

# SENATE BUDGET AND APPROPRIATIONS COMMITTEE

## STATEMENT TO

### SENATE, No. 4068

# STATE OF NEW JERSEY

DATED: NOVEMBER 8, 2021

The Senate Budget and Appropriations Committee reports favorably Senate Bill No. 4068.

This bill revises the manner in which the elective pass-through business alternative income tax is calculated. Currently, when a pass-through entity chooses to pay the business alternative income tax, the pass-through entity's tax is calculated based on the portion of the entity's income that is derived from business conducted in New Jersey. The owners of the entity are then allowed a gross income tax credit based on the amount of tax the entity paid. Because the tax is calculated using only the entity's income derived from New Jersey, the tax is sometimes lower than it otherwise may be and therefore the entity's owners' tax credit is lower than it may otherwise be.

Under this bill, for owners of the entity that are New Jersey residents, the pass-through entity's tax is calculated based on all income of the entity as long as the income would be taxable under the gross income tax. Resident owners of pass-through entities will therefore be able to obtain a larger gross income tax credit. For owners of the entity that are non-residents, the pass-through entity's tax will continue to be based on income derived from business conducted in New Jersey.

The changes made by this bill will apply retroactively to taxable year 2020, the first year that the elective pass-through business alternative income tax was in effect.

#### FISCAL IMPACT:

This bill is not certified as requiring a fiscal note.