

Rosen Seymour Shapss Martin & Company LLP

Certified Public Accountants & Profitability Consultants

State and Local Tax Update

Dear Clients and Friends of the Firm:

New Jersey State 2009 - 2010 Budget

Discussed below are some of the major highlights of the 2009-10 New Jersey State budget which make some significant changes to the Tax Law.

PERSONAL INCOME TAX

Highest-tier rate increase: For tax years beginning on or after January 1, 2009, but before January 1, 2010, the tax rate for taxpayers with taxable income of more than \$400,000 is as follows: 8% for taxable income of more than \$400,000 but less than or equal to \$500,000; 10.25% for taxable income of more than \$500,000 but less than or equal to \$1 million; and 10.76% for taxable income of more than \$1 million.

The law does not impose any additions to tax or any penalties for insufficient payment of estimated tax that may otherwise be due on salaries, wages and other remuneration received before October 1, 2009, on which these higher rates of tax apply. Nor are employers subject to interest, penalties, or other costs that would otherwise apply for insufficient withholding that results from the new tax rates.

Property tax deduction: For the 2009 tax year, the maximum property tax deduction of \$10,000 is reduced to a maximum of \$5,000 for a taxpayer who has gross income over \$150,000, but not over \$250,000, provided the taxpayer is not a qualifying senior, or blind or disabled. For such a taxpayer with gross income exceeding \$250,000, no deduction is allowed.

Lottery winnings: Winnings from the New Jersey lottery are no longer exempt from personal income tax for tax years beginning after 2008. New Jersey lottery winnings exceeding \$10,000 are included in gross income. The Director of Taxation is authorized to set the rate of withholding.

Property tax rebates: The new law eliminates property tax rebates for taxpayers who are not senior citizens or disabled homeowners and have incomes over \$75,000. Senior citizens and disabled individuals will still qualify with incomes up to \$150,000. Two-thirds of the previous year's rebate amount will be provided to homeowners earning between \$50,000 and \$75,000. Households earning up to \$50,000 will receive the previous year's rebate amount. The Tax Freeze Program for disabled and senior homeowners will be maintained, but the homestead rebate program will be eliminated in 2010 for all tenants who are not senior citizens.

CORPORATE INCOME TAX

4% surcharge: The new law extends the 4% surcharge to privilege periods ending before July 1, 2010.

Discharge of debt income: The law decouples the corporation business tax from the federal American Recovery and Reinvestment Act of 2009, which added Internal Revenue Code Sec. 108(i). This federal law allows businesses that repurchase debt in 2009 and 2010 to defer reporting discharge of indebtedness income as taxable income until 2014 and then to spread this income over the five tax years from 2014 through 2018. Consistent with the decoupling, the law also permits corporate taxpayers to exclude the income from New Jersey taxable income in future years when it is required to be recognized federally as taxable income under subsection (i), so that the income will not be taxed twice.

MISCELLANEOUS TAXES

Insurance tax: For taxes due in 2009 only, the legislation increases gross premiums taxes from 1% to 1.35% of taxable premiums. An additional 0.05% applies to taxable premiums, which will be effective on approval. The same rates will apply to accident, health, and legal insurance companies, during the same periods; moreover, dental service corporations are treated as insurance companies for the 2009 tax year. Effective on approval, the tax rate on surplus line coverage and on gross premiums on every insured procuring or renewing insurance with any unauthorized foreign or alien insurer would both increase from 3% to 5% during the same period.

Cigarette tax: Effective July 1, 2009, the cigarette tax rate has been increased from \$2.575 to \$2.70 per pack of 20 cigarettes.

Alcoholic beverage taxes: For sales occurring on or after August 1, 2009, the rate of tax imposed on liquor has been increased from \$4.40 per gallon to \$5.50 per gallon. The rate of tax on wine, vermouth, and sparkling wine, increases from 70¢ per gallon to 87.5¢ per gallon, and the rate of tax on hard cider increases from 12¢ to 15¢ per gallon. The rate of tax on beer remains the same.

Should you require any additional information on the New Jersey State 2009 - 2010 Budget, please feel free to contact Steven J. Eller at (212) 303-1051 or via email seller@rsmcpa.com.

Sincerely,
Rosen Seymour Shapss Martin & Company LLP

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