

THIS WAY FORWARD

YOUR WEALTH



Tax Landscape Changes in NJ

>>> *A look at the financial impacts of recent legislative changes.*

By Scott P. Borsack, Esq.

As part of the plan that changed the future of the state's Transportation Trust Fund, this past September we learned about reductions in the income tax, sales tax and elimination of the Estate Tax. In addition, in a complete reversal, Gov. Christie agreed in November to reinstate the income tax pact with Pennsylvania, which affected the obligations and taxes of residents working across state lines. Let's take a closer look at the impact of some of these changes to New Jersey residents.

The Estate Tax exemption was increased from \$675,000 to \$2 million for 2017, saving more than \$100,000 in taxes, which would otherwise be due on death from the estate of a New Jersey resident with a value of \$2 million. For the 2018 year and thereafter, the New Jersey Estate Tax will be repealed entirely. An estate of a New Jersey resident with a value of \$3 million would be

spared a tax of slightly less than \$190,000. The income tax burden on retirees living in New Jersey was reduced as well. Through the 2020 calendar year, the exemption for retirement income will increase from its current \$20,000 to \$100,000 for a married couple. Assuming the application of maximum income tax rates, a married couple with \$100,000 in retirement income would be spared \$8,970 in state income taxes beginning in 2020. The earned income credit in New Jersey for low income wage earners will also increase from 30 percent to 35

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percent of the federal credit for the 2017 calendar year and thereafter; this is not as generous as the changes to other tax provisions.

The reinstatement of the compact with Pennsylvania is good news for the estimated 250,000 residents of New Jersey and Pennsylvania who cross state lines to work. For a resident of New Jersey, without the compact one would have to file tax returns in New Jersey and Pennsylvania and claim a credit on the New Jersey return for taxes paid to Pennsylvania. The benefits are greater for residents of Pennsylvania, where the income tax rate is a flat 3.07 percent as compared to the maximum rate in New Jersey which is 8.97 percent. So, in addition to filing another income tax return, residents of Pennsylvania lost a credit of two-thirds of the taxes paid to New Jersey because the credit for taxes paid to another jurisdiction is limited to the lower Pennsylvania taxes that are paid on the same income.

Retirees in New Jersey seem to have benefitted by Estate Tax repeal and partial exemption on taxation of retirement income. Wealthier retirees will continue to look to Florida, which has no income or estate taxes for their "golden years." These changes will likely be dwarfed by changes on the national stage. Nonetheless, they represent some positive movement for the quality of life of many New Jersey residents. **NJB**

About the Author

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