



## NEW JERSEY'S TAX RATES INCREASE SIGNIFICANTLY



William McNamara, CPA  
Director of Construction Services Group  
Cowan, Guteski & Co., P.A.

**S**ome of the most significant tax increases in New Jersey's history took effect on Saturday, July 15, 2006. In an attempt to balance the State's budget, Governor Corzine signed numerous tax bills designed to generate \$30.62 billion in revenue for the State. These include:

- **Sales and Use Tax Rate** - increases from 6% to 7% on goods and services sold or delivered on or after July 15. This includes contracts in which you received a deposit or partial payment prior to July 15 or when the billing period starts after that date.
- **Urban Enterprise Zones (UEZ)** - increases the sales tax from 3% to 3.5% and requires qualified business owners to obtain their UEZ sales tax savings in rebate form instead of at the point-of-sale.
- **Minimum Corporate Business Tax** - the tax will be based on New Jersey gross receipts, which will range from \$500 to \$2,000 for calendar year 2006 and thereafter.
- **Corporation Tax Surcharge** - imposes a 4% surcharge on the corporation business tax liability for privilege periods ending on or after July 1, 2006 but before July 1, 2009.
- **Cigarette Tax** - increases 17.5 cents to \$2.575 per pack.
- **Fur Clothing Gross Receipts Tax** - all sales of clothing and accessories made of fur or the pelt of an animal are subject to a 6% tax. This includes clothing and accessories not entirely made of fur but the fur component is of higher value, such as a cloth coat with a mink collar and cuffs.
- **Rental Motor Vehicle Surcharge** - the daily rental fee imposed on motor vehicles increases from \$2 to \$5 per day.
- **Titling Fee on Luxury and Fuel Inefficient Vehicles** - establishes a one-time supplemental titling fee on new luxury and fuel inefficient passenger automobiles of 0.4%.
- **Transitional Energy Facility Assessment (TEFA)** - changes the phase-out schedule by freezing the calendar year 2006 rates for two years and then reducing the surcharges in 2009 and 2010, eliminating the TEFA assessment in 2011.
- **Electronic Income Tax Filing and Payment** - requires electronic filing with the exception of individuals filing their own returns or professionals preparing returns pro bono beginning with the 2006 filing year. It also authorizes the State Tax Director to extend electronic filing and payment to employers and payors of gambling winnings that withhold income tax, pension plans that apply taxpayer direct withholding to pension or annuity payments, and establishes an additional penalty for failure to use this method to file.

In addition, the legislature imposes either a 1% fee or tax on purchasers of certain commercial real estate worth over \$1 million, effective August 1, 2006. It also increases the annual HMO assessment on net written premiums from 1% to 2% in fiscal year 2007 and thereafter.

The new laws expand the number of goods and services that are taxed. Effective Sunday, October 1, 2006, the following items will be subject to sales and use tax:

- **Contractor Services** - eliminates the capital improvement exemption for landscaping and the installation of carpeting and other flooring.
- **Delivery Charges** - shipping and handling charges that are separately stated from the purchase price of the item, with the exception of the delivery of non-taxable products such as food and clothing.
- **Digital Property** - electronically delivered or downloaded music, ringtones, movies, books, audio/video works and similar products where the customer is granted a right or license to use, retain, or make a copy of the item. This does not include video programming or broadcasting services.
- **Furnishing of Storage Space** - such as self-storage rentals.
- **Initiation and Membership Fees** - health and fitness, athletic, sporting, shopping clubs or organizations, except for where members are predominantly age 18 or under.
- **Information Services** - prewritten software delivered electronically except if it is used directly and exclusively for the purchaser's business or occupation.
- **Limousine Services** - originating in New Jersey except in connection with funeral services.
- **Parking, Storing or Garaging a Motor Vehicle** - other than residential parking, employee parking, municipal metered parking and parking subject to municipal parking taxes.
- **Specific Services** - investigation and security, bodywork (somatic services), tanning, tattooing, non-medically prescribed massage, permanent cosmetic make-up applications, and carpet and upholstery cleaning services.

Due to these changes, many businesses currently registered with the New Jersey Division of Revenue may be required to update their registrations to include sales and use tax collection/remittance obligations.

The State also defined its ability to impose its taxing authority, commonly referred to as nexus, to an out-of-state company from an agent that operates in-state on behalf of the company. For example, if an independent sales agent does business in New Jersey for a company in Maine, that out-of-state company is liable for the collection of New Jersey sales tax. Since this is stated to be a clarification, not a new law, it is applicable for prior years.

As one of the leading accounting and consulting firms for the construction industry, Cowan, Guteski & Co., P.A. understands the importance of keeping updated on new tax laws that could

affect your business. Contact Bill McNamara, CPA - Director of the Construction Services Group at 732-349-6880 extension 116 or [bmcnamara@cowangunteski.com](mailto:bmcnamara@cowangunteski.com) for more information.

***About Cowan, Gunteski & Company, P.A.***

As a diversified certified public accounting firm, Cowan, Gunteski & Co., P.A. is committed to being an active partner in their client's growth by delivering value driven accounting and profitability consulting services. Visit [www.cowangunteski.com](http://www.cowangunteski.com) for more information on the services available to meet the unique needs of the construction industry.

***The technical information in this document 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.***