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NEW JERSEY ENACTS SUBSTANTIAL TAX HIKES

By John L. Berger, Esq., Michael N. Goen, Esq., Isaac Hirsch, Esq., Brian A. Silikovitz, Esq.
and Kenneth J. Slutsky, Esq.

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Last week, in connection with the signing of a \$29 billion state budget, Governor Jon Corzine approved a bill that retroactively increases the income tax rates for taxpayers with taxable income exceeding \$400,000. The bill also halves the maximum allowable deduction for property tax (from \$10,000 to \$5,000) for taxpayers with gross income exceeding \$150,000, and eliminates the deduction altogether for taxpayers with gross income exceeding \$250,000.

The bill sets the new rate schedule as follows:

Taxable income bracket:	New marginal tax rate:	Previous marginal tax rate:
Over \$400,000.00 but not over \$500,000.00	8.0%	6.37%
Over \$500,000.00 but not over \$1,000,000.00	10.25%	8.97%
Over \$1,000,000.00	10.75%	8.97%

The new 8% bracket amounts to a more than 25% increase in the marginal tax rate for taxable income between \$400,000 and \$500,000. Taxpayers with taxable income over \$1,000,000 will experience a marginal rate increase of almost 20%.

By its terms, the bill only applies to taxable years beginning during calendar year 2009. However, in the past, New Jersey has extended the duration of "temporary" tax

rates, so it is possible that these higher rates may extend beyond 2009. The bill provides that taxpayers will not be penalized for underpayment of estimated taxes or underwithholding on payments received by the taxpayer before October 1, 2009 that are subject to a rate of tax imposed by the bill.

A separate bill, approved as part of the same budget package, provides a one-year extension of

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the 4% surcharge on corporation business tax liability that was scheduled to sunset in 2009. The bill also decouples the New Jersey corporation business tax from a recent federal law allowing businesses that repurchase debt in 2009 and 2010 to defer reporting discharge of indebtedness income until 2014. As a result of the bill, businesses that defer discharge of indebtedness income under the federal provision must still recognize the income currently for

state tax purposes (though they will not have to recognize the income a second time when it is included under the federal provision).

Please contact any of the attorneys below for further information on the matters discussed herein.

John L. Berger
973.597.2314
jberger@lowenstein.com

Michael N. Goen
973.597.2366
mgoen@lowenstein.com

Isaac Hirsch
973.597.6318
ihirsch@lowenstein.com

Brian A. Silikovitz
973.597.2562
bsilikovitz@lowenstein.com

Kenneth J. Slutsky
973.597.2510
kslutsky@lowenstein.com

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www.lowenstein.com

New York

1251 Avenue of the Americas
New York, NY 10020
212 262 6700

Palo Alto

590 Forest Avenue
Palo Alto, CA 94301
650 433 5800

Roseland

65 Livingston Avenue
Roseland, NJ 07068
973 597 2500