

TY2020 Federal vs NJ Tax Law Differences

TOPIC	FEDERAL TAX LAW	NJ TAX LAW
Basic Information		
Filing Status	Does not recognize civil union status	Treats civil union status like married status
Municipality Code	N/A	Municipality code for current address required
Blind & Disabled	Extra standard deduction for blind, but not disabled	Extra exemption for blind or disabled (only 1 extra exemption if both blind and disabled)
College Student	Dependent if under age 24, full-time student, & younger than taxpayer (or spouse if MFJ)	Dependent if under age 24, full-time student, & younger than taxpayer (or spouse if MFJ) Extra dependent exemption if dependent is under 22, full-time student, & taxpayer paid more than ½ of tuition & maintenance
Veteran	N/A	Exemption for veteran discharged under honorable circumstances
Date of Birth	Person born on January 1 considered born in prior year	Person born on January 1 considered born in current year
Income		
Wages	Can claim deduction for NJSUI, NJSDI, & NJFLI if itemizing	Cannot claim deduction for NJSUI, NJSDI, or NJFLI
	N/A	Can claim excess withholdings for NJSUI, NJSDI, & NJFLI on return if more than 1 employer
Interest	Interest on US Savings Bonds & Treasury Obligations taxable (unless used for education expenses)	Interest on US Savings Bonds & Treasury Obligations not taxable
	Interest on all municipal bonds tax exempt	Interest on NJ municipal bonds tax exempt, but municipal bonds from other states are taxable (See GIT-5 for list of taxable & tax-exempt bonds)
	Early withdrawal penalty on 1099-INT included in taxable interest income; adjustment to income then created by TSO for same amount	Early withdrawal penalty not included in taxable interest income

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Exempt Interest Dividends from Mutual Fund	Exempt interest dividends shown in 1099-DIV Box 10 not taxable in Federal, but must be reported. May affect some Modified AGI calculations to determine eligibility for certain credits	Percentage of exempt interest dividends attributable to Federal obligations (including territories, DC, Puerto Rico) or to NJ bonds in a “qualified investment fund” not taxable Percentage of exempt interest dividends attributable to bonds from other states or to NJ bonds not in a “qualified investment fund” taxable (See GIT-5 for list of taxable & tax-exempt bonds)
NJ Income Tax Refund	May be partially or wholly taxable if taxpayer itemized in prior year & claimed state income taxes on Sch A (recovery)	Not taxable
Capital Gains/Losses	Up to \$3,000 of net capital losses can be used to offset other income on this year’s return; rest is carried over to next year	No net capital losses allowed on current year return; no carryover losses to next year
	Capital gains on NJ exempt obligations taxable	Capital gains on NJ exempt obligations may not be taxable (See GIT-5 for list and taxability)
Social Security (SS)/ Railroad Retirement Benefits (RRB) Tier 1	Up to 85% of SS & RRB Tier 1 payments may be taxable, depending on other income on return	SS & RRB benefits not taxable or reportable
Retirement Income	Total amount of IRA distributions reported on 1040 Line 4a; taxable amount on Line 4b Total amount of pension/annuity income reported on 1040 Line 4c; taxable amount reported on Line 4d	Taxable amount of IRAs, Pensions & Annuities reported on NJ 1040 Line 20a Excludable amounts of IRAs, Pensions & Annuities reported on NJ 1040 Line 20b
	Military pensions from Defense Finance and Accounting SVC taxable	Military pensions not taxable; do not report on NJ 1040 Line 20b
	Disability pensions: Reported as wages if recipient is under employer minimum retirement age; considered earned income Reported as pension if recipient is over employer minimum retirement age	Disability pensions: Not taxable if recipient is under age 65 & totally & permanently disabled; not reportable on NJ 1040 Line 20b Taxable as pension if recipient is age 65 or older

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	N/A	Can use 3-Year Rule if can recover all pension contributions within 36 months of first pension payment & both employer & employee made contributions Distributions are tax-exempt until all contributions recovered; then all distributions are taxable
	IRAs/403b/457b/Thrift Savings Plan distributions totally taxable	IRA/403b/457b/Thrift Savings Plan distributions may not be totally taxable if records were kept of contributions that were taxed when originally made; use IRA Worksheet to determine taxable & tax-exempt amounts Report taxable amount on NJ 1040 Line 20a, tax-exempt amount on Line 20b
	Qualified Charitable Distribution (QCD) made directly from IRA to charity not taxable	QCD from IRA follows normal pension taxability rules
	If employee made Federal after-tax contributions to a pension, a portion of those contributions can be excluded from taxation each year once distributions begin. Use Bogart Annuity Calculator to determine taxable and excludable amounts of distribution Report gross amount of distribution on 1040 Line 4c & taxable amount on 1040 Line 4d	Same as Federal (unless 3-year rule is used) Report taxable amount of distribution on NJ 1040 Line 20a & excludable amount of distribution on Line 20b
	Government employee pension contributions are pre-tax when made, so distributions are taxable	Government employee pension contributions are after-tax when made, so can use Bogart Annuity Calculator to determine taxable & tax-exempt portions of distributions. Be sure to use <u>total</u> pension contributions when doing calculation (not 1099-R Box 9b) Report taxable amount on NJ 1040 Line 20a, tax-exempt amount on Line 20b

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	Up to \$3,000 of Public Safety Officer (PSO) health & long-term care premiums can be subtracted from pension distribution amount if paid directly from pension Premiums cannot be claimed as medical expenses on Sch A	PSO health & long-term care insurance premiums cannot be subtracted from pension distribution amount Premiums can be claimed on medical expenses on NJ 1040 Line 31 (in excess of 2% threshold)
	Railroad Retirement Benefits (RRB) Tier 2 payments taxable	RRB Tier 2 payments not taxable; do not report on NJ 1040 Line 20b
Unemployment	Unemployment income taxable	Unemployment income not taxable or reportable
Alimony Received	For divorce agreements executed prior to 2019, alimony received is taxable For divorce agreements executed starting in 2019 (or modified starting in 2019 if both parties agree), alimony received is not taxable	For all divorce agreements, alimony received is taxable
Gambling Winnings/ Losses	Gambling winnings reported as Other Income; gambling losses (up to amount of winnings) claimed as Miscellaneous Expenses on Sch A only if itemizing	Gambling losses (up to amount of winnings) subtracted from gambling winnings; net is reported on NJ 1040 Line 24
	Gambling winnings not reported on a W-2G are reported as Other Income	Non-W-2G winnings flow through to NJ's Other Income line in TaxSlayer. They should be removed from that line and combined with any W-2G winnings on NJ 1040 Line 24 Gambling Winnings
Cancellation of Credit Card Debt	Cancellation of credit card debt reported as Other Income	Cancellation of credit card debt not taxable or reportable
Property Tax Recoveries	Homestead Benefit (HB) credits and Property Tax Reimbursement (PTR) checks are taxable as Other Income if the taxpayer itemized in the appropriate prior year and received a tax benefit by claiming property taxes on Sch A. Use the State Tax Refund Worksheet to determine the correct taxable amount (recovery)	HB and PTR payments are not taxable or reportable

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Jury Duty Pay Returned to Employer	Total jury duty pay is reported as Other Income If employer pays salary during jury duty and requires that employee turn over some or all of jury duty pay to employer, the amount turned over can be claimed as an adjustment to income	Net jury duty pay is reported as Other Income (total jury duty pay minus amount turned over to employer) Since total jury duty pay flows through from Federal to NJ, subtract amount turned over to employer from Other Income
Adjustments/Deductions/ Credits		
Alimony Paid	For divorce agreements executed prior to 2019, alimony paid can be claimed as an adjustment to reduce your AGI For divorce agreements executed starting in 2019 (or modified starting in 2019 if both parties agree), alimony paid cannot be claimed as an adjustment	For all divorce agreements, alimony paid can be claimed to reduce your income
Medical Expenses	If itemizing, can claim medical expenses that exceed 7.5% of AGI on Sch A	Can claim medical expenses that exceed 2% of NJ Gross Income on NJ 1040 Line 31 NOTE: Self-employed health insurance premiums are not subject to the 2% threshold
	Cafeteria Plan (Sec 125) medical premiums withheld from paycheck are not included in Federal W-2 wages (pre-tax) Cannot also be claimed as itemized deduction on Sch A	Cafeteria Plan (Sec 125) medical premiums withheld from paycheck are included in W-2 NJ wages (after-tax) Can be claimed as medical expenses on NJ 1040 Line 31
	Flexible Spending Account (FSA) and Health Savings Account (HSA) contributions are pre-tax. Therefore, distributions used for medical expenses cannot be claimed as itemized deductions on Sch A Qualified medical expenses for FSA and HSA withdrawals include over-the-counter drugs (even without a prescription) and menstrual products	FSA and HSA contributions are after-tax for NJ. Therefore, distributions used for medical expenses can be claimed as medical expenses on NJ 1040 Line 31 Over-the-counter drugs without a prescription and menstrual products are not considered qualified NJ medical expenses (follows same rules as Schedule A medical expenses)

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	<p>Can claim medical expenses for a nondependent under certain circumstances: If the person was your dependent when the service was performed or when medical expenses was paid If that person would have been your dependent except that (1) he/ she received gross income of \$4,200 or more, (2) he/she filed a joint return, or (3) you (or your spouse if filing MFJ) could be claimed on someone else's return (This could include a child under age 27 who is still covered under parents' health insurance but cannot be claimed as a dependent) If the person of divorced or separated parents if legally divorced and lived apart at all times during last 6 months of the year</p>	<p>Cannot claim any medical expenses that you paid for a nondependent</p> <p>Insurance premiums for child under age 27 who is still covered under parents' health insurance cannot be claimed unless child can be claimed as a dependent</p>
Property Taxes	Can claim a property tax deduction on Sch A for taxes paid on multiple properties	Can claim either a property tax credit or deduction (whichever is better) only for taxes paid on your principal residence
	Cannot claim a property tax deduction on Sch A for rent paid	Can claim 18% of the rent paid for either a property tax credit or deduction (whichever is better)
	Claim the <u>net</u> amount of property taxes paid in current year (amount billed <u>after</u> Veterans or Senior Citizens deduction(s) are applied, but prior to any Homestead Benefit credits received for a prior year)	<p>Claim the <u>gross</u> amount of property taxes paid (amount billed <u>before</u> Veterans or Senior Citizens (SC) deduction(s) are applied, but prior to any Homestead Benefit credits received for a prior year)</p> <p>If PTR recipient, claim gross amount of base year; if not a PTR recipient, claim gross amount of current year</p>
	See NJ Special Handling for more detail on sources and for details on <u>gross vs net</u> property taxes	
Earned Income Credit (EIC)	TaxSlayer calculates amount of EIC based on income, filing status & number of qualifying children	NJ Earned Income Tax Credit (EITC) is calculated as 40% of Federal EIC

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	Taxpayer without a qualifying child must be at least 25 but under 65 on December 31 of tax year	Taxpayer without a qualifying child must be at least 21 but under 65 of December 31 of tax year
	Taxpayer can elect to use 2019 earned income instead of 2020 earned income for purposes of earned income credit	NJ Earned Income Tax Credit (EITC) is calculated as 40% of Federal EIC
Additional Child Tax Credit	Taxpayer can elect to use 2019 earned income instead of 2020 earned income for purposes of Additional Child Tax credit	N/A
Child & Dependent Care Credit	TaxSlayer calculates amount of Child & Dependent Care credit based on income, number of qualifying dependents, & care expenses	The amount of NJ Child & Dependent Care credit is between 10% - 50% of Federal credit, depending on NJ taxable income
	No limit on AGI for Child & Dependent Care credit. Limit on amount of expenses used to calculate credit	NJ taxable income must be \$60,000 or less to be eligible for NJ Child & Dependent Care credit
Income Taxes Paid to State Other than NJ	If itemizing, income taxes that are imposed by a state, local, or foreign jurisdiction can be claimed on Sch A Total state & local taxes paid that can be claimed are limited to \$10,000	NJ offers a credit if you paid income or wage tax on the same income in the same year to both NJ & to another jurisdiction outside NJ. You cannot claim a credit for income tax paid to the Federal government, Canada, Puerto Rico, or any other foreign country or territory Credit cannot be more than the amount you would have paid if you earned the income in NJ
Other Credits	Federal allows following credits (assuming eligibility requirements are met): <ul style="list-style-type: none"> • Education credits (American Opportunity Credit & Lifetime Learning Credit) • Credit for Elderly or Disabled • Foreign Tax Credit • Retirement Savings Contribution Credit • Child Tax Credit/Additional Child Tax Credit • Credit for Other Dependents • Sick and Family Leave Credits for Self-Employed • Recovery Rebate Credit 	No corresponding NJ credits

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	No corresponding Federal credits	NJ allows following credits: <ul style="list-style-type: none"> • Wounded Warrior Caregiver Credit • Gold Star Family Counseling Credit
Taxes	Claim NJ income tax payments on Sch A in the Federal tax year in which payments were made	Claim NJ income tax payments in tax year in which tax was imposed
	May owe self-employment taxes (Social Security & Medicare taxes) on self-employment income reported on Sch C	N/A
	May owe Social Security & Medicare taxes on tips earned, if not withheld by employer	N/A
	N/A	If not fully taxed at time of sale, use tax is owed by NJ residents who buy products out of state, online, or via mail, & then bring the products to NJ or have them shipped here for use Amount owed is the amount of NJ sales tax that should have been paid if purchased in NJ minus sales tax actually paid at time of sale
	May owe additional 10% penalty on distributions from qualified retirement plans, IRAs, and some annuities prior to age 59 ½	N/A
	May owe 50% penalty if Required Minimum Distribution (RMD) from IRA is not taken every year, beginning 4/1 of year after taxpayer turns 72	N/A