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## NEW JERSEY GROSS INCOME TAX RATE INCREASE ENACTED

New Jersey has enacted legislation that makes the following individual income tax changes. The rate changes affect New Jersey residents and non-residents, and also impact pass-through entity withholding obligations.

### Gross income tax rates

Prior to this legislation, regardless of filing status, taxpayers were subject to a tax rate of 6.37% on gross income above \$400,000 and a tax rate of 8.97% on gross income above \$500,000.

The legislation, for the 2009 tax year, would increase the tax rate on gross income that is:

- greater than \$400,000 and equal to or less than \$500,000 from 6.37% to 8%;
- greater than \$500,000 and equal to or less than \$1,000,000 from 8.97% to 10.25%;
- greater than \$1,000,000 from 8.97% to 10.75%.

### Underpayment of estimated tax

For wages or other remuneration received before October 1, 2009, there is no penalty or underpayment of estimated tax interest for insufficient payments of estimated tax or withholding tax as a result of the above tax rate increases.

### Property tax deduction

Prior to this legislation, taxpayers were permitted to claim a property tax deduction of up to \$10,000. The legislation, for the 2009 tax year, suspends this deduction for taxpayers with gross income above \$150,000 who are not at least 65 years of age and are not allowed to claim a deduction for blindness or disability. The bill also caps the maximum property tax deduction to \$5,000 for taxpayers who have gross income of more than \$150,000 but less than \$250,000.

Because both the rates and the loss of the property tax deduction apply at the same gross income threshold, regardless of whether a married couple files jointly or separately, this legislation significantly increases the already significant New Jersey tax advantage to many high income married couples from filing federal and New Jersey returns on a married-filing-separately basis.

### New Jersey lottery winnings

Prior to this legislation, New Jersey lottery winnings were not taxable. The legislation, for tax year beginning after 2008, takes away this exemption “with respect to a prize in an amount exceeding \$10,000” and requires gross income tax withholding on that prize.