which cannot be applied for the taxable year due to the limitations of this section or other provisions of N.J.S.54A:1-1 et seq. may be carried forward, if necessary, to the seven taxable years following the taxable year for which the tax credit was allowed.

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.

d. As used in this section, “employment-related expenses” mean the same as defined in section 21 of the federal Internal Revenue Code (26 U.S.C. s.21), except not including expenses for household services.

2. Section 5 of P.L.2018, c.45 (C.54A:4-17) is amended to read as follows:

5. a. A resident taxpayer with New Jersey taxable income of $150,000 or less who is allowed a credit for expenses for household and dependent care services for federal income tax purposes pursuant to section 21 of the Internal Revenue Code (26 U.S.C. s.21) shall be allowed a credit against the tax otherwise due pursuant to the "New Jersey Gross Income Tax Act," N.J.S.54A:1-1 et seq. The credit shall be in an amount equal to a percentage of the credit allowed the taxpayer for federal income tax purposes for the taxable year, according to the following schedule:

NJ taxable income is:	Amount of NJ credit is:
Not over $30,000	50% of federal credit
over $30,000 but not over $60,000	40% of federal credit
over $60,000 but not over $90,000	30% of federal credit
over $90,000 but not over $120,000	20% of federal credit
over $120,000 but not over $150,000	10% of federal credit.

The $150,000 income limit set forth in this subsection shall apply to taxpayers of any filing status.

b. If the amount of the credit allowed pursuant to this section exceeds the amount of gross income tax otherwise due pursuant to the "New Jersey Gross Income Tax Act," N.J.S.54A:1-1 et seq., the amount of excess shall be treated as a refundable overpayment.

c. Married couples shall file a joint return in order to claim the credit provided by this section. A taxpayer eligible to receive a credit pursuant to paragraph (3) or (4) of subsection (e) of section 21 of the federal Internal Revenue Code (26 U.S.C. s.21) shall be eligible for the credit provided by this section, provided the taxpayer satisfies the income limit set forth in subsection a. of this section.

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

e. Notwithstanding any provision of this section to the contrary, any expenses for which a credit is claimed pursuant to section 1 of P.L. , c. (C.) (pending before the Legislature as this bill) shall not be allowed as a credit for the purposes of this section.

(cf: P.L.2021, c.308, s.1)

3. This act shall take effect immediately and apply to taxable years beginning on or after January 1 of the year next following the date of enactment.

STATEMENT

This bill would provide a gross income tax credit for a portion of the employment-related dependent care expenses incurred by resident taxpayers with New Jersey taxable income of $300,000 and under.

Under federal law, certain taxpayers are allowed a credit, more commonly referred to as the Child and Dependent Care Tax Credit (CDCTC), based on a portion of the employment-related expenses incurred for the care of a qualifying individual during the taxable year. A qualifying individual includes, among others, a dependent of the taxpayer who has not attained the age of 13. For purposes of the CDCTC, "employment-related expenses" are expenses incurred to allow a taxpayer to remain gainfully employed. Specifically, eligible employment-related expenses include those for household services and the care of a qualifying individual. The amount of the credit that a taxpayer receives is contingent upon the taxpayer's adjusted gross income, the number of qualifying individuals, and whether the taxpayer also receives the federal Dependent Care Assistance Tax Credit.

For purposes of the State gross income tax, resident taxpayers who receive the CDCTC are also allowed a State CDCTC equal to a percentage of the federal credit. The State credit is only available to taxpayers with New Jersey taxable incomes under $150,000 and is reduced as certain income thresholds are exceeded. According to the Fiscal Year 2027 Tax Expenditure Report, published by the Department of the Treasury, approximately 116,600 resident taxpayers claimed the State's CDCTC in Tax Year 2024, with an average credit amount of $198.

The bill would provide an additional credit for resident taxpayers with certain dependents. Specifically, the bill allows resident taxpayers with incomes not greater than $300,000 to claim a credit for up to 20 percent of the taxpayer's employment-related expenses incurred for each dependent who is under the age of 13. The amount of the credit would be provided in accordance with the following schedule, but not to exceed $5,000 per dependent per taxable year:

New Jersey Taxable Income	Credit Amount
Not over $75,000	20% of employment-related expenses
over $75,000 but not over $150,000	15% of employment-related expenses

over $150,000 but not over $225,000	10% of employment-related expenses
over $225,000 but not over $300,000	5% of employment-related expenses

For purposes of the bill, "employment-related expenses" are defined the same as those expenses are defined under federal law for purposes of the CDCTC, except not including expenses for household services, such as those for the services of a cook, maid, or housekeeper.

The bill also prohibits a resident taxpayer from simultaneously claiming both the State CDCTC and the credit established under the bill. Thus, if the resident taxpayer is eligible for both credits, they would be required to choose which credit to claim for the taxable year.