

NEW JERSEY ENACTS NEW TAX LEGISLATION FOR 2009

New budget legislation, signed into law on June 29, 2009 by New Jersey Governor Jon S. Corzine, enacts increases in various personal and business taxes.

GROSS INCOME TAX RATE INCREASED

Prior to the legislation, taxpayers were subject to a maximum tax rate of 6.37% on taxable income up to \$500,000 and a tax rate of 8.97% on taxable income over \$500,000.

The legislation temporarily increases income tax rates for taxpayers with taxable income over \$400,000. Applicable for the 2009 tax year, the tax rate on taxable income is:

- Over \$400,000 but not over \$500,000 increases to 8.0%;
- \$500,000 but not over \$1,000,000 increases to 10.25%;
- \$1,000,000 increases to 10.75%.

UNDERPAYMENT OF ESTIMATED TAX

On salaries, wages and other remuneration received before October 1, 2009, no additions to tax or penalties will be imposed for insufficient payment of estimated tax as a result of applying the above higher tax rates.

PROPERTY TAX DEDUCTION

Prior to the legislation, taxpayers were allowed to claim a deduction for property taxes paid up to a maximum of \$10,000.

The legislation, for the 2009 tax year, limits the property tax deduction to \$5,000 for taxpayers with a gross income over \$150,000 but less than \$250,000; and suspends the deduction completely for taxpayers with a gross income over \$250,000, unless the taxpayer is at least 65 years of age, or blind or disabled.

LOTTERY WINNINGS

Prior to the legislation, New Jersey lottery winnings were not taxable.

The legislation, for tax years beginning on or after January 1, 2009, eliminates this exemption for New Jersey lottery winnings from a prize in an amount exceeding \$10,000, and requires withholding of New Jersey gross income tax on those winnings at a rate of 3%.



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Helping Our Clients Achieve Their Goals

CORPORATE INCOME TAX SURCHARGE

Prior to the legislation, an annual 4% corporate surtax was imposed on corporation business tax liabilities for privilege periods ending on or after July 1, 2006 but before July 1, 2009. The surtax was due to expire July 1, 2009.

The legislation has extended the 4% surcharge for one year. The surtax will now apply for privilege periods ending before July 1, 2010.

NEW JERSEY DECOUPLES FROM FEDERAL DEFERRAL OF DISCHARGE OF INDEBTEDNESS INCOME

The legislation decouples corporation business tax from federal Internal Revenue code deferral of certain discharge of indebtedness income.

CIGARETTE TAX INCREASE

The legislation increases the New Jersey cigarette tax rate from \$2.575 to \$2.70 per pack of 20 cigarettes.

ALCOHOLIC BEVERAGE TAX INCREASE

The legislation increases the New Jersey Alcoholic Beverage Excise Tax, on sales occurring on or after August 1, 2009 and applied to the first sale or delivery of alcoholic beverages to retailers in New Jersey paid by manufacturers, wholesalers and State beverage distributors. The tax rate imposed on liquor increases from \$4.40 per gallon to \$5.50 per gallon; still wines, vermouth and sparkling wines increases from a rate of \$0.70 a gallon to a rate of \$0.875 a gallon; apple cider (cider containing at least 3 2/10% alcohol by volume but not more than 7% alcohol by volume) increases from a rate of \$0.12 a gallon to a rate of \$0.15 a gallon.

In addition to the new tax legislation, the New Jersey Department of Labor and Workforce Development (DWD) has indicated that New Jersey employment contribution rates for experienced employers will be determined under Schedule B for the fiscal year that began on July 1, 2009. Contribution rates range from 0.40% to 5.40%. The new employer rate remains at 2.8%. The employee contribution rate remains at 1.015% (including disability and family leave insurance) through the end of the year. The government employee contribution rate remains at 0.715% through the end of the year (including disability and family leave insurance).

Please consult with your Cowan, Guteski & Co., P.A. tax adviser if you have questions on how this legislation or New Jersey employment contribution rates will impact you. Call us today at 732-349-6880 in Toms River or 732-741-2624 in Shrewsbury.

The technical information in this tax alert is necessarily brief. No final conclusion on these topics should be drawn without further review and consultation. Please be advised that, based on current IRS rules and standards, the advice contained herein is not intended to be used, nor can it be used, for the avoidance of any tax penalty assessed by the IRS.