

Your income and the new retiree tax break | Biz Brain



A closer look at New Jersey's new retiree tax break. (mconnors/morguefile.com)

BY KARIN PRICE MUELLER
NJMoneyHelp.com for NJ.com

Q. I'm single. My annual pension is 67,000, Social Security is \$18,000 and I have a part-time job that pays \$20,000. Do I qualify for the new retiree pension tax break if I bring my total income to under \$100,000?
-- Retired

A. The legislation that raised the gas tax by 23 cents a gallon last year had two important tax breaks.

The first was a change for veterans who received an honorable discharge.

"We are now eligible for a \$3,000 exemption on our state income tax returns," said Bernie Kiely, a veteran who is also a certified financial planner and certified public accountant with Kiely Capital Management in Morristown. "There are no income limitations. All honorably discharged veterans are eligible."

The other income tax provision in the gas tax bill pertains to the retirement income exclusion, Kiely said.

Prior to the bill, New Jersey residents aged 62 or older or who are disabled, could exclude some benefits from their income, Kiely said. The amounts were \$20,000 for those married filing jointly, \$15,000 for singles and \$10,000 for those following from their income married filing separately.

This exclusion was available if your gross income was \$100,000 or less.

"The exclusion was not phased out. If your income exceeded \$100,001 - it was gone. One dollar in income could cost you \$1,000 in state taxes," he said.

Under the new rule, he said, the \$100,000 income limitation will not go up as the exclusion amounts increase.

The retirement income exclusion is going up over the next four years. The increases are:

Kiely said it's important to realize that the \$100,000 income limitation doesn't change, so you can only use the exclusion if your gross income is \$100,000 or less.

"It is also important to realize that New Jersey doesn't tax Social Security income," he said. "There isn't even a line on the NJ-1040 for Social Security, so your Social Security income is not part of the \$100,000 income limit for the pension exclusion."

Based on the income you said you have, and because Social Security doesn't count, you have \$67,000 in pension income and \$20,000 from part time work. That totals \$87,000, far below the \$100,000 limit.

In 2016, your pension exclusion was \$15,000 and your personal exemption was \$2,000, resulting in taxable income of \$70,000, Kiely said. The tax for a single individual with taxable income of \$70,000 was \$2,376.

He said this is how your tax liability could look going forward:

"Congratulations! The new retirement income exclusions will almost wipe out your New Jersey income tax," Kiely said.

For those of you who aren't under the \$100,000 income limit, Kiely had a suggestion: New Jersey municipal bonds.

He said federal government and corporate bond interest is part of the \$100,000 limitation, but interest on New Jersey municipal bond interest is exempt.

"If you buy a municipal bond mutual fund, make sure it only holds New Jersey municipal bonds," he said. "Interest from other state municipal bands is not exempt from New Jersey taxes -- and the state does check from time to time."

Email your questions to Ask@NJMoneyHelp.com.

Karin Price Mueller writes the Bamboozled column for NJ Advance Media and is the founder of NJMoneyHelp.com. Follow NJMoneyHelp on Twitter @NJMoneyHelp. Find NJMoneyHelp on Facebook. Sign up for NJMoneyHelp.com's weekly e-newsletter.