



# Tax Alert

## New Jersey Tax Law Changes

The recently enacted New Jersey budget legislation contains a number of provisions that impact individual and business taxpayers. This Alert highlights some of these changes.

*Individual taxpayers impacted by this increased New Jersey liability should carefully consider this fact in their fourth quarter 2009 estimated tax payment and year-end tax planning.*

### Individuals

**Tax rate increases.** Previously, personal incomes over \$150,000 were taxed at one of two marginal tax rates: 6.37 percent if taxable income was over \$150,000 but not over \$500,000 and 8.97 percent if taxable income was over \$500,000. Those marginal rates have been replaced with the following:

- Eight percent if taxable income is over \$400,000 but not over \$500,000
- 10.25 percent if taxable income is over \$500,000 but not over \$1 million
- 10.75 percent if taxable income is over \$1 million.

**Property tax deduction.** Previously, all taxpayers were entitled to a deduction for property taxes paid up to \$10,000. The new legislation limits the deduction to a maximum of \$5,000 for a taxpayer with gross income over \$150,000, but not over \$250,000. For taxpayers with gross incomes exceeding \$250,000, no deduction is allowed. These limits do not apply to taxpayers who are age 65 or older, blind or disabled.

**Lottery winnings.** Winnings from the New Jersey Lottery exceeding \$10,000 are no longer exempt from personal income tax beginning in 2009.

### Corporations

Tax rates on income of \$400,000 or less remain unchanged.

**Extension of surcharge.** In 2006, a four percent surcharge was imposed on Corporation Business Tax liability. The surcharge was scheduled to expire in 2009. The recently enacted legislation extends the four percent surcharge to periods ending before July 1, 2010.

While the new rates are effective January 1, 2009, any penalties associated with salaries, wages, and other remuneration received before October 1, 2009 as a result of this tax increase are waived.

JULY 2009

## Wilkin & Guttenplan, P.C.

certified public accountants  
and consultants

1200 Tices Lane  
East Brunswick, NJ 08816

T 732.846.3000  
F 732.846.0618

www.wgcpas.com

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**Income from discharge of indebtedness.** Under the federal American Recovery and Reinvestment Act of 2009, corporations are allowed to defer reporting the certain discharge of indebtedness income in 2009 and 2010 as taxable income until 2014. The new law departs from the federal treatment by not allowing this deferral for New Jersey Corporation Business Tax purposes. As part of this provision, impacted taxpayers are not required to include in New Jersey income the debt discharge income in future years when it is subject to federal tax.

*The above represents a summary of the new rules and does not address all of the details contained in the new legislation. For clarification or more information on these and other tax matters, contact your W&G tax advisor at 732-846-3000.*

*Any U.S. tax advice contained in this communication is not intended or written to be used, and cannot be used, for the purpose of avoiding tax penalties that may be imposed on the taxpayer.*

**Wilkin &  
Guttenplan, P.C.**

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