

New Jersey Tax Law Update

It's rare that we have the opportunity to share some good news from recent tax legislation. On October 14, the Governor signed into law the transportation funding bill. While the increase in the gasoline tax has garnered most of the headlines in the media, the new law has some potentially beneficial financial and tax planning implications for those who live in New Jersey. Here are a few highlights from the new legislation:

- **Estate Tax Phase-Out:** The current \$675,000 threshold will be replaced with a \$2 million exclusion amount for those dying on or after January 1, 2017. The bill eliminates the NJ estate tax entirely for those dying on or after January 1, 2018. Estate tax is applicable to all transfers on death other than to spouses or charities. This change is a meaningful benefit to NJ residents.
 - ⇒ *Point of Action: Review existing estate planning documents and related life insurance policies*
 - **However, there is no change to the Inheritance Tax:** The new law does not change the state's inheritance tax. While the inheritance tax generally does not apply to beneficiaries who are the deceased's spouse, parent, child or grandchild, it does subject transfers on death to others to a graduated tax schedule ranging from 11% to 16%. In practice, we see this particular issue arise when our clients bequeath wealth to cousins, siblings or friends.
- **Point of Action: Consider the use of lifetime gifts to beneficiaries who otherwise may be subject to inheritance tax**
- **Larger Pension and Retirement Income Exclusion:** The new law includes a larger exclusion of pension and retirement income from NJ income taxation. Retirement income includes all payouts from pensions, annuities, 401(k) and IRA withdrawals. The amount of pension and retirement income excluded from income will increase fourfold to \$100,000 for joint filers and \$75,000 for individuals.
 - You can take advantage of this exclusion if your taxable New Jersey gross income is under the \$100,000 threshold and you are 62 years old or older. "Cliff aspect": If your income for the year is \$100,001 or more, you would lose out on this exclusion completely.
 - Any individual under the age of 62 who receives Social Security payments as a result of a disability can also take advantage of this exclusion regardless of his or her total gross income.

The below table illustrates the gradual phase-in of the larger exclusion over the next few years:

	Present	2017	2018	2019	2020
Filing Joint	\$20,000	\$40,000	\$60,000	\$80,000	\$100,000
Filing Individual	\$15,000	\$30,000	\$45,000	\$60,000	\$75,000

- ⇒ *Point of Action: If you are close to the \$100,000 income threshold, avoid generating income (e.g., 1099 income, selling mutual funds) that may inadvertently take you over the threshold.*
- **State Sales Tax Reduction:** State sales tax will be reduced from 7% to 6.875% on January 1, 2017 and then to 6.625% on January 1, 2018.

While the higher gasoline tax may be disconcerting, the elimination of the estate tax, the larger retirement income exclusion amount and the lower sales tax are welcome relief to New Jersey taxpayers. We recommend you touch base with your wealth manager and your attorney to evaluate your current estate planning strategy in light of the tax changes.

Best Regards,

Modera Wealth Management, LLC



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