Sponsored by:
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District 38 (Bergen and Passaic)

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Assemblyman Diegnan

SYNOPSIS
Excludes deferred compensation of certain public school and federal tax-exempt organization employees from current taxation under the gross income tax.

CURRENT VERSION OF TEXT
Introduced Pending Technical Review by Legislative Counsel.
AN ACT excluding deferred compensation of certain public school and federal tax-exempt organization employees from current taxation under the gross income tax, amending P.L.1983, c.571.

BE IT ENACTED by the Senate and General Assembly of the State of New Jersey:

1. Section 2 of P.L.1983, c.571 (C.54A:6-21) is amended to read as follows:

   2. Contributions to certain employee trusts.

   Gross income shall not include amounts contributed by an employer on behalf of and at the election of an employee:

   a. to a trust which is part of a qualified cash or deferred arrangement which meets the requirements of [Section 401(k)] subsection (k) of section 401 of the [1954] federal Internal Revenue Code of 1986, 26 U.S.C. s.401, as amended;

   b. for annuity contracts, or treated as amounts contributed for annuity contracts, under the provisions of subsection (b) of section 403 of the federal Internal Revenue Code of 1986, 26 U.S.C. s.403, (cf: P.L.1983, c.571, s.2)

2. This act shall take effect immediately and apply to taxable years beginning on or after the January 1 following the date of enactment.

STATEMENT

This bill excludes from gross income taxation the payments that employees of federally tax-exempt charitable organizations, like hospitals, churches, social welfare organizations and educational institutions, and employees of public school systems may make toward retirement savings, as authorized under subsection (b) of section 403 of the federal Internal Revenue Code of 1986.

The federal Internal Revenue Code allows employees of these tax exempt organizations to make “salary reduction agreements” with their employers, plans under which the employees may individually choose to receive less current salary (subject to limits) and instead purchase annuity contracts or invest in mutual funds for their retirement. These retirement savings are not subject to federal taxation until amounts are later distributed.

The New Jersey gross income tax currently allows the employees of private, for-profit, businesses to make such tax-deferred contributions to the retirement savings plans authorized under section 401(k) of the federal Internal Revenue Code but does not

EXPLANATION – Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.
allow tax-deferred contributions to the retirement savings plans authorized under section 403(b) of the Internal Revenue Code. This bill gives the employees of federally tax-exempt charitable organizations and employees of public school systems the same tax incentives for retirement savings that are provided to the employees of for-profit businesses.