

# PP16-02 – TSO NJ Special Handling TY2016

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## Federal vs New Jersey Issues

**NJ Checklist** – Some differences in Federal and NJ Tax Law are handled automatically in TSO; however, many differences must be handled via entries in the TSO NJ State Section. It is awkward and time consuming in TSO to move back and forth between the Federal and NJ Sections; also, TSO usually only offers one box to enter many different unrelated adjustments. The NJ Checklist allows the preparer to collect all entries for the TSO State Section as they come up while entering data in the TSO Federal Section. When appropriate, the items below will explain what to record on the NJ Checklist. The idea is that after the TSO Federal Section is complete, the preparer can then go to the TSO NJ State Section just once and make all the collected entries without flipping back and forth and without forgetting anything. Also, all such adjustments are documented to assist in QR and later understanding of the details for NJ State Section entries.

### ❖ Age of TP/SP

#### ➤ Tax Law:

- Federal – Person born on Jan 1 considered born in prior year;
- NJ – Person born on Jan 1 considered born in current year.
- e.g. for TY2016, a person born on Jan 1, 1952 is considered to be 65 on Federal return, but only 64 on NJ return.

#### ➤ TSO: Seems to handle this automatically

### ❖ Personal Exemption

#### ➤ Tax Law:

- Federal – Cannot claim personal exemption for self if can be claimed as dependent on someone else's return (even if not actually claimed);
- NJ – Can claim person exemption for self even if can be claimed as dependent on someone else's return

#### ➤ TSO: Seems to handle this automatically

### ❖ Extra Exemptions

#### ➤ Tax Law:

- Federal – Extra exemption for a) age 65 or over, b) blind;
- NJ – Extra exemption for a) age 65 or over; b) blind or disabled; c) dependent under age 22 attending college

#### ➤ TSO: Handled automatically via Basic Information (Federal & NJ) questions

- Record on NJ Checklist (Disabled) and (Dependents under age 22...)

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## ❖ Social Security / RRB Tier 1

- Tax Law:
  - Federal – Up to 85% may be taxable
  - NJ – Not taxed
- TSO: Seems to handle this automatically

## ❖ W-2 NJ Special Taxes (Unemployment, Disability, and Family Leave)

- Tax Law:
  - Federal – allowable as part of Sch A, line 5a (unless Private Plan)
  - NJ: Excess payments from single employer must be resolved with employer
  - NJ: Use form NJ 2450 to apply for refund of excess payments (including Private Plan) from multiple employers
- TSO W-2 worksheet box 14:
  - Use the special NJ options in the dropdown for UI, DI, FLI amounts only
    - If Private Plan (PP#) then use usual NJ options in the dropdown. Then, remove from Sch A by subtracting PP amount on Federal Section \ Deductions \ Itemized Deductions \ Taxes You Paid \ Additional State and Local Income Tax box
  - 414H / PERS – use “Retirement (Not in box 12) – Do not carry to Form 8880”
  - Other amounts in box 14 – use “Other”
  - UI, DI, FLI amounts may also appear in or below box 19 / 20 on W-2 paper form

## ❖ Medicaid Waiver Payments on W-2

- Tax Law:
  - Federal – Not taxed (if certain conditions met); NJ – Same as Federal
  - See IRS Q&A page for more information: <https://www.irs.gov/individuals/certain-medicaid-waiver-payments-may-be-excludable-from-income>
- TSO
  - W-2 screen
    - Enter Boxes 1-14 as usual
    - Enter excludable amount in special Waiver Box (near Box 14)
      - ◆ This will cause a negative amount to be included on Federal Line 21
    - Subtract excludable amount from entry in Box 16 for NJ
      - ◆ This may cause Income to be less than Withholding on the NJ return, which will cause a reject when e-filed. You must paper file the NJ return.
      - ◆ It is highly recommended that you attach an explanation to the NJ return to avoid getting a letter from NJ Div. of Tax.
  - Record excludable amount on NJ Checklist (Adjustments to Line 25)

## ❖ Early withdrawal penalty in taxable interest

- Tax Law:
  - Federal – Included in taxable interest on line 8a, but offset as adjustment on line 30
  - NJ – Netted out of taxable interest on line 15a
- TSO: Seems to handle this automatically

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### ❖ US Savings bonds or other Federal obligations (1099-INT Box 3)

- **Tax Law:** Federal – may or may not be taxed (OOS if not fully taxed); NJ – not taxed
- **TSO:** Interest Income screen –
  - Enter amount from paper box 3 in screen box labeled: “Interest on U.S. Savings Bonds and Treasury obligations (Box 3)”
  - Enter same amount in screen box labeled: “Amount of Interest on U.S. Savings Bonds and Treasury Obligations that you want subtracted from your state return”

### ❖ Exempt bond interest (1099-INT Box 8)

- **Tax Law:** Federal – not taxed; NJ – taxability varies
  - If bond held directly, see NJ Bulletin GIT-5 for list and taxability of interest
    - Available at: <http://www.state.nj.us/treasury/taxation/publit1.shtml>
- **TSO:**
  - Add separate Interest and Dividends item with type “Tax Exempt Interest Income, Form 1099-INT, Box 8 or Form 1099-DIV, Box 10”
  - If full amount is NOT exempt in NJ (e.g. Municipal bond from another state, or Mutual Fund), then click “Add/Edit” box labeled “To add/edit state taxable interest items, click here”
    - Enter “New Jersey” and amount taxable in NJ

### ❖ Exempt Interest Dividends from Mutual Funds (Form 1099-DIV, Box 10)

- **Tax Law:** Federal – not taxed; NJ – taxability varies
  - Percent of Box 10 attributable to federal obligations (including Puerto Rico, DC, territories, etc.) are always tax-exempt in NJ
  - Unlike interest from NJ Bonds held directly, the percent of Box 10 attributable to NJ Bonds held by mutual funds is only tax-exempt in NJ if the mutual fund is NJ specific (“NJ Qualified Investment Fund” – New Jersey will usually be part of fund name)
  - Percent of Box 10 attributable to other states is always taxed in NJ
- **TSO:**
  - Calculate amount taxable in NJ using rules under Tax Law, then enter using techniques in prior item “Exempt bond interest”

### ❖ State Income Tax Refunds (Form 1099-G, Box 2)

- **Tax Law:** Federal – may be taxed; NJ – not taxed
- **TSO:**
  - Ignore if did not itemize last year or used Sales Tax (line 5b) instead of Income Tax (line 5a) last year – potentially taxable otherwise
  - If potentially taxable and have prior year return data then
    - Do not use TSO built-in calculator. Use TaxPrep4Free State Tax Refund Worksheet or Bogart Refund Calculator (links on Preparer page) to determine taxable amount of refund and enter result in “Bypass State Refund Worksheet” section. This will use various other tests to potentially limit tax amount.
  - If potentially taxable and missing prior year return data, then treat whole amount as taxable – enter in “Bypass State Refund Worksheet” section

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## ❖ Capital Gains / Losses

- **Tax Law:**
  - Federal – Current year losses not offset by gains can be carried over to following years, plus, up to 3,000 of carried over loss can be used to offset other current year income
  - NJ – No carried over losses
- **TSO:** Seems to handle this automatically

## ❖ Capital Gains on NJ Exempt Obligations

- **Tax Law:**
  - Federal – taxed; NJ – See NJ Bulletin GIT-5 for list and taxability of gains
    - Available at: <http://www.state.nj.us/treasury/taxation/publit1.shtml>
- **TSO:**
  - Federal – Enter on Capital Gains worksheet as usual
  - NJ – if taxability not same as Federal, Record adjustment amount on NJ Checklist (Adjustments to Capital Gains)

## ❖ RRB Tier 2 (RRB-1099-R)

- **Tax Law:** Federal – taxed; NJ – not taxed
- **TSO:** Use RRB-1099-R Screen to enter data – No special NJ action required

## ❖ Military Pensions (1099-R from Defense Finance & Accounting SVC)

- **Tax Law:** Federal – taxed; NJ – not taxed
- Coast Guard (from USCG, Pay and Personnel Center (PPC), Retiree and Annuitant Services (RAS)) also qualifies
- **TSO:**
  - Federal – Enter on 1099-R Worksheet as usual
  - NJ – Record on NJ Checklist (Adjustments to Line 19a)

## ❖ Disability Pension (1099-R code 3)

- **Tax Law:**
  - Federal – Shown on Line 7 as wages (and counted as earned income) if under “minimum retirement age” / Line 16 as pension otherwise (current disability status does not matter);
  - NJ – Not taxed if under 65 AND being received “due to permanent and total disability” / Taxed otherwise
  - Federal / NJ – special case – “The [NJ] Division of Pensions and Benefits reports your Accidental Disability retirement benefit as exempt from federal income tax; your benefits are not subject to New Jersey State income tax until you reach age 65.”

### TSO:

- Federal – 1099-R Worksheet – If under “minimum retirement age” then check box labeled “Check here to report on Form 1040, Line 7” (Rollover or Disability section) – do this whether currently (permanently and totally) disabled or not
- NJ – If not taxable in NJ, then record on NJ Checklist (Adjustments to Line 19a)

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### ❖ **Contributory Pensions (1099-R, Code 7, IRA box unchecked, and either Box 2a shown or Box 9b amount shown)**

- **Tax Law:** Federal – taxable amount included on Line 16; NJ – taxable amount included on line 19a and non-taxable portion on NJ-1040, Line 19b; can use 3-year rule
- **TSO:**
  - See NJ Three Year Rule page if first year of retirement or ever used 3-year rule; otherwise,
  - If taxable amount not given on line 2a, calculate taxable/non-taxable portion using:
    - TSO built-in Simplified General Rule calculator, or
    - Bogart Annuity Calculator (link on Preparer page) – this is easier to use and gives more accurate result in some cases
  - Enter 1099-R as usual, but also Record non-taxable portion on NJ Checklist (Adjustments to Line 19b)

### ❖ **414H Pensions for State/Municipal employees (e.g. Public School Teachers) (1099-R, Code 7, IRA box unchecked)**

- **Note:** Calculating NJ non-taxable amount requires that TP know their contributions. (In most cases, can ask NJ Division of Pensions and Benefits for this)
- **Tax Law:**
  - Federal – Box 2a amount included on Line 16;
  - NJ – calculated taxable amount included on line 19a and non-taxable portion on NJ-1040, Line 19b; can use 3-year rule
- **TSO:**
  - Federal – Enter 1099-R as usual
  - NJ –
    - See NJ Three Year Rule page if first year of retirement or ever used Three Year Rule; otherwise,
      - ◆ If TP not sure, safest assumption is that they did use Three Year Rule
    - If did not use NJ Three Year Rule and have non-recovered contributions amount, calculate NJ taxable and non-taxable amounts:
      - ◆ Use Bogart Annuity Calculator (link on Preparer page) to calculate non-taxable portion
      - ◆ Record (Box 2a amount minus calculated taxable portion) as a negative amount on NJ Checklist (Adjustments to Line 19a)
      - ◆ Record calculated non-taxable portion as a positive amount on NJ Checklist (Adjustments to Line 19b+)

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### ❖ IRAs (1099-R, Code 7, IRA box checked) and 403b, 457b, and Thrift Savings Plans (1099-R, Code 7, IRA box unchecked)

- **Note:** Calculating NJ non-taxable amount requires a record of all taxed contributions (first year) or amount of remaining taxed contributions (2<sup>nd</sup> and following years). Very few people have this information; if information not known, then treat whole distribution as taxable for NJ
- **Tax Law:** Federal – whole amount included on Line 16; NJ – taxable amount included on NJ-1040, Line 19a and non-taxable portion included on Line 19b
- **TSO:**
  - Federal – Enter 1099-R as usual
  - NJ – Record non-taxable portion on NJ Checklist (two places: Negative amount on Adjustments to Line 19a and positive amount on Adjustments to Line 19b)
    - Use NJ IRA (403b/457b/TSP) Worksheet (Link on Preparer page)

### ❖ Unemployment (1099-G, Box 1)

- **Tax Law:** Federal – taxed; NJ – not taxed
- **TSO:** 1099-G Worksheet – No special NJ action required

### ❖ Gambling Winnings / Losses

- **Tax Law:**
  - Federal: Winnings included on 1040, Line 21; Losses included on Sch A
  - NJ: Net Winnings included on NJ-1040, Line 23
    - NJ Lottery (W-2G from NJ Lottery Board) Winnings only taxed if over 10,000 / Not taxed if 10,000 or under
- **TSO:**
  - Enter Winnings on W-2G Screen – will flow to Line 21
  - Enter Losses on Itemized Deductions \ Miscellaneous Deductions screen (but must be manually limited to no more than Winnings)
  - Record Winnings and Losses on NJ Checklist (NJ Line 23)
    - No information is carried to NJ return from Federal entries

### ❖ Cancellation of Debt – Credit Card (1099-C from Credit Card)

- **Tax Law:** Federal – taxed; NJ – Not taxed
- **TSO:** Seems to handle this automatically (as of 03-03-2017)
  - NJ – NO LONGER Record on NJ Checklist (~~Adjustments to Line 25~~)

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## ❖ Medical Expense Deduction

- **Tax Law:**
  - Federal:
    - Amount over 10% (7.5% if 65+) of AGI allowed on Sch A;
    - Expenses deductible for certain non-dependents
  - NJ:
    - Amount over 2% of Gross Income allowed on line 30 (Medical Expenses)
    - Expenses not deductible for non-dependents
- **TSO:** Seems to handle this automatically for expenses allowed on Sch A
  - Some types of expenses are not taxed federally (pre-tax), but are taxed in NJ (after-tax). These are not allowed on Sch A, but should be included on NJ Checklist – see following bullets for details
  - Expenses for non-dependents should be subtracted out (no idea how TP would know to account for this)– Enter (as negative) on NJ Checklist (Pre-Tax (Federal) / Post-Tax (NJ))

## ❖ Federal pre-tax / NJ after-tax medical insurance premiums (e.g. Section 125 / cafeteria plan on W-2)

- **Tax Law:** Federal – not taxed; NJ – taxed, but can include on NJ-1040, Line 30
  - May need to look at 12/31 pay stub to confirm amount is medical / dental (not child care, health club, or other)
- **TSO:**
  - Federal – Do NOT include on Federal Sch A
  - NJ – Record on NJ Checklist (Pre-Tax (Federal) / Post Tax (NJ) Medical)

## ❖ Flexible Spending Account (FSA) Contributions (no tax form)

- **Tax Law:** Federal – not taxed; NJ – taxed, but can only deduct distributions
- **TSO:**
  - Federal – Do NOT enter on Federal Sch A
  - NJ – Nothing to do for NJ – amounts are taxable and included in W-2 NJ box 16

## ❖ Flexible Spending Account (FSA) Distributions (no tax form)

- **Tax Law:** Federal – not allowed as deduction; NJ – deductible
- **TSO:**
  - Federal – Do NOT enter on Federal Sch A
  - NJ – Record on NJ Checklist (Pre-Tax (Federal) / Post Tax (NJ) Medical)

## ❖ Health Savings Account (HSA) Contributions (Form 5498-SA)

- **Tax Law:** Federal – not taxed; NJ – taxed, but can only deduct distributions
- **TSO:**
  - Federal – Do NOT enter on Federal Sch A – use Form 8889 – HSA Contributions
  - NJ – Nothing to do for NJ – amounts are taxable and included in W-2 NJ box 16

## ❖ Health Savings Account (HSA) Distributions (Form 1099-SA)

- **Tax Law:** Federal – not allowed as deduction; NJ – deductible
- **TSO:**
  - Federal – Do NOT enter on Federal Sch A – use Form 8889 – HSA Distributions
  - NJ – Record on NJ Checklist (Pre-Tax (Federal) / Post Tax (NJ) Medical)

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## ❖ Property Taxes paid

### ➤ Tax Law:

- Federal – deduction allowed for multiple properties (Principal Residency not relevant);
- NJ – deduction/credit only allowed for Principal Residence (in NJ)
  - 18% of rent for Principal Residence treated as equivalent to property tax
- **Problem: Taxpayers may bring various kinds of documentation for their property taxes paid:**
  - See page “How to Calculate Property tax paid on Principal Residence”

### ➤ TSO:

- Federal – Enter sum of Property Taxes paid for all owned properties on Itemized Deductions \ Taxes You Paid worksheet.
  - This amount may be adjusted if there are property tax recoveries – See next major bullet “Property Tax Rebate (PTR) and/or Homestead Benefit”
- NJ – Record on NJ Checklist (Property Tax) – ONLY amount for principal residence (actual property tax and/or 18% of rent)

## ❖ Property Tax Rebate (PTR) and/or Homestead Benefit

- **Tax Law:** Federal – Must be included on return if amount is a Recovery (i.e. TP used Itemized Deductions in relevant year), but are allowable on either Sch A or line 21; NJ – do not include at all

### ➤ TSO:

- **Problem: Figuring whether a recovery needs to be accounted for and where to enter it, if so, is tricky:**
  - See page “NJ Property Tax Recoveries Flowchart”

## ❖ NJ Income Tax Payments (other than withholding)

- **Tax Law:** Federal – Payments apply to Federal tax year in which payments made (cash basis)

### ➤ TSO:

- Enter on Itemized Deductions \ Taxes You Paid screen \ Q: Additional State and Local Income Tax:
  - Amount(s) owed and paid from any Prior Year NJ return
  - NJ Prior Year 4<sup>th</sup> Quarter Estimate(s) paid after 12/31
- Enter on Payments & Estimates \ State Estimated Payments screen:
  - Amount applied from previous year’s NJ-1040 Refund
  - All NJ Current Year Estimated payments



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## New Jersey Return Issues

You may need to ask addition interview questions for some of these items

### Basic Information

- ❖ **Select the County or Municipality of your current residence**
    - Interview - Pick appropriate item from list. (Use NJ Municipality Lookup Tool on Preparer page if you need to look up this information)
  - ❖ **If claiming dependents on your federal return, are the dependents covered by health insurance coverage?**
    - Interview & NJ Checklist
  - ❖ **Were you Disabled as of December 31, 2016? (Taxpayer / Spouse)?**
    - Interview & NJ Checklist
  - ❖ **Enter the number of dependents under age 22 claimed on your federal return that attended college**
    - Interview & NJ Checklist
  - ❖ **Do you want tax forms mailed to you for next tax year?**
  - ❖ **Was a Federal Extension filed?**
  - ❖ **If "Yes" to Federal Extension filed, then enter confirmation number if the extension was filed by phone or online.**
  - ❖ **Did you file a New Jersey Extension, Form NJ-630?**
  - ❖ **Gubernatorial Elections Fund (Taxpayer / Spouse)**
    - From NJ Checklist
  - ❖ **Death Certificate Attached for Deceased returns?**
    - Use only if there is a refund due and you wish a paper check to be issued in the name of surviving spouse or estate (must paper file in this case). Not necessary if using direct deposit.
  - ❖ **PIN: Enter a Five Digit Number not beginning with Zero; this number does not have to match your Federal PIN (Taxpayer / Spouse)**
  - ❖ **Part Year Resident Information - If you were a resident for only part of the year, please complete the residency questions below.**
    - Part Year Resident returns are OOS
- 
- ❖ **Name has changed**
    - No known way to enter this – Included in TSO Quirks list
  - ❖ **Address has changed**
    - No known way to enter this – Included in TSO Quirks list

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## Income Subject to Tax

- ❖ **Enter taxable Gambling Winnings**
  - From NJ Checklist
- ❖ **Enter Military Pension or Survivor's Benefit Payments received; enter the excluded amount as a negative number**
  - From NJ Checklist
- ❖ **Tax-Exempt Pensions and Annuities**
  - From NJ Checklist
- ❖ **Taxable Amount of Scholarships included on Federal Return**
  - From NJ Checklist
- ❖ **Complete the following if you were a Part-Year Resident during 2016**
  - Part Year Resident returns are OOS

## Schedule K-1

- ❖ **NJ K-1s are OOS**

## Subtractions from Income

- ❖ **Enter qualified Conservation Contributions made in 2016**
  - OOS?
- ❖ **Health Enterprise Zone Deduction**
  - OOS?
- ❖ **Enter any medical insurance premiums that you did not include on your federal return because they were deducted on a pre-tax basis.**
  - From NJ Checklist
- ❖ **Disabled as per SSA Guidelines (Taxpayer / Spouse)**
  - Interview & NJ Checklist
  - Determines whether can use Pension / Other Retirement Exclusion (lines 27A, 27B, 27C) even if under age 62

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## Credits \ Property Tax Credit/Deduction

- ❖ **Did you meet Property Tax Eligibility Requirements?**
  - Whether eligible for NJ Property Tax Credit / Deduction
- ❖ **Enter Property Taxes Paid and/or 18% of Net Rent Paid**
  - From NJ Checklist
    - Use PTR Base amount if in PTR program
- ❖ **Were you a Homeowner in 2016?**
- ❖ **Block Information**
  - Block Suffix Information**
  - Lot Information**
  - Lot Suffix Information / Qualifier**
- ❖ **Owner's Percentage / Unit Percentage**

## Credits \ Credit for Taxes Paid to Another State

- ❖ **Automatic if Full-Year Resident**
- ❖ **OOS for Part-Year Resident**

## Credits \ Other

- ❖ **Sheltered Workshop Tax Credit**
  - OOS

## Tax

- ❖ **Use Tax Due on Out-of-State Purchases**

## Voluntary Contributions

- ❖ **NJ. Conserve Wildlife Fund**
- Children's Trust Fund**
- NJ. Vietnam Veterans Memorial Fund**
- NJ. Breast Cancer Research Fund**
- Battleship NJ Memorial Fund**
- Other Designated Contributions**
- If Other contributions, please select type of other contributions**
  - Enter any contribution amounts

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### Payments

- ❖ Amount of state refund that you would like to apply to your 2017 return

### Miscellaneous Forms \ Other

- ❖ Additional Interest Due with the return

### Miscellaneous Forms / Estimated Payment Vouchers, Form NJ-1040-ES

- ❖ Select YES and enter the amounts you would like to print on your estimated payment vouchers.
- ❖ Payment Voucher 1, Due April 15, 2017  
Payment Voucher 2, Due June 15, 2017  
Payment Voucher 3, Due September 15, 2017  
Payment Voucher 4, Due January 15, 2018

### Miscellaneous Forms / Form NJ-2210 Underpayment of Estimated Tax

- ❖ To complete Form NJ-2210 Underpayment of Estimated Tax select YES and complete the information below
  - We are required to zero out and payment on NJ-2210 and let NJ figure it out
- ❖ Enter your 2015 Tax Liability, Form NJ-1040, Line 43
- ❖ Enter 2015 Gross Income, Form NJ-1040, Line 28

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## Amount for NJ Checklist (Property Tax)

<b>Property Tax + Rent</b>	<b>What to put on NJ Checklist</b>
Property Tax paid:	If filing PTR-1 (or PTR-2), then use PTR base amount Otherwise use amount based on rules on following page
18% of Rent paid:	Rent paid for principal residence [Note: Rental unit must pay property taxes and unit must have own kitchen and bath] [Note: Subsidized rentals are ok (e.g. Section 8), but if landlord does not pay property tax (e.g. P.I.L.O.T.), then not entitled to deduction/credit.]

Note 1: It is ok to have both rent and property tax, but only one dwelling can qualify as principal residence on any day. (i.e. cannot include property tax / rent paid on more than one dwelling for same day)

Note 2: From NJ Instructions: "Taxpayers who were not 65 years of age or older or blind or disabled on December 31, 2016, with gross income of \$20,000 or less (\$10,000 if filing status is single or married/CU partner, filing separate return), *are not eligible for a property tax credit.*"

Note 3: Use Worksheet G-1 in NJ-1040 Instructions if TP met any of the following Worksheet F conditions:

- Had more than one principal residence
- Shared ownership with non-spouse
- Principal residence is in a multiunit property that TP owned
- TP shared rent with non-spouse
- TP was both a homeowner and a tenant

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## How to Calculate Property tax paid on Principal Residence

<b>Source</b>	<b>Itemized Deductions \ Taxes You Paid \ Real Estate</b>
<b>Postcard</b> from Assessor's office	Amount on postcard
<b>Tax bill</b> for 2016 / 2017	Amount from line in top section labelled 2016 NET TAX
<b>Form 1098</b> showing property taxes paid	Amount on Form 1098 plus(+) any Homestead Benefit amount for 2013 applied as a credit to 2016 tax bill (lookup if necessary)
<b>TP record</b> of property tax payments (e.g. cancelled checks)	TP record amount plus(+) any Homestead Benefit amount for 2013 applied as a credit to 2016 tax bill (lookup if necessary)
<b>PTR-1A/2A</b> (2016) form filled out by tax office	Amount from PTR-1A/2A (2016) line 3 or line 5 should <u>NOT</u> be used. (Because it has not been adjusted for any Veterans or Senior Citizen deduction(s))
<b>None of the above</b>	TP should go home to get one of the above or contact tax office to get information on property taxes paid in 2016

Note 1: Homestead Benefits received as a check do not count as being applied as credit to municipal bill and should be handled on federal return in year received.

Note 2: See separate page for instructions on how to lookup Homestead Benefit amount.

Note 3: All Property taxes paid are deductible on Sch A. Property taxes paid on property other than Principal Residence are still deductible on Sch A, but not allowed for NJ calculations.

Note 4: If using Postcard or Tax bills, then any Property tax amounts billed in current tax year, but not actually paid in current tax year should be subtracted from the above amount.

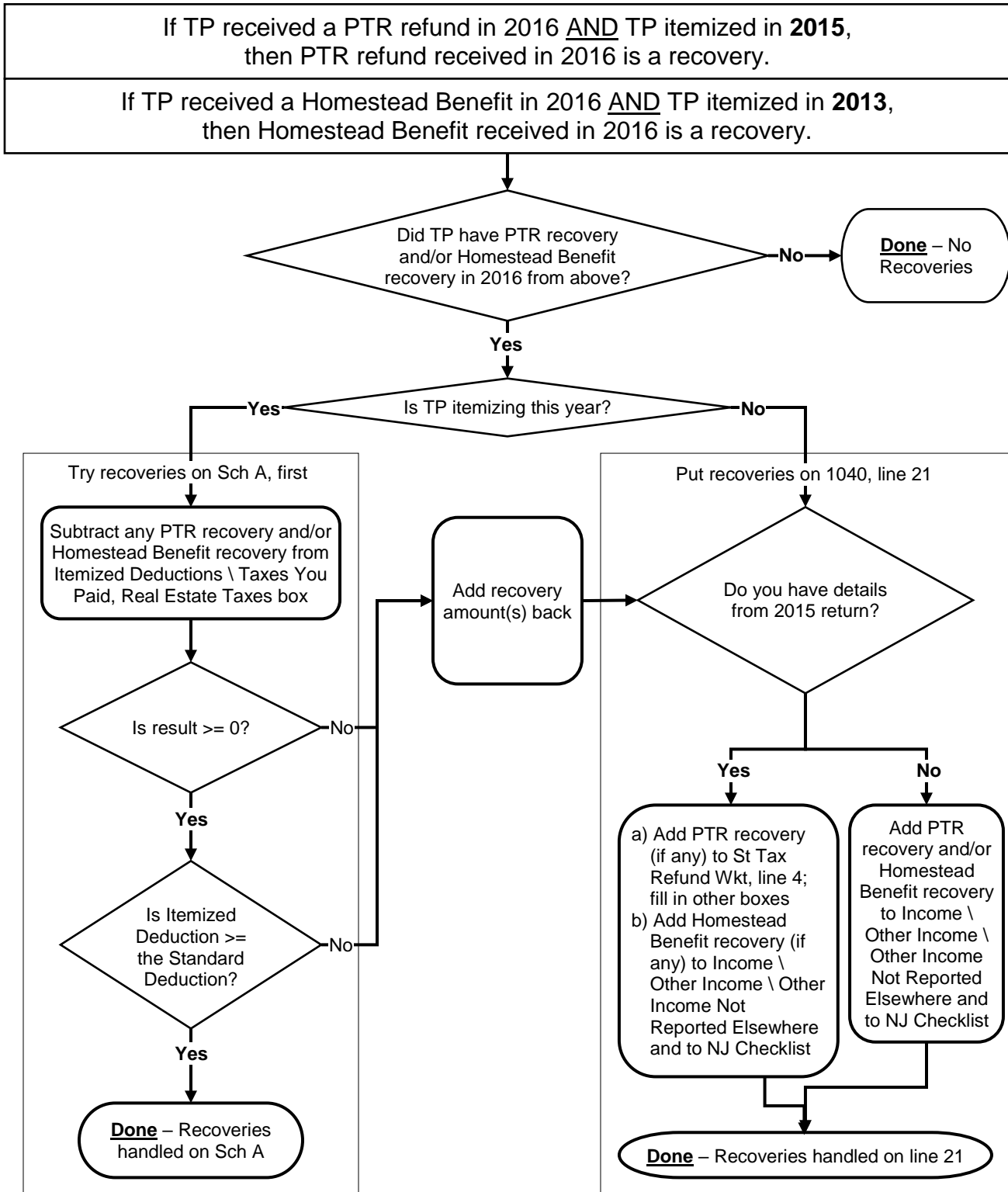
Note 5: Any Property tax payments made in current tax year for prior years and not already included in above amount should be added.

Note 6: The property tax paid amount is after any Disabled Veterans Exemption, Veterans Deduction, or Senior Citizens Deduction amounts which may apply.

Note 7: If there are a) multiple owners for a principal residence, and/or b) multiple or partial year principal residences for the taxpayer(s), and/or c) multiple units in the building, then amounts need to be adjusted accordingly – see NJ-1040 Instructions, Worksheet G-1.

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## NJ Property Tax Recoveries Flowchart



Note 1: Complete all federal income and regular Sch A entries before following this procedure.

Note 2: See separate page for instructions on how to lookup Homestead Benefit amount.

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## NJ Three Year Rule

**Tax Law:** (see NJ-1040 Instructions or NJ GIT-1 for more detail)

“If you will recover your contributions within three years from the date you receive the first payment from the plan, and both you **and** your employer contributed to the plan, you may use the Three-Year Rule Method to determine your New Jersey taxable pension income. The Three-Year Rule allows you to exclude your pension and annuity payments from gross income until the payments you receive equal your contributions to the plan. Until that time, the amounts you receive, because they are considered your contributions, are not taxable and should not be reported on your return. Once you have received (recovered) an amount equal to the amount you contributed, the payments you receive are fully taxable. Since the Three-Year Rule has been repealed for Federal income tax purposes, if you retired after July 1, 1986, the taxable amount of pension or annuity that you report on your New Jersey return when using this method will differ from the amount you report on your Federal return.”

### **Example:**

#### **Initial situation:**

Pension = 1,000/month, Federal Exclusion = 10/month; Total Contributions = 21,000

#### **Year 1 (Partial year)**

- 1099-R Box 1=5,000, Box 2a=4,950
- NJ Checklist (Adjustments to Line 19a) = -4,950
- NJ Checklist (Adjustments to Line 19b) = 5,000

Remaining unrecovered contributions after Year 1 = 16,000

#### **Year 2**

- 1099-R Box 1=12,000, Box 2a = 11,880
- NJ Checklist (Adjustments to Line 19a) = -11,880
- NJ Checklist (Adjustments to Line 19b) = 12,000

Remaining unrecovered contributions after Year 2 = 4,000

#### **Year 3 (Last year with exclusion)**

- 1099-R Box 1=12,000, Box 2a = 11,880
- NJ Checklist (Adjustments to Line 19a) = -3,880
- NJ Checklist (Adjustments to Line 19b) = 4,000

Remaining unrecovered contributions after Year 3 = 0

#### **Year 4 and all following years**

- 1099-R Box 1=12,000, Box 2a = 11,880
- NJ Checklist (Adjustments to Line 19a) = 120
- NJ Checklist (Adjustments to Line 19b) = 0



# PP16-02 – TSO NJ Special Handling TY2016

## Change Log

### **03-08-2017 v1.5:**

- Further detail on possible reject for NJ return for Medicaid Waiver

### **03-04-2017 v1.4:**

- Cancellation of Debt (1099-C) now excluded automatically on NJ-1040

### **03-01-2017 v1.3:**

- New Capital Gains adjustment box in NJ Section
- Add suggestion to attach explanation to NJ return for Medicaid Waiver

### **02-24-2017 v1.2:**

- Wording change in references to TSO Quirks list
- Add Workaround for PP# in section for NJ Special Taxes on W-2
- Add section for Medicaid Waiver Payments on W-2

### **02-09-2017 v1.1:**

- Add Coast Guard Payor for 1099-R Military Pension

### **02-08-2017 v1.0:**

- Remove DRAFT watermark

### **01-28-2017 v0.8:**

- Added info about NJ Div of P&D Accidental Disability
- Added info about NJ non-dependent medical expenses
- Add explanation / justification for NJ Checklist
- How to Calculate Property Tax page – Simplify Tax Bill row
- Three Year Rule - Remove overly complicated attempt to explain how to calculate adjustments – just show example
- Remove How to Lookup Homestead Benefit page
- Fix 414H formula for NJ Checklist
- A whole bunch of clarifications and fixed based on 3 page missive from Gale (Thanks!)

### **01-28-2017 v0.7:**

- Fix a bunch of stuff for TY2015 -> TY2016
  - TaxWise -> TaxSlayer
  - Screenshots
- Correction to 414H section
- Add TSP to IRA/403b/457b section
- Add reference to NJ-1040 Worksheet F & Worksheet G-1
- Add Example to Three Year Rule page

### **12-19-2016 v0.6:**

- Added 403b, 457b to IRA section
- Add new 414H section

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- Thanks, Pete

**12-17-2016 v0.5:**

- Initial DRAFT release