

# Alert: Sweeping Tax Changes Made In New Jersey

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October 18, 2016 | by Gary Botwinick

On October 14, 2016, Governor Chris Christie officially signed legislation implementing a new tax package to raise money for the Transportation Trust Fund to help repair New Jersey's crumbling infrastructure. But this law also made significant other changes to New Jersey's tax laws. Most importantly, the new law includes

1. a complete phase out of New Jersey's Estate Tax,
2. a modest reduction to the sales tax, and
3. a reduction on the income tax that retirees will face.

Below is a breakdown of the major provisions of the new legislation and how it will affect you.

## Repeal of the New Jersey Estate Tax

Under the new legislation, the New Jersey Estate Tax will be phased out over the course of the next fifteen months. On January 1, 2017, the New Jersey estate tax exemption will increase from \$675,000 to \$2,000,000. The estate tax exemption is the maximum amount of property that a New Jersey resident may currently pass at death, free of New Jersey Estate Tax. This means that for those individuals dying on or after January 1, 2017, he or she can leave \$2,000,000 to his or her children or other relatives free of any New Jersey Estate Tax. Under current law, an individual estate of \$2,000,000 will generate a New Jersey Estate Tax of just slightly less than \$100,000. Of course, any amount left to a spouse continues to be exempt from estate tax. Most importantly, on January 1, 2018, the New Jersey Estate Tax will be completely eliminated. The Federal Estate Tax amount remains at \$5,450,000, indexed for inflation. This means that an individual dying on or after January 1, 2018, with an estate of \$5,450,000 or less, will pay neither a Federal, nor a New Jersey, estate tax. To understand how far we've come, a New Jersey resident dying in 2001, with an estate of \$5,450,000, would have paid \$1,972,950 in Federal estate tax and \$444,800 in New Jersey estate tax, for a total estate tax of \$2,417,750.

## New Jersey Inheritance Tax

Interestingly missing from the new legislation is any relief from New Jersey's Inheritance Tax. Under current law, New Jersey imposes an Inheritance Tax in addition to the Federal Estate Tax and New Jersey Estate Tax. This tax does not apply to inheritances by a spouse, parent, child, grandchild or great-grandchild of the deceased individual (referred to as "Class A" beneficiaries). Transfers to anyone other than a Class A beneficiary (or a charity) is now, and will continue to be, subject to New Jersey's Inheritance Tax at rates between 11% and 16%. For example, an individual leaving a \$1,000,000 estate to his nieces and nephews will be subject to \$153,000 in Inheritance Tax. For many individuals, the Inheritance Tax has been far more onerous than the New Jersey Estate Tax. Since the repeal of the Inheritance Tax was not a part of this new tax package, it will continue to be imposed notwithstanding the New Jersey Estate Tax repeal.

## New Jersey Gas Tax

Most of the attention paid to the new legislation has been focused on a 23-cent-per-gallon hike in the gas tax to pay for transportation work. Under the legislation, the gas tax will increase for the first time since 1988 from 14.5 cents per gallon to 37.5 cents per gallon to fund transportation work over the next eight years. This increase will be imposed beginning on November 1, 2016.

## New Jersey Sales Tax

As part of the legislation, incremental reductions in the New Jersey sales tax were also included. On January 1, 2017, the sales tax will decrease from 7 percent to 6.875 percent. The following year, the sales tax will decrease another quarter of a point to 6.625 percent.

## Other Income Tax Measures

Finally, the legislation included a number of income tax breaks. The legislation will gradually increase the state income tax exclusion on retirement income for senior citizens from \$15,000 to \$75,000 for

single taxpayers and from \$20,000 to \$100,000 for couples filing jointly. This reform means that senior citizens will be able to keep up to five times more of their retirement checks state income tax-free by the time that the tax reforms are fully implemented in the 2020 tax year. The deal also includes raising the earned income tax credit, which assists low-income residents, from 30 to 35 percent for the current tax year and provides veterans honorably discharged from the military or National Guard with a \$3,000 personal exemption for state income taxes.

### What Should You Do Now?

It is important to review your current estate plan to see if changes are necessary. Many estate plans were designed to minimize Federal and New Jersey Estate Taxes when the Federal exemption was much lower than \$5,450,000, and prior to this most recent New Jersey Estate Tax relief. In many cases, revisions may be advisable. Contact our firm's Trusts and Estates/Taxation Practice Group to discuss your options.