

New Jersey Tax Update

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On October 14th, Gov. Chris Christie signed a bill to raise the gasoline tax 23 cents a gallon in an effort to restore New Jersey's depleted Transportation Trust Fund. This gasoline tax increase took effect on November 1st, 2016. Although the rise in the gas tax garnered most of the media attention, other components of this bill may have a greater impact to our clients. Below is a brief summary of the legislative compromises.

Elimination of New Jersey Estate Tax

NJ currently levies an estate tax of up to 16% on estates that exceed \$675,000. Effective January 1st, 2018, any NJ resident that passes away will not be subject to an estate tax regardless of the size of their estate. NJ residents that pass away in 2017 will be subject to an estate tax but the exclusion amount will be increased to \$2,000,000.

- Ahead of these changes, it is a good time to review your estate plan to see if any changes are necessary. It is possible, that language and formulas used in estate documents drafted under the old laws could have unintended consequences such as limiting a bequest to a surviving spouse.
- It should also be noted that NJ did not eliminate the inheritance tax imposed on transfers of property to non-exempt beneficiaries (other than charities, parents, spouses, and descendants). The Inheritance Tax rates start at 11% and go as high as 16%.

With New Jersey state elections in November of 2017, there is the very distinct possibility that we could see the new administration push to keep the exclusion amount at \$2,000,000 on an ongoing basis, killing the repeal of the estate tax.

Income Tax Breaks for Retirees

The bill includes a large increase in the tax break for retirees age 62 and older. NJ currently allows married couples filing jointly an exclusion for their first \$20,000 of retirement income. Retirement income includes pension payouts, annuity income and 401(k) or IRA withdrawals (social security benefits are not taxed by NJ). Over the next four years, this bill will increase the NJ income tax exclusion on retirement income to \$100,000 for joint filers, \$75,000 for individuals and \$50,000 for married/filing separately. The limit for married couples will increase by \$20,000 per year until it reaches \$100,000 in 2020 where it will remain going forward. For a married person filing separately, the limit will gradually increase from \$10,000 to \$50,000, and for individuals, from \$15,000 to \$75,000.

- This exclusion is only available to taxpayers with \$100,000 or less of New Jersey gross income, once the threshold is exceeded the exclusion is lost. The \$100,000 exclusion is not indexed for inflation.

Additionally, the bill provides an increase in the state Earned Income Tax Credit from 30% to 35% of the federal credit and extends a new \$3,000 income tax exemption to New Jersey veterans who are honorably discharged from active service in the military or National Guard.

- The Earned Income Tax Credit is a refundable credit for low to moderate income working individuals and couples with children.

Decrease in Sales and Use Tax

The bill decreases New Jersey's sales and use tax from its current rate of 7% to 6.875% on January 1, 2017, and further reduces it to 6.625% on January 1, 2018.

- This reduction is very minor, not enough to warrant waiting on any large purchases.

In conclusion, this bill will provide New Jersey's Transportation Trust Fund with some much-needed funding and the legislative compromises may not make New Jersey a "tax friendly" state for retirees, but they do make some good progress.

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