



### ***Tax Alert New Jersey Corporate Income Tax Changes***

On April 28, 2011, New Jersey Governor Christie signed into law two bills, **S-2753** and **S-2754**, which are designed to provide business tax relief and spur economic growth in New Jersey.

**S-2753** phases in a single sales factor allocation formula for businesses with operations in New Jersey over three years. While the property and payroll factors will still be relevant for 2012 and 2013, the sales factor becomes the sole factor for tax periods beginning on or after January 1, 2014. The phase-in percentages are as follows:

<u>Privilege Period</u>	<u>Sales Factor</u>	<u>Property Factor</u>	<u>Payroll Factor</u>
Beginning on or after 01/01/2012	70%	15%	15%
Beginning on or after 01/01/2013	90%	5%	5%
Beginning on or after 01/01/2014	100%	n/a	n/a

**S-2754** establishes an alternative business calculation, allowing taxpayers to net gains and losses from one or more categories of gross income. Specifically, net profits from business; net gains or net income derived from or in the form of rents, royalties, patents and copyrights; distributive share of partnership income; and net pro rata share of S corporation income. Pursuant to the law, an individual may apply a sole proprietorship loss against income from the above sources but cannot apply the loss against income unrelated to the taxpayer's conduct of the taxpayer's own business, such as: salaries, interest, dividends, or the disposition of property. The law calculates the business increment (the difference between business income as originally calculated and the alternative business calculation) and allows for a phase-in of this tax benefit at 10% of the business increment for tax years beginning in 2012. This benefit increases to 20% in 2013, 30% in 2014, 40% in 2015 and 50% in 2016 and thereafter. Any unused benefit may be carried forward for twenty taxable years.

*It is important to note that New Jersey eliminated the throw out rules for sales apportionment and the regular place of business requirement for tax periods beginning on and after July 1, 2010. This provision allows S-Corp resident shareholders to deduct the credit for taxes paid to other jurisdictions on S-Corp income allocated outside of New Jersey even if there is no business location outside of New Jersey.*

Please call us at 973-994-9494 if you have any questions concerning the application of the above provisions to your individual situation.