

New Jersey – AB 12 increases gasoline tax, reduces sales tax rate, and enacts other changes

Overview

On October 14, 2016, Governor Christie signed Assembly Bill 12 (A12),¹ which includes the following amendments to New Jersey law:

- Increases the per gallon gasoline tax.
- Reduces the sales tax rate.
- Increases decedent transfer exclusion from (and later elimination of) New Jersey estate tax.
- Phases-in increase of exclusion for pension and retirement income from New Jersey Gross Income Tax.
- Implementation of a deduction against gross income tax for veterans and increase in the earned income tax credit.

This Tax Alert summarizes these law changes that have various effective dates as noted in the discussion that follows.

Gasoline tax increase²

A12 increases the tax on gasoline by 23 cents to 33.5 cents per gallon. The new tax rate is effective for purchases on or after November 1, 2016.

Sales tax rate reduction³

Currently, the sales tax rate in New Jersey is 7%. A12 reduces the sales tax rate to 6.875% for purchases on or after January 1, 2017 and implements a further reduction to 6.625% on January 1, 2018 and thereafter.

Increased exclusions for the New Jersey estate tax⁴

Prior to A12, the exclusion for the transfer of the estate of each resident decedent dying before January 1 of 2017 was \$675,000. After December 31, 2016 but before January 1, 2018 the exclusion amount is increased to \$2,000,000. For the transfer of the estate of each resident decedent dying on or after January 1, 2018, no New Jersey estate tax will be imposed. (Note that this legislation does not impact New Jersey's transfer inheritance tax.)

Phases-in increase to pension and retirement income exclusion from New Jersey Gross Income Tax⁵

A12 implements a four year phase-in of exemptions for pension and retirement income. For 2017 married taxpayers filing jointly may exclude \$40,000, married filing separately, \$20,000 and single taxpayers \$30,000. By 2020 the exemption for pension or retirement income for taxpayers married filing jointly increases to \$100,000, married filing separately, \$50,000 and single taxpayers \$75,000.

Deduction for veterans⁶ and Earned Income Tax Credit⁷

A12 allows veterans who are honorably discharged a deduction against gross income of \$3,000 for tax years beginning on or after January 1, 2017. Additionally A12 increases the New Jersey earned income tax credit (EITC) to 35% of the federal EITC beginning with the 2016 tax year.

¹ Laws 2016, ch 1, A12, P.L. , c.57. A copy of the adopted law is accessible [here](#).

² A12, Page 48, Lines 36-38

³ A12, Page 14, Lines 40-43, Changes also affect the complimentary use tax.

⁴ A12, Page 34, Lines 5-7, 25-26

⁵ A12, Page 38, Lines 16-36

⁶ A12, Page 36, Lines 5-9

⁷ A12, Page 42, Lines 3-4

Considerations

Taxpayers should consult with their tax advisers regarding the timing and implementation of the new tax rates where appropriate, notably the impact on transactions that straddle the effective dates.⁸

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⁸ AB 12 enacts other changes to various elements of New Jersey tax law that are outside the scope of this Alert.
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