



FY26 State Budget at First Glance

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By [Christopher Emigholz, NJBIA Chief Government Affairs Officer](#)

Governor Murphy delivered his eighth and final budget proposal to the Legislature for fiscal year 2026 (FY26) on the afternoon of Tuesday, Feb. 25, 2025. His FY26 budget theme was “Stronger, Fairer and More Prepared for the Future.” He is planning to spend \$58.1 billion – an increase of about \$1.4 billion or 2.7% from last year’s signed FY25 budget. Notable increases in this year’s state budget include property tax relief, state K-12 school aid and employee salaries and benefits.

The disappointing news is that despite early reports of potential spending cuts, a focus on addressing the structural deficit and no new major taxes, this budget is larger and unsustainable again with a structural deficit and significant tax and fee increases.

Cumulatively for the eight budgets of the Murphy Administration, this \$58.1 billion appropriation level in FY26 represents an increase of \$23.4 billion or 67% since the last signed \$34.7 billion budget before Governor Murphy.

Below are the major highlights of Governor Murphy’s FY26 budget proposal at first glance, but please also feel free to explore Governor Murphy’s and NJBIA’s budget documents linked below:

[FY26 Budget in Brief](#)

[Governor Murphy’s FY26 Budget Press Release](#)

[Text of Governor Murphy’s FY26 Budget Speech](#)

[NJBIA Statement on FY26 State Budget Proposal](#)

Overall Budget Numbers:

Key Budget Figures for Current FY25 & Proposed FY26							
	(in billions)	FY25 Signed	% Change from FY25 Signed to FY25 Revised	FY25 Revised	% Change from FY25 Signed to FY26 Proposed	% Change from FY25 Revised to FY26 Proposed	FY26 Proposed
Total Appropriations		\$56.6	2.7%	\$58.1	2.7%	0.0%	\$58.1
Total Revenues		\$54.5	0.7%	\$54.9	4.2%	3.5%	\$56.8
Structural Imbalance <i>(Spending More than Revenue)</i>		negative \$2.1	52.3% worse	negative \$3.2	42.9% better	62.5% better	negative \$1.2
Sales Tax		\$13.8	-0.7%	\$13.7	5.1%	5.8%	\$14.5
CBT <i>(*including FY25's billion \$ tax increase/CTF)</i>		\$5.4	1.9%	\$5.5	-5.6%	-7.3%	\$5.1
Business Alternative Income Tax (BAIT)		\$4.3	-7.0%	\$4.0	7.6%	5.0%	\$4.2
Income Tax		\$19.7	3.0%	\$20.3	7.1%	3.9%	\$21.1
Closing Balance <i>(Unreserved Surplus)</i>		\$6.2	25.8%	\$7.8	1.6%	-19.2%	\$6.3

Over a Billion Dollars in Anti-Business Tax Increases Again:

- NJBIA is very concerned about the proposed sales tax increase of \$277.1 million that comes from expanding the sales tax base to include the services and transactions listed below. Adding 6.625% to each of these items will lead to higher costs across New Jersey for consumers and businesses after we just left a high-inflation environment that is still haunting New Jerseyans. The lack of affordability in New Jersey is a priority for everyone, but some of these are especially troublesome, such as taxing digital services. Many digital services are business inputs that should be avoided in terms of good tax policy. Additionally, signing up for a sport to get exercise, which should be encouraged, could now be taxed and become less affordable. Also, many New Jerseyans have recently been frustrated with how expensive cars have become, and applying the sales tax to vehicle trade-ins could make purchasing a car even more costly. The governor is specifically proposing expanding the sales tax to:
 - participatory sports
 - interior design
 - vehicle trade-ins
 - digital services
 - second-hand airplane sales
 - certain complimentary meals, rooms, and tickets
 - horse training
 - removing the partial sales tax exemption and \$20,000 sales tax cap on boats or other vessels.
- The proposed budget also includes a troubling repeat, but now higher from last year, of a \$20 million warehouse tax that has been described as \$2 per truck using New Jersey warehouses. This budget proposal is very bare bones as to who will pay this tax (truckers, retailers, manufacturers, warehouse facilities, etc.?) and how it will be collected.
 - New Jersey is a logistics state with many jobs from this important industry, and this impedes that industry's growth. The logistics industry also supports other important sectors like manufacturing that are critical to New Jersey and its innovation economy and, therefore, would be harmed by this new tax.
- Another potential new tax burden in this proposed state budget is a major \$317 million increase in the realty transfer fee. Governor Murphy proposes doubling the fee on purchases between \$1 million and \$2 million from 1% to 2%, and the proposal is to triple the rate to 3% for property sales over \$2 million.
 - Housing costs are definitely part of New Jersey's affordability issues, and a housing tax increase is certainly not going to help with that. New Jersey needs to build and sell more housing to improve the housing market, lower prices and help the state economy, and this tax goes in the opposite direction on all of those things. Additionally, it is uncertain if this tax would impact the commercial real estate market which would have a further chilling effect on an already depressed commercial market.

- Governor Murphy is also proposing a series of sin tax increases that could make New Jersey less competitive, some of which are in new and growing industries:
 - **\$41 million** from 30 cent per pack increase in the Cigarette Tax rate from \$2.70 per pack to \$3 per pack
 - **\$18.5 million** from a 10% increase in Alcoholic Beverage Tax rates
 - **\$402.4 million** from a significant increase in the internet gaming and online sports wagering tax rates from 15% and 13% to 25%.
 - **\$70 million** from increasing cannabis taxes by 500%
 - **\$7.8 million** from higher firearm and ammunition fees
- Also included is a new **\$5 million** excise tax on certain drones and a **\$61 million** fee increase on 988 mental health hotline calls.

Overspending:

- NJBIA continues to be concerned about the rapid and unsustainable **spending growth** in recent state budgets. The proposed \$58.1 billion in spending is \$1.4 billion (2.7%) higher than last year and \$23.4 billion (67%) higher than the state budget just eight years ago before Governor Murphy came into office. That growth may not be sustainable without further tax increases and/or cuts that will harm the business community.
 - This continued budget growth is especially disappointing after recent calls from Governor Murphy to cut the state budget by 5%. Whatever minor cuts are in the FY26 budget do not appear to include structural cost-savings such as pension and benefit reforms.
- The Murphy Administration continues to take credit for having built up a budget surplus, proposed at \$6.3 billion at the end of FY26, but is a healthier surplus really that big of a deal when the current **structural deficit** could consume that surplus within the next governor's first term. A state budget with a smaller surplus but no imbalance of spending levels higher than revenue levels could sustain itself and never have to drain the surplus. The current year's \$2.1 billion structural imbalance in the signed budget, \$3.2 billion imbalance in the adjusted current year budget and \$1.2 billion imbalance in the proposed budget are historically large levels of overspending and mathematically cannot be sustained.
- Examples of new spending that may be a good idea but are not affordable in this proposed budget that unfortunately has difficult cuts and tax increases include:
 - \$3 million to support the school cell phone ban
 - \$1 million to support voting by 16- and 17-year-olds
 - \$10 million for state employee supplemental family leave payouts
 - \$1 million for more lawyers to sue the federal government

Pro-Business Tax Cuts:

- Governor Murphy plans to introduce a new manufacturing tax credit to incentivize manufacturers globally to come to New Jersey, and NJBIA looks forward to learning more about this potentially exciting program.

- Governor Murphy also supports passing legislation this year that would align New Jersey with the federal tax treatment for Qualified Small Business Stock (QSBS) and expand the Angel Investor Tax Credit to encourage investment in new businesses. (*Both are NJBIA-supported bills*).
- Governor Murphy also proposes to exempt certain baby products and sunscreen from the sales tax to reduce revenue by \$7.5 million.

Pro-Business Investments:

- \$7.5 million for high-impact tutoring
- \$20 million more for Strategic Innovation Centers
- \$40 million more for the Down Payment Assistance program to support new homeowners and making permitting and zoning easier for home construction

Anti-Business Spending Reductions:

- \$62.75 million in unspecified EDA grant reductions, and NJBIA has heard this includes a \$10 million zeroing out of the successful Manufacturing Voucher Program (MVP) to support manufacturing investment in capital equipment
- \$20 million cut to community college operating aid which will hurt New Jersey's workforce development pipeline
- Other expected higher education cuts
- Ending of Summer TAG program
- \$5 million in cuts to shared service and consolidation studies and implementation grants

Other Key Spending Details:

- The proposed FY26 budget includes the fifth straight 100% pension payment and the largest in state history at \$7.2 billion.
- More than 41% of the FY26 state budget is distributed through school and municipal aid totaling \$24 billion.
- \$3.1 billion or approximately 5% of the budget is for debt service.
- Cuts most legislative add-ons from last June
- The FY26 budget proposal includes \$220 million from the Debt Defeasance & Prevention Fund to build a new female correctional facility.

Business-Related & Other Notable Spending Changes

- CBT surtax or Corporate Transit Fee (CTF) will provide \$815 million to NJ Transit in the FY26 budget to avoid their fiscal cliff and that appears to be most of the statutorily dedicated amount
- \$241 million increase in state salaries
- \$23.8 million more for minimum wage and wage inflation increases
- \$10 million cut to horse racing subsidies
- \$500,000 more to double Office for New Americans to support recent immigrants
- \$50 million from the Clean Energy Fund to make it more affordable to purchase electric vehicles.

- Workforce Development & Higher Education Changes:
 - Continued \$6 million for Community College Consortium for Workforce & Economic Development Pathways and literacy training programs. (*NJBIA-supported programs*).
 - \$2 million increase for Tuition Assistance Grants (TAG)
 - 50% cut in aid to independent colleges and universities from \$9.2 million to \$4.6 million
- Property Tax Relief (*unfortunately direct relief programs exclude businesses*):
 - The FY26 budget proposal includes the first year of the new Stay NJ's \$600 million in payouts to seniors with a new \$280 million, plus the prior \$320 million that was in a lockbox.
 - Continuation of ANCHOR property tax relief program with an additional \$71.9 million due to its growth.
 - Continuing the Senior Freeze program at \$239 million.
 - There is a proposed \$386.3 million increase in state school aid plus an additional \$34.6 million increase for preschool funding including some school aid formula adjustments to limit changes from year to year, change the census special ed formula to be based on actual students and add some more property tax cap flexibility.
 - Municipal aid totals just over \$1.6 billion.