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# Tax Alert

## New Jersey's Estate Tax Repealed



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As reported in our previous alert ([click here](#)), it was expected that Governor Chris Christie would sign into law a bill that would repeal the New Jersey estate tax and on October 14th, he did just that. This new law also increases the New Jersey gas tax, increases the pension and retirement income exclusion, reduces the New Jersey sales and use tax, provides an additional income tax exemption for veterans, and raises the New Jersey Earned Income Tax Credit.

This bill was heavily debated over the past several months, both as to the amount of the gas tax increase and what, if any, taxes would be reduced. The main purpose of the legislation is to authorize an increase in the gas tax to provide funds for the Transportation Trust Fund. The new law aims to do so with a 23 cent increase in the gas tax. New Jersey's gas tax, prior to this hike, was the second lowest in the nation. When the increase in the gas tax goes into effect on November 1, 2016, the state will then have one of the highest gas taxes in the country.

#### Estate Tax Provisions

Under the new law, the estate tax is phased out over a two-year period, with complete repeal of the estate tax taking effect for decedent's dying on or after January 1, 2018. Decedents who pass on or after January 1, 2017 will still be subject to estate tax, but will have an exemption of \$2 million, an increase from the previous exemption of \$675,000. The current estate tax will still apply to a decedent who passes away in 2016. The New Jersey inheritance tax regime will remain in place. Therefore, bequests to certain individuals or entities will still be subject to tax.



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Bequests to spouses, domestic partners, children, parents and charities are exempt from the inheritance tax. However, bequests to siblings, cousins, nieces, nephews and others are subject to the inheritance tax. The top inheritance tax rate is 16%.

All New Jersey residents should review their existing estate plan and documents, such as Wills and Trusts, to determine if they need to be modified to reflect the new law. One area to analyze is whether or not one's current Will funds a credit shelter trust with an amount tied to the state estate tax exemption, with the remainder of the estate passing to the surviving spouse. If the Will states that the credit shelter trust is funded with the "maximum amount that can pass free of state estate tax" and the total estate was \$4 million, the Trust and the surviving spouse would receive the following amounts:

Decedent Dying	Credit Shelter Trust	Spouse
Before Jan. 1, 2017	\$675,000	\$3,325,000
Between Jan. 1, 2017 and Dec. 31, 2017	\$2,000,000	\$2,000,000
On or After Jan. 1, 2018	\$4,000,000	\$0

Some taxpayers may decide that certain Trusts currently created under their Wills are no longer needed or may not be needed beginning in 2018. In addition, life insurance purchased solely to provide liquidity for estate taxes may no longer be needed.

#### Sales and Use Tax Provisions

Under the new legislation, the sales and use tax rate will be reduced from the current 7% to 6.875% effective January 1, 2017 and to 6.625% effective January 1, 2018.

#### Pension and Retirement Income Exclusion Provisions

The new legislation provides for an increase in the pension and retirement gross income exclusion over a 5-year period. Under current law, the maximum retirement income exclusion is \$20,000 for married filing jointly (\$10,000 for married filing separately taxpayers and \$15,000 for a single individual). The income exclusion will increase yearly until 2020 when it reaches \$100,000 for a married couple (\$50,000 for married filing separately taxpayers and \$75,000 for a single individual). Below is the full phase-in schedule:

Year	Married Filing Jointly	Married Filing Separate	Single
2017	\$40,000	\$20,000	\$30,000
2018	\$60,000	\$30,000	\$45,000
2019	\$80,000	\$40,000	\$60,000
2020	\$100,000	\$50,000	\$75,000

#### Earned Income Tax Credit and Qualified Veterans Personal Exemption

The law also provides for an increase in the New Jersey Earned Income Tax Credit and a new personal exemption for qualified veterans. The New Jersey Earned Income Tax Credit will now be 35% of the federal benefit amount. The previous amount was 30% of the federal benefit amount. Qualified veterans will now be entitled to claim an additional \$3,000 personal exemption. The increase in the Earned Income Tax Credit is effective beginning with the 2016 tax year while the new personal exemption for qualified veterans will not be effective until the 2017 tax year.

Please contact your WeiserMazars tax professional for more information.

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