

Important Tax Notices for NJ Businesses



REDUCTION OF NEW JERSEY SUBCHAPTER S CORPORATION MINIMUM TAX

S corporations elect to pass corporate income, losses, deductions, and credit through to their shareholders for federal tax purposes. Corporations may elect to register in New Jersey as a Sub-Chapter S corporation. Since the S corporation status for federal purposes does not automatically flow through for New Jersey state purposes, in order to be treated as a New Jersey S corporation, a federal S corporation must file a separate NJ Sub-Chapter S Election Form (CBT-2553).

On June 30, 2011, Governor Christie of New Jersey signed a bill reducing the New Jersey Sub-Chapter S corporation minimum tax rates by 25%, starting for periods beginning on and after January 1, 2012.

For example, if the current minimum tax is \$500, it will be reduced to \$375. The only exception to this rule is for members of affiliated or controlled groups with a payroll in excess of \$5 million. They will still be subject to a \$2,000 minimum tax. The minimum tax is based on gross receipts sourced to New Jersey.

NJ ADOPTS SINGLE SALES FACTOR

Corporations have traditionally paid a tax on profits in New Jersey, but only based on the percentage of their business in New

Jersey (since they will be subject to the same tax in other states). The percentage of their business in New Jersey was calculated based on sales, property, and payroll in the state. The ratio was 50% sales, 25% property, 25% payroll. The formula is now:

$$\text{Percent of sales in NJ} \times .70 + \text{Percent of property in NJ} \times .15 + \text{Percent of payroll in NJ} \times .15 = \text{Percent of Business in NJ}$$

New Jersey Governor Christie signed legislation phasing in a single-sales factor apportionment formula over a three-year period beginning with privilege periods on or after January 1, 2012. Moving to a single sales factor means corporations use only their percentage of sales to calculate tax liability. Also keep in mind that a corporation in NJ does not have to be subject to another state's taxes in order to apportion their net income creating even greater tax saving opportunities.

Effective January 1, 2012, the phase-in is as follows:

For Privilege Period Ending	Sales Factor	Property Factor	Payroll Factor
Before Jan 1, 2012	50%	25%	25%
After Dec 31, 2011, but before Jan 1, 2013	70%	15%	15%
After Dec 31, 2012, but before Jan 1, 2014	90%	5%	5%
After Dec 31, 2014	100%	0%	0%

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