

How the veteran's tax exemption works | Biz Brain

Karin Price Mueller | June 22, 2017



Q. I'm confused about the veteran's tax exemption. Is the exemption against earned income or are there no income limitations? For example, how does Social Security or other unearned income, like interest, dividends and capital gains, count in the calculations?

-- Veteran

A. The new tax break for veterans works like this:

Veterans may qualify for an exemption of up to \$3,000 on their New Jersey tax return for income earned in 2017 and thereafter.

This exemption, part of a bill passed by the legislature and signed into law by Governor Christie last October, is in addition to other exemptions or deductions for which veterans may qualify, said Bernie Kiely, a veteran who is also a certified financial planner and certified public accountant with Kiely Capital Management in Morristown.

"The exemption is available for all veterans who received honorable discharges or who were released under honorable circumstances from active duty in the Armed Forces of the United States, a reserve component thereof, or the National Guard of New Jersey in a federal active duty status," he said.

Veterans may claim the exemption when they file their 2017 tax returns, he said. The exemption does not apply to 2016 income.

Kiely said the exemption is against all income reported on your NJ-1040 income tax return.

The income may be earned income, such as salaries and wages, or it may be unearned income, such as interest and dividends.

Kiely said the statute does not cite any income limitations, so it doesn't matter how much income you have. You'll still be eligible to deduct \$3,000.

New Jersey doesn't tax Social Security income, so having Social Security benefits has no effect on the deduction, he said.

Kiely said there's been some confusion over what proof veterans need to have in order to take the deduction, such as a copy of their DD-214 or a copy of their honorable discharge papers.

No such paperwork is required.

"If you state on your return that you served when in fact you didn't, you are committing perjury," Kiely said. "Right above where you sign your New Jersey return it states 'Under the penalties of perjury, I declare...' Perjury is a felony!"

If you're ever audited, you might need that proof.

The DD-214 form is issued when you are separated from active duty, and it states where you served, what rank you attained, what training you had, medals you are eligible to wear and more.

Kiely said he served for a total of six years. After his first three years of active duty, he was separated from active duty and was issued his DD-214. For the next three years, he served in the inactive Naval reserves, and he could be recalled to active duty at any time, he said.

"At the end of my six-year commitment I was honorably discharged. My Honorable Discharge Certificate came in the mail," Kiely said. "A tax auditor might accept a copy of your DD-214, but you are better off showing them your actual Honorable Discharge."

Email your questions to Ask@NJMoneyHelp.com.

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