

2020 Pass-Through Business Alternative Income Tax Act in New Jersey

Thank you, New Jersey Governor Phil Murphy, for signing the “Pass-Through Business Alternative Income Tax Act” on January 13, 2020 benefiting business owners here in New Jersey.

Why did NJ enact this new bill?

In 2017, the IRS limited the state and local tax (SALT) deduction on individual income tax returns with the Tax Cuts and Jobs Act. Many of my business owners were itemizing and getting a deduction at the federal level for state income taxes paid. Now, we are limited to a total of \$10,000 between property taxes and SALT. We can all agree that \$10,000 is easily attainable for a homeowner who resides in NJ. This limitation impacted so many taxpayers, and not just business owners. As a solution for business owners with pass-through entities, this act was passed as a work around.

How will this Act impact business owners?

This act is for pass-through entities only. A pass-through entity (partnerships and S corporations) is where the income flows to the owner’s income tax return. If your business is not a pass-through entity, you may want to consult a CPA to prepare an analysis on changing your business structure.

This is a voluntary election made each year. You can elect to pay your state income tax relative to the pass-through entity at the business level which in turn reduces your federal taxable income. To determine the tax paid at the entity level and not individually, see the chart below of the tax rates from the state website:

Pass-Through Entity Income	Tax Rate
First \$250,000	5.675%
Amount between \$250,000 and \$1 million	6.52%
Amount between \$1 million and \$5 million	9.12%
Amount over \$5 million	10.9%

This is just a quick summary about the new bill as we await more details and guidance from the State of New Jersey. As a business owner of a pass-through entity here in New Jersey, this election could potentially have you paying less tax and have more money in your pocket. This is great news for many business owners here in New Jersey!

Stay tuned for more updates as they come available. Please call us if you would like to discuss how this will impact your business.

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