ASSEMBLY, No. 238

STATE OF NEW JERSEY

219th LEGISLATURE

PRE-FILED FOR INTRODUCTION IN THE 2020 SESSION

Sponsored by: Assemblyman WAYNE P. DEANGELO District 14 (Mercer and Middlesex)

SYNOPSIS

Directs the Division of Taxation to produce instructional materials on the appropriate gross income tax treatment of certain deferred compensation plans.

CURRENT VERSION OF TEXT

Introduced Pending Technical Review by Legislative Counsel.



AN ACT directing the Division of Taxation to produce instructional materials on the appropriate gross income tax treatment of certain deferred compensation plans, supplementing Title 54A of the New Jersey Statutes.

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

1. In administering the tax imposed pursuant to the "New Jersey Gross Income Tax Act," N.J.S.54A:1-1 et seq., and the exclusion established pursuant to N.J.S.54A:6-10, the Director of the Division of Taxation shall include, but not be limited to, materials in the gross income tax return instruction booklet that explain a taxpayer's duty to withhold and pay tax on contributions to a deferred compensation plan established in accordance with subsection (b) of section 457 of the federal Internal Revenue Code (26 U.S.C. s.457(b)) and the method for determining the portion of the deferred compensation plan distributions that are excluded from gross income upon distribution.

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

STATEMENT

This bill directs the Division of Taxation to produce instructional materials on the appropriate gross income tax treatment of 457 deferred compensation plans. The purpose of the bill is to make the appropriate income tax treatment, particularly the exclusion upon distribution, more readily apparent to taxpayers.

Under current law, state governments, local governments, and certain tax exempt organizations are allowed to establish deferred compensation plans for employees. For federal income tax purposes, the contributions and earnings on those plans defer taxation until distribution. Though New Jersey does not track the federal deferral on contributions, it does exclude from tax the portion of plan proceeds representing previously taxed contributions upon distribution. Depending on the composition of contributions to the plan, the portion of a distribution that is excludable for New Jersey gross income tax purposes can vary. Though New Jersey's current gross income tax return instructions address these issues, that guidance is not explicitly detailed to 457 plans.

To make the process of claiming the exclusion less onerous for taxpayers, this bill directs the Division of Taxation to include specific instructions in the gross income tax return instructional materials that address the appropriate treatment of 457 plan contributions and distributions.