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On October 14, 2016, New Jersey Governor Chris Christie signed a bill to increase New Jersey's gas tax rate, decrease the state's sales and use tax rate and phase out its estate tax. The law takes effect on November 1, 2016, with various applicable dates.

**Increase in the tax on petroleum products**
Beginning November 1, 2016, the new law increases the gas tax by 23 cents per gallon. The increased taxes on gas will boost the Transportation Trust Fund from $1.6 billion a year to $2 billion a year, according to the governor and other state leaders.

**Decrease in the sales and use tax rate**
The new law decreases the sales and use tax rate first, from 7% to 6.875% effective January 1, 2017, and then to 6.625% effective January 1, 2018. In addition, the hotel and motel occupancy fee is decreased first, to not exceed 13.875%, effective January 1, 2017, and then, to not exceed 13.625%, effective January 1, 2018.

**Phase out of the estate tax**
The estate tax will be phased out by the 2018 tax year. For resident decedents dying on or after January 1, 2017, but before January 1, 2018, the tax on the transfer of the estate is subject to an exclusion of $2 million. There is no tax on the transfer of the estate for resident decedents dying on or after January 1, 2018.

**Additional tax-related changes within the law include:**

- Veterans are granted a $3,000 personal exemption from taxation.
- The exemption of income received as an annuity or other retirement income is increased. For tax years beginning on or after January 1, 2017, but before January 1, 2018, the exemptions increase to $40,000 for a married couple filing jointly; $20,000 for a married person filing separately; and $30,000 for an individual filing as a single taxpayer. In each of the next three tax years (i.e., 2018, 2019 and 2020) those amounts increase by $20,000, $10,000, and $15,000 respectively. Thus, for tax years beginning on or after January 1, 2020, the exclusions are $100,000 for a married couple filing jointly, $50,000 for a married personal filing separately, and $75,000 for an individual filing as a single taxpayer.
- The earned income tax credit increases from 30% to 35% of the federal earned income tax credit for tax years beginning on or after January 1, 2016.

**Implications**
Taxpayers that are planning to make a large purchase that is subject to the state's sales and use tax should consider waiting until the sales and use tax rate decreases to make the purchase, if possible. In addition, the dramatic increase in the petroleum gross receipts tax (from 2.75% to 7%) will significantly affect taxpayers that manufacture and sell petroleum products in New Jersey. Given the recent uptick in New Jersey audit activity surrounding this tax, taxpayers selling products in New Jersey that contain petroleum or petroleum derivatives should determine whether their products are subject to the tax.
For more information on how the CG team can help you navigate this unique situation, please visit our website.

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