

S4503 (SCS)

INTRODUCED BILL: (Includes sponsor(s) statement)	Yes	
REPRINT(S):	Yes	6/26/25 SCS
TECHNICAL REVIEW OF BILL:	No	
COMMITTEE STATEMENT:		
ASSEMBLY:	No	
SENATE:	Yes	Budget & Appropriations

(Audio archived recordings of the committee meetings, corresponding to the date of the committee statement, *may possibly* be found at www.njleg.state.nj.us)

FLOOR AMENDMENT STATEMENT:	No
LEGISLATIVE FISCAL ESTIMATE:	Yes
VETO MESSAGE:	No
GOVERNOR'S PRESS RELEASE ON SIGNING:	Yes
LEGISLATOR STATEMENT:	No

FOLLOWING WERE PRINTED:

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REPORTS:	No
HEARINGS:	No
NEWSPAPER ARTICLES:	Yes

Matthew Fazelpoor, 'Murphy signs bills to grow NJ startups, boost innovation', *NJBIZ* (online), 3 Jul 2025<<https://infoweb.newsbank.com/apps/news/document-view?p=NewsBank&docref=news/1A1B8202C03EB6B0>>

CL/MMcB

P.L. 2025, CHAPTER 67, *approved June 30, 2025*
Assembly Committee Substitute (*First Reprint*) for
Assembly, No. 4455

1 AN ACT allowing an exemption from New Jersey gross income of
2 certain capital gains from the sale or exchange of qualified small
3 business stock and supplementing Title 54A of the New Jersey
4 Statutes.

5

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

8

9 1. Notwithstanding any law or regulation to the contrary, gross
10 income shall not include net gains or income derived from the sale,
11 exchange, or other disposition of qualified small business stock to
12 the extent such ¹gains or¹ income ¹**[is] are**¹ exempt from federal
13 taxation pursuant to section 1202 of the federal Internal Revenue
14 Code of 1986 (26 U.S.C. s.1202).

15

16 2. This act shall take effect immediately and shall apply
17 ¹**[retroactively]**¹ to taxable years beginning on or after ¹the¹
18 January 1 ¹**[, 2025]** next following the date of enactment¹.

19

20

21

22

23 Allows exemption from New Jersey gross income of certain
24 capital gains from sale or exchange of qualified small business
25 stock.

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.

Matter enclosed in superscript numerals has been adopted as follows:

¹**Assembly ABU committee amendments adopted June 26, 2025.**

CHAPTER 67

AN ACT allowing an exemption from New Jersey gross income of certain capital gains from the sale or exchange of qualified small business stock and supplementing Title 54A of the New Jersey Statutes.

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

C.54A:6-34 Gross income, certain exemptions, small business stock.

1. Notwithstanding any law or regulation to the contrary, gross income shall not include net gains or income derived from the sale, exchange, or other disposition of qualified small business stock to the extent such gains or income are exempt from federal taxation pursuant to section 1202 of the federal Internal Revenue Code of 1986 (26 U.S.C. s.1202).

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

Approved June 30, 2025.

ASSEMBLY, No. 4455

STATE OF NEW JERSEY

221st LEGISLATURE

INTRODUCED JUNE 3, 2024

Sponsored by:

Assemblyman ROY FREIMAN

District 16 (Hunterdon, Mercer, Middlesex and Somerset)

Assemblyman GARY S. SCHAER

District 36 (Bergen and Passaic)

Co-Sponsored by:

**Assemblymen Miller, Hutchison, Egan, Assemblywoman Park and
Assemblyman Atkins**

SYNOPSIS

Allows deduction from New Jersey gross income of certain capital gains from sale or exchange of New Jersey qualified small business stock held for more than five years.

CURRENT VERSION OF TEXT

As introduced.



(Sponsorship Updated As Of: 2/27/2025)

1 AN ACT allowing a deduction from New Jersey gross income of
2 certain capital gains from sale or exchange of New Jersey
3 qualified small business stock held for more than five years,
4 supplementing Title 54A of the New Jersey Statutes.

5
6 **BE IT ENACTED** by the Senate and General Assembly of the State
7 of New Jersey:

8
9 1. a. Notwithstanding the provisions of N.J.S.54A:5-1, a
10 taxpayer who is an individual shall be allowed to deduct from the
11 taxpayer's gross income in a taxable year the eligible gain from the
12 sale or exchange of New Jersey qualified small business stock held
13 for more than five years.

14 b. (1) If the taxpayer has eligible gain for the taxable year from
15 one or more dispositions of stock issued by any corporation, the
16 aggregate amount of the gain from dispositions of stock issued by
17 the corporation which may be taken into account under subsection
18 a. for the taxable year shall not exceed the greater of either of the
19 following:

20 (a) Ten million dollars (\$10,000,000) reduced by the aggregate
21 amount of eligible gain taken into account by the taxpayer under
22 subsection a. for prior taxable years and attributable to dispositions
23 of stock issued by the corporation.

24 (b) Ten times the aggregate adjusted bases of qualified small
25 business stock issued by the corporation and disposed of by the
26 taxpayer during the taxable year. For purposes of this subparagraph
27 (b), the adjusted basis of any stock shall be determined without
28 regard to any addition to basis after the date on which the stock was
29 originally issued.

30 (2) For purposes of this subsection b., the term "eligible gain"
31 means any gain from the sale or exchange of qualified small
32 business stock held for more than five years.

33 (3) (a) In the case of a married individual filing a separate
34 return, subparagraph (a) of paragraph (1) of this subsection shall be
35 five million dollars (\$5,000,000).

36 (b) In the case of a married taxpayer filing a joint return, the
37 amount of gain taken into account under subsection a. shall be
38 allocated equally between the spouses for purposes of applying this
39 subsection to subsequent taxable years.

40 c. As used in this section:

41 (1) "Qualified small business stock" means any stock in a C
42 corporation which is originally issued after the effective date of
43 P.L. , c. (C.) (pending before the Legislature as this bill), if
44 both of the following apply:

45 (a) As of the date of issuance, the corporation is a qualified
46 small business.

1 (b) Except as provided in subsections e. and g., the stock is
2 acquired by the taxpayer at its original issue (directly or through an
3 underwriter) in either of the following manners:

4 (i) In exchange for money or other property (not including
5 stock).

6 (ii) As compensation for services provided to the corporation
7 (other than services performed as an underwriter of the stock).

8 (2) (a) Stock in a corporation shall not be treated as qualified
9 small business stock unless, during substantially all of the
10 taxpayer's holding period for the stock, the corporation meets the
11 active business requirements of subsection d. of this section and the
12 corporation is a C corporation.

13 (b) (i) Notwithstanding subsection d. of this section, a
14 corporation shall be treated as meeting the active business
15 requirements of subsection d. for any period during which the
16 corporation qualifies as a specialized small business investment
17 company.

18 (ii) For purposes of subparagraph (i) of this subparagraph,
19 the term "specialized small business investment company" means
20 any eligible corporation (as defined in paragraph (4) of subsection
21 d. of this section) that is licensed to operate under Section 301(d) of
22 the federal Small Business Investment Act of 1958 (as in effect on
23 May 13, 1993).

24 (3) (a) Stock acquired by the taxpayer shall not be treated as
25 qualified small business stock if, at any time during the four-year
26 period beginning on the date two years before the issuance of the
27 stock, the corporation issuing the stock purchased (directly or
28 indirectly) any of its stock from the taxpayer or from a related
29 person to the taxpayer. For the purposes of this subparagraph,
30 "related person" means a corporation, partnership, association or
31 trust controlled by the taxpayer; an individual, corporation,
32 partnership, association or trust that is in the control of the
33 taxpayer; a corporation, partnership, association or trust controlled
34 by an individual, corporation, partnership, association or trust that
35 is in the control of the taxpayer; or a member of the same controlled
36 group as the taxpayer.

37 (b) Stock issued by a corporation shall not be treated as
38 qualified small business stock if, during the two-year period
39 beginning on the date one year before the issuance of the stock, the
40 corporation made one or more purchases of its stock with an
41 aggregate value (as of the time of the respective purchases)
42 exceeding five percent of the aggregate value of all of its stock as of
43 the beginning of the two-year period.

44 (c) If any transaction is treated under section 304(a) of the
45 Internal Revenue Code (26 U.S.C. s.304(a)) as a distribution in
46 redemption of the stock of any corporation, for purposes of
47 subparagraphs (a) and (b), the corporation shall be treated as
48 purchasing an amount of its stock equal to the amount treated as a

1 distribution in redemption of the stock of the corporation under
2 section 304(a) of the Internal Revenue Code (26 U.S.C. s.304(a)).

3 (4) “Qualified small business” means any domestic corporation
4 (as defined in section 7701(a)(4) of the Internal Revenue Code (26
5 U.S.C. s.7701(a)(4))) which is a C corporation, if all of the
6 following apply:

7 (a) The aggregate gross assets of the corporation (or any
8 predecessor thereof) at all times on or after the effective date of
9 P.L. , c. (C.) (pending before the Legislature as this bill),
10 and before the issuance did not exceed \$50,000,000;

11 (b) The aggregate gross assets of the corporation immediately
12 after the issuance (determined by taking into account amounts
13 received in the issuance) do not exceed \$50,000,000, where
14 “aggregate gross assets” mean the amount of cash and the aggregate
15 adjusted basis of other property held by the corporation, but the
16 adjusted basis of any property contributed to the corporation (or
17 other property with a basis determined in whole or in part by
18 reference to the adjusted basis of property so contributed) shall be
19 determined as if the basis of the property contributed to the
20 corporation immediately after the contribution was equal to its fair
21 market value as of the time of the contribution; and

22 (c) Has fewer than 225 employees and at least 80 percent of the
23 corporation’s payroll, as measured by total dollar value, is
24 attributable to employment located within this State.

25 Provided, however, that all corporations which are members of the
26 same parent-subsidiary controlled group shall be treated as one
27 corporation for purposes of this subsection, where “parent-
28 subsidiary controlled group” means any controlled group of
29 corporations as defined in section 1563(a)(1) of the Internal
30 Revenue Code (26 U.S.C. s.1563(a)(1)), except that that
31 percentages of ownership and value that control shall exist in
32 situations involving at least 50 percent of ownership and value as
33 otherwise provided involving at least 80 percent required by section
34 1563(a)(1) (26 U.S.C. s.1563(a)(1)), and section 1563(a)(4) of the
35 Internal Revenue Code (26 U.S.C. s.1563(a)(4)) shall not apply.

36 d. (1) The active business requirements of paragraph (2) of
37 subsection c. shall be met by a corporation for any period if during
38 that period:

39 (a) At least 80 percent (by value) of the assets of the corporation
40 are used by the corporation in the active conduct of one or more
41 qualified trades or businesses; and

42 (b) The corporation is a domestic corporation, but shall not
43 include any of the following: (i) a domestic international sales
44 corporation (DISC) or former DISC; (ii) A corporation with respect
45 to which an election under section 936 of the Internal Revenue
46 Code (26 U.S.C. s.936) is in effect or which has a direct or indirect
47 subsidiary with respect to which the election is in effect; (iii) A
48 regulated investment company, real estate investment trust (REIT),

1 or real estate mortgage investment conduit (REMIC); or (iv) A
2 cooperative.

3 (2) For purposes of this paragraph (2), if, in connection with any
4 future qualified trade or business, a corporation is engaged in:

5 (a) Startup activities described in section 195(c)(1)(A) of the
6 Internal Revenue Code (26 U.S.C. s.195(c)(1)(A)),

7 (b) Activities resulting in the payment or incurring of
8 expenditures which may be treated as research and experimental
9 expenditures under section 174 of the Internal Revenue Code
10 (26 U.S.C. s.174), or

11 (c) Activities with respect to in-house research expenses
12 described in section 41(b)(4) of the Internal Revenue Code (26
13 U.S.C. s.41(b)(4)), then assets used in those activities shall be
14 treated as used in the active conduct of a qualified trade or business.
15 Any determination under this paragraph (1) shall be made without
16 regard to whether a corporation has any gross income from those
17 activities at the time of the determination.

18 (3) For purposes of this subsection d., “qualified trade or
19 business” means any trade or business other than any of the
20 following:

21 (a) Any trade or business involving the performance of services
22 in the fields of health, law, engineering, architecture, accounting,
23 actuarial science, performing arts, consulting, athletics, financial
24 services, brokerage services, or any trade or business where the
25 principal asset of the trade or business is the reputation or skill of
26 one or more of its employees.

27 (b) Any banking, insurance, financing, leasing, investing, or
28 similar business.

29 (c) Any farming business (including the business of raising or
30 harvesting trees).

31 (d) Any business involving the production or extraction of
32 products of a character with respect to which a deduction is
33 allowable under section 613 or 613A of the Internal Revenue Code
34 (26 U.S.C. s.613 or s.613A).

35 (e) Any business of operating a hotel, motel, restaurant, or
36 similar business.

37 (4) (a) For purposes of this subsection d., stock and debt in any
38 subsidiary corporation shall be disregarded and the parent
39 corporation shall be deemed to own its ratable share of the
40 subsidiary’s assets, and to conduct its ratable share of the
41 subsidiary’s activities.

42 (b) A corporation shall be treated as failing to meet the
43 requirements of paragraph (1) of this subsection d. for any period
44 during which more than 10 percent of the value of its assets (in
45 excess of liabilities) consists of stock or securities in other
46 corporations which are not subsidiaries of the corporation (other
47 than assets described in paragraph (5) of this subsection).

1 (c) For purposes of this paragraph (4), a corporation shall be
2 considered a subsidiary if the parent owns more than 50 percent of
3 the combined voting power of all classes of stock entitled to vote,
4 or more than 50 percent in value of all outstanding stock, of the
5 corporation.

6 (5) For purposes of subparagraph (a) of paragraph (1) of this
7 subsection d., the following assets shall be treated as used in the
8 active conduct of a qualified trade or business:

9 (a) Assets that are held as a part of the reasonably required
10 working capital needs of a qualified trade or business of the
11 corporation.

12 (b) Assets that are held for investment and are reasonably
13 expected to be used within two years to finance research and
14 experimentation in a qualified trade or business or increases in
15 working capital needs of a qualified trade or business. For periods
16 after the corporation has been in existence for at least two years, in
17 no event may more than 50 percent of the assets of the corporation
18 qualify as used in the active conduct of a qualified trade or business
19 by reason of this paragraph.

20 (6) A corporation shall not be treated as meeting the
21 requirements of paragraph (1) of this subsection d. for any period
22 during which more than 10 percent of the total value of its assets
23 consists of real property that is not used in the active conduct of a
24 qualified trade or business. For purposes of the preceding sentence,
25 the ownership of, dealing in, or renting of, real property shall not be
26 treated as the active conduct of a qualified trade or business.

27 (7) For purposes of paragraph (1) of this subsection, rights to
28 computer software that produces active business computer software
29 royalties (within the meaning of section 543(d)(1) of the Internal
30 Revenue Code (26 U.S.C. s.543(d)(1))) shall be treated as an asset
31 used in the active conduct of a trade or business.

32 e. If any stock in a corporation is acquired solely through the
33 conversion of other stock in the corporation that is qualified small
34 business stock in the hands of the taxpayer, the stock so acquired
35 shall be treated as qualified small business stock in the hands of the
36 taxpayer and the stock so acquired shall be treated as having been
37 held during the period during which the converted stock was held.

38 f. (1) If any amount included in gross income by reason of
39 holding an interest in a pass-through entity meets the requirements
40 of paragraph (2) of this subsection f., the following shall apply:

41 (a) The amount shall be treated as gain described in subsection
42 a. of this section; and

43 (b) For purposes of applying subsection b. of this section, the
44 amount shall be treated as gain from a disposition of stock in the
45 corporation issuing the stock disposed of by the pass-through entity
46 and the taxpayer's proportionate share of the adjusted basis of the
47 pass-through entity in the stock shall be taken into account.

1 (2) An amount shall meet the requirements of paragraph (1) of
2 this subsection f. if:

3 (a) The amount is attributable to gain on the sale or exchange by
4 the pass-through entity of stock that is qualified small business
5 stock in the hands of the entity (determined by treating the entity as
6 an individual) and that was held by that entity for more than five
7 years; and

8 (b) The amount is includable in the gross income of the taxpayer
9 by reason of the holding of an interest in the entity that was held by
10 the taxpayer on the date on which the pass-through entity acquired
11 the stock and at all times thereafter before the disposition of the
12 stock by the pass-through entity.

13 Provided however, that paragraph (1) of this subsection f. shall not
14 apply to any amount to the extent the amount exceeds the amount to
15 which that paragraph (1) would have applied if the amount was
16 determined by reference to the interest the taxpayer held in the
17 pass-through entity on the date the qualified small business stock
18 was acquired. Provided further, that "pass-through entity" means
19 any of the following: a partnership; an S corporation; a regulated
20 investment company; or a common trust fund.

21 g. For purposes of this section:

22 (1) In the case of a transfer described in paragraph (2) of this
23 subsection, the transferee shall be treated as meeting both: having
24 acquired the stock in the same manner as the transferor; and having
25 held the stock during any continuous period immediately preceding
26 the transfer during which it was held (or treated as held under this
27 subdivision) by the transferor.

28 (2) A transfer is described in this subsection if the transfer is
29 any of the following:

30 (a) By gift.

31 (b) At death.

32 (c) From a partnership to a partner of stock with respect to
33 which requirements similar to the requirements of subsection f. of
34 this section are met at the time of the transfer (without regard to the
35 five-year holding period requirement).

36 (3) Rules similar to the rules of section 1244(d)(2) of the
37 Internal Revenue Code (26 U.S.C. s.1244(d)(2)) shall apply for
38 purposes of this section.

39 (4) (a) In the case of a transaction described in section 351 of
40 the Internal Revenue Code (26 U.S.C. s.351) or a reorganization
41 described in section 368 of the Internal Revenue Code (26 U.S.C.
42 s.368), if qualified small business stock is exchanged for other stock
43 that would not qualify as qualified small business stock but for this
44 paragraph (4), the other stock shall be treated as qualified small
45 business stock acquired on the date on which the exchanged stock
46 was acquired.

47 (b) This subsection e. shall apply to gain from the sale or
48 exchange of stock treated as qualified small business stock by

1 reason of subparagraph (a) of this paragraph only to the extent of
2 the gain that would have been recognized at the time of the transfer
3 described in subparagraph (a) of this paragraph if section 351 or
4 368 of the Internal Revenue Code (26 U.S.C. s.351 or s.368) had
5 not applied at that time. The preceding sentence shall not apply if
6 the stock that is treated as qualified small business stock by reason
7 of subparagraph (a) of this paragraph is issued by a corporation that
8 (as of the time of the transfer described in that subparagraph (a)) is
9 a qualified small business.

10 (c) For purposes of this paragraph (4), stock treated as qualified
11 small business stock under subparagraph (a) shall be so treated for
12 subsequent transactions or reorganizations, except that the
13 limitation of subparagraph (b) shall be applied as of the time of the
14 first transfer to which the limitation applied (determined after the
15 application of the second sentence of subparagraph (b)).

16 (d) In the case of a transaction described in section 351 of the
17 Internal Revenue Code (26 U.S.C. s.351), this paragraph shall apply
18 only if immediately after the transaction the corporation issuing the
19 stock owns directly or indirectly stock representing control (within
20 the meaning of section 368(c) of the Internal Revenue Code (26
21 U.S.C. s.368)) of the corporation whose stock was exchanged.

22 h. For purposes of this section:

23 (1) In the case in which the taxpayer transfers property (other
24 than money or stock) to a corporation in exchange for stock in the
25 corporation, the stock shall be treated as having been acquired by
26 the taxpayer on the date of the exchange and the basis of the stock
27 in the hands of the taxpayer shall in no event be less than the fair
28 market value of the property exchanged.

29 (2) If the adjusted basis of any qualified small business stock is
30 adjusted by reason of any contribution to capital after the date on
31 which the stock was originally issued, in determining the amount of
32 the adjustment by reason of the contribution, the basis of the
33 contributed property shall in no event be treated as less than its fair
34 market value on the date of the contribution.

35 i. (1) If the taxpayer has an offsetting short position with
36 respect to any qualified small business stock, subsection a. shall not
37 apply to any gain from the sale or exchange of the stock unless the
38 stock was held by the taxpayer for more than five years as of the
39 first day on which there was such a short position and the taxpayer
40 elects to recognize gain as if the stock was sold on that first day for
41 its fair market value.

42 (2) For purposes of paragraph (1) of this subsection, the
43 taxpayer shall be treated as having an offsetting short position with
44 respect to any qualified small business stock if any of the following
45 apply:

46 (a) The taxpayer has made a short sale of substantially identical
47 property.

1 (b) The taxpayer has acquired an option to sell substantially
2 identical property at a fixed price.

3 (c) To the extent provided in regulations, the taxpayer has
4 entered into any other transaction that substantially reduces the risk
5 of loss from holding the qualified small business stock. For
6 purposes of the preceding sentence, any reference to the taxpayer
7 shall be treated as including a reference to any person who is related
8 (within the meaning of section 267(b) or 707(b) of the Internal
9 Revenue Code (26 U.S.C. s.267(b) or s.707(b))) to the taxpayer.

10 j. A corporation that issues qualified small business stock
11 agrees to submit reports to the Director of the Division of Taxation
12 in the Department of the Treasury and to its shareholders as the
13 director may require to carry out the purposes of this section.
14

15 2. The Director of the Division of Taxation in the Department
16 of the Treasury shall prescribe regulations pursuant to the provision
17 of the "Administrative Procedure Act," P.L.1968, c.410 (C.52:14B-
18 1 et seq.) as may be appropriate to carry out the purposes of this act,
19 including any regulations that may conform to those regulations
20 promulgated by the Secretary of the Treasury under section 1202(k)
21 of the Internal Revenue Code (26 U.S.C. s.1202(k)) that shall apply
22 to the extent that those regulations do not conflict with this act, and
23 such further regulation that shall include but be not limited to
24 regulations to prevent the avoidance of the purposes of this act
25 through splitups, shell corporations, partnerships, or otherwise.
26

27 3. This act shall take effect immediately.
28
29

30 STATEMENT 31

32 This bill allows for a deduction from New Jersey gross income
33 of capital gains from the sale or exchange of New Jersey qualified
34 small business stock held for more than five years. The deduction
35 for these capital gains is modeled on the federal Internal Revenue
36 Code capital gains exclusion for owners of Qualified Small
37 Business Stock (QSBS) under section 1202 of the federal Internal
38 Revenue Code. The deduction under this bill will help promote
39 investment in New Jersey based small and medium size companies
40 that find it difficult to attract initial capital investors because these
41 companies are usually not profitable for their first few years.
42 Generally, QSBS stock is originally issued C corporation stock held
43 for at least 5 years in a corporation with no more than \$50 million
44 in assets at issuance. This deduction will apply to C corporations
45 established on and after the enactment of the bill. No New Jersey
46 gross income taxpayer will receive any capital gains benefit without
47 holding the QSBS stock for at least 5 years.

1 For individual taxpayer/investors to qualify for the special
2 capital gains treatment under section 1202 and this New Jersey
3 gross income tax deduction, the stock must be in a domestic C
4 corporation (not an S corporation or LLC), and it must be a C
5 corporation during substantially all the time the individual holds the
6 stock. The C corporation may not have more than \$50 million in
7 assets as of the date the stock was issued and immediately
8 thereafter. The individual taxpayer/investor must acquire the stock
9 at its original issue and not from a secondary market. Moreover,
10 during substantially all the time the stock is held, at least 80% of
11 the value of the corporation's assets must be used in the active
12 conduct of one or more qualified businesses. Active conduct of one
13 or more qualified businesses cannot be an investment vehicle or
14 inactive business. As under section 1202, the New Jersey gross
15 income tax deduction of capital gains of the sale or exchange of
16 QSBS cannot be stock in a business that is: a service business in the
17 fields of health, law, engineering, architecture, accounting, actuarial
18 science, performing arts, consulting, athletics, financial services, or
19 brokerage services; a banking, insurance, financing, leasing,
20 investing, or similar business; a farming business; a business of
21 operating a hotel, motel, restaurant, or similar business.

22 If the individual taxpayer/investor holds qualifying stock for at
23 least five years, then the individual taxpayer/investor would be able
24 to exclude the capital gains made on the disposition of the stock,
25 and thus pay no gross income on the capital gains. The special
26 exclusion of capital gains for qualified stock that is held by "pass
27 through entities," that include a partnership, an "S" corporation, a
28 regulated investment company, or a common trust fund, that
29 otherwise meet the requirements of this bill, is available to the
30 individual gross income taxpayers who hold interests in those pass-
31 through entities. The bill limits the aggregate amount of excludable
32 capital gains for a taxable year, in the case of one or more
33 dispositions of QSBS by a taxpayer, to the greater of \$10 million,
34 reduced by the aggregate amount of eligible gain taken into account
35 by the taxpayer for prior taxable years and attributable to
36 dispositions of QSBS, or ten times the aggregate adjusted basis of
37 QSBS issued by the corporation and disposed of by the taxpayer
38 during the taxable year. The QSBS must have been acquired in
39 exchange for money or property, or as compensation for services
40 provided to the corporation. At least 80% of the corporation's
41 payroll, as measured by total dollar value, must be attributable to
42 employment located within New Jersey.

[First Reprint]

ASSEMBLY, No. 4455

STATE OF NEW JERSEY
221st LEGISLATURE

INTRODUCED JUNE 3, 2024

Sponsored by:

Assemblyman ROY FREIMAN

District 16 (Hunterdon, Mercer, Middlesex and Somerset)

Assemblyman GARY S. SCHAER

District 36 (Bergen and Passaic)

Co-Sponsored by:

Assemblymen Miller, Hutchison, Egan, Assemblywoman Park,

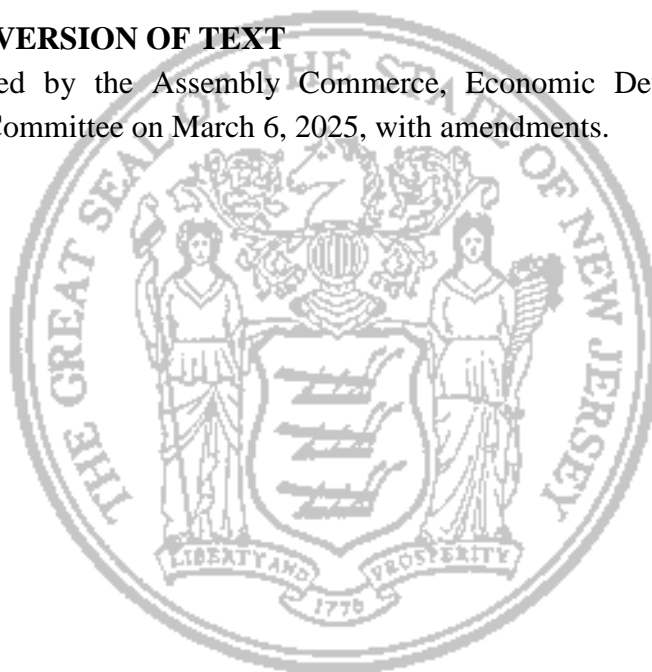
Assemblyman Atkins and Assemblywoman Drulis

SYNOPSIS

Allows deduction from New Jersey gross income of certain capital gains from sale or exchange of New Jersey qualified small business stock held for more than five years.

CURRENT VERSION OF TEXT

As reported by the Assembly Commerce, Economic Development and Agriculture Committee on March 6, 2025, with amendments.



(Sponsorship Updated As Of: 3/20/2025)

1 AN ACT allowing a deduction from New Jersey gross income of
 2 certain capital gains from sale or exchange of New Jersey
 3 qualified small business stock held for more than five years,
 4 supplementing Title 54A of the New Jersey Statutes.

5
 6 **BE IT ENACTED** by the Senate and General Assembly of the State
 7 of New Jersey:

8
 9 1. a. Notwithstanding the provisions of N.J.S.54A:5-1, a
 10 taxpayer who is an individual shall be allowed to deduct from the
 11 taxpayer's gross income ¹**[in a]** , for any¹ taxable year beginning
 12 on or after the effective date of P.L. , c. (C.) (pending
 13 before the Legislature as this bill),¹ the eligible gain from the sale
 14 or exchange of New Jersey qualified small business stock held for
 15 more than five years ¹, in accordance with the maximum allowable
 16 deductions established pursuant to the schedule in subsection b. of
 17 this section¹.

18 b. (1) If the taxpayer has eligible gain for the taxable year from
 19 one or more dispositions of qualified small business¹ stock
 20 ¹**[issued by any corporation]**¹, the aggregate amount of the gain
 21 from dispositions of stock issued by the corporation which may be
 22 taken into account ¹**[under subsection a.]**¹ for the taxable year shall
 23 not exceed the greater of either of the following¹:

24 (a) Ten million dollars (\$10,000,000)¹ dollar amounts or
 25 aggregate adjusted basis amounts identified in the following
 26 schedule, which amounts are applicable to the percentage of the
 27 corporation's payroll, as measured by total dollar value, attributable
 28 to employment located within this State. The applicable dollar
 29 amount shall be¹ reduced by the aggregate amount of eligible gain
 30 taken into account by the taxpayer under subsection a. for prior
 31 taxable years and attributable to dispositions of stock issued by the
 32 corporation. ¹The applicable

33 **[(b) Ten times the]**¹ aggregate adjusted ¹**[bases]** basis¹ of
 34 qualified small business stock ¹shall be a multiple of the aggregate
 35 adjusted basis of qualified small business stock¹ issued by the
 36 corporation and disposed of by the taxpayer during the taxable year
 37 ¹**[**. For purposes of this subparagraph (b), the adjusted basis of any
 38 stock shall be determined¹ ¹**]** ,¹ without regard to any addition to basis
 39 after the date on which the stock was originally issued.

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.

Matter enclosed in superscript numerals has been adopted as follows:

¹Assembly ACE committee amendments adopted March 6, 2025.

<u>¹Percentage payroll attributable to employment within State:</u>	<u>Dollar Amount:</u>	<u>Aggregate Adjusted Basis Amount:</u>
<u>100%</u>	<u>\$10,000,000</u>	<u>10 times</u>
<u>At least 90% but less than 100%</u>	<u>\$9,000,000</u>	<u>9 times</u>
<u>At least 80% but less than 90%</u>	<u>\$8,000,000</u>	<u>8 times</u>
<u>At least 70% but less than 80%</u>	<u>\$7,000,000</u>	<u>7 times</u>
<u>At least 60% but less than 70%</u>	<u>\$6,000,000</u>	<u>6 times</u>
<u>At least 50% but less than 60%</u>	<u>\$5,000,000</u>	<u>5 times</u>
<u>At least 40% but less than 50%</u>	<u>\$4,000,000</u>	<u>4 times</u>
<u>At least 30% but less than 40%</u>	<u>\$3,000,000</u>	<u>3 times</u>
<u>At least 20% but less than 30%</u>	<u>\$2,000,000</u>	<u>2 times</u>
<u>At least 10% but less than 20%</u>	<u>\$1,000,000</u>	<u>1 time</u>
<u>Less than 10%</u>	<u>\$0</u>	<u>0¹</u>

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(2) For purposes of this subsection ¹**[(b.)¹]**, the term “eligible gain” means any gain from the sale or exchange of qualified small business stock held for more than five years.

(3) (a) In the case of a married individual filing a separate return, ¹**[(subparagraph (a) of paragraph (1) of)]** the maximum deduction allowed pursuant to¹ this subsection shall be ¹[(five million dollars (\$5,000,000))] the greater of: 50 percent of the dollar value allowed; or 50 percent of the aggregate adjusted basis allowed, pursuant to this subsection¹.

(b) In the case of a married taxpayer filing a joint return, the amount of gain taken into account under ¹**[(subsection a.)] this subsection¹** shall be allocated equally between the spouses for purposes of applying this subsection to subsequent taxable years.

c. As used in this section:
(1) “Qualified small business stock” means any stock in a C corporation which is originally issued ¹on or¹ after ¹[(the effective date of P.L. , c. (C.) (pending before the Legislature as this bill)] January 1, 2015¹, if both of the following apply:

(a) As of the date of issuance, the corporation is a qualified small business.

1 (b) Except as provided in subsections e. and g., the stock is
2 acquired by the taxpayer at its original issue ¹[()] directly or
3 through an underwriter ¹[()] in either of the following manners:

4 (i) ¹[In] in exchange for money or other property ¹[()] not
5 including stock ¹[()] ; or¹

6 (ii) ¹[As] as compensation for services provided to the
7 corporation ¹[()] other than services performed as an underwriter
8 of the stock ¹[()]¹.

9 (2) (a) Stock in a corporation shall not be treated as qualified
10 small business stock unless, during substantially all of the
11 taxpayer's holding period for the stock, the corporation meets the
12 active business requirements of subsection d. of this section and the
13 corporation is a C corporation.

14 (b) (i) Notwithstanding subsection d. of this section, a
15 corporation shall be treated as meeting the active business
16 requirements of subsection d. ¹of this section¹ for any period during
17 which the corporation qualifies as a specialized small business
18 investment company.

19 (ii) For purposes of ¹[subsubparagraph] sub-subparagraph¹ (i)
20 of this subparagraph, the term "specialized small business
21 investment company" means any eligible corporation ¹[(as defined
22 in] , pursuant to¹ paragraph (4) of subsection d. of this section¹[()]
23 ¹ that is licensed to operate under Section 301(d) of the federal
24 Small Business Investment Act of 1958 ¹[()] as in effect on May
25 13, 1993¹[()]¹.

26 (3) (a) Stock acquired by the taxpayer shall not be treated as
27 qualified small business stock if, at any time during the four-year
28 period beginning on the date two years before the issuance of the
29 stock, the corporation issuing the stock purchased ¹[()] directly or
30 indirectly ¹[()] any of its stock from the taxpayer or from a
31 related person to the taxpayer. For the purposes of this
32 subparagraph, "related person" means a corporation, partnership,
33 association ¹ or trust controlled by the taxpayer; an individual,
34 corporation, partnership, association ¹ or trust that is in the control
35 of the taxpayer; a corporation, partnership, association ¹ or trust
36 controlled by an individual, corporation, partnership, association or
37 trust that is in the control of the taxpayer; or a member of the same
38 controlled group as the taxpayer.

39 (b) Stock issued by a corporation shall not be treated as
40 qualified small business stock if, during the two-year period
41 beginning on the date one year before the issuance of the stock, the
42 corporation made one or more purchases of its stock with an
43 aggregate value ¹[()] as of the time of the respective purchases
44 ¹[()] exceeding five percent of the aggregate value of all of its
45 stock as of the beginning of the two-year period.

1 (c) If any transaction is treated under section 304(a) of the
2 Internal Revenue Code (26 U.S.C. s.304(a)) as a distribution in
3 redemption of the stock of any corporation, for purposes of
4 subparagraphs (a) and (b) ¹of this paragraph¹, the corporation shall
5 be treated as purchasing an amount of its stock equal to the amount
6 treated as a distribution in redemption of the stock of the
7 corporation under section 304(a) of the Internal Revenue Code (26
8 U.S.C. s.304(a)).

9 (4) “Qualified small business” means any domestic corporation
10 ¹**[]** ¹ as defined in section 7701(a)(4) of the Internal Revenue
11 Code (26 U.S.C. s.7701(a)(4)) ¹**[]** ¹ which is a C corporation, if
12 all of the following apply:

13 (a) The aggregate gross assets of the corporation ¹**[]** ¹ or any
14 predecessor thereof ¹**[]** ¹ at all times on or after the effective date
15 of P.L. , c. (C.) (pending before the Legislature as this bill),
16 and before the issuance did not exceed \$50,000,000;

17 (b) The aggregate gross assets of the corporation immediately
18 after the issuance ¹**[]** ¹ determined by taking into account
19 amounts received in the issuance ¹**[]** ¹ do not exceed
20 \$50,000,000, where “aggregate gross assets” mean the amount of
21 cash and the aggregate adjusted basis of other property held by the
22 corporation, but the adjusted basis of any property contributed to
23 the corporation ¹**[]** ¹ or other property with a basis determined in
24 whole or in part by reference to the adjusted basis of property so
25 contributed ¹**[]** ¹ shall be determined as if the basis of the
26 property contributed to the corporation immediately after the
27 contribution was equal to its fair market value as of the time of the
28 contribution; and

29 (c) ¹**[Has]** The corporation has¹ fewer than 225 employees and
30 at least ¹**[80]** ¹10¹ percent of the corporation’s payroll, as measured
31 by total dollar value, is attributable to employment located within
32 this State.

33 ¹**[Provided, however, that]** (d) For the purposes of this
34 subsection,¹ all corporations which are members of the same parent-
35 subsidiary controlled group shall be treated as one corporation for
36 purposes of this subsection, where “parent-subsidiary controlled
37 group” means any controlled group of corporations as defined in
38 section 1563(a)(1) of the Internal Revenue Code (26 U.S.C.
39 s.1563(a)(1)), except that ¹**[that]**¹ percentages of ownership and
40 value that control shall exist in situations involving at least 50
41 percent of ownership and value as otherwise provided involving at
42 least 80 percent required by section 1563(a)(1) (26 U.S.C.
43 s.1563(a)(1)), and section 1563(a)(4) of the Internal Revenue Code
44 (26 U.S.C. s.1563(a)(4)) shall not apply.

1 d. (1) The active business requirements of ¹¶(2) of
2 this¹ subsection ¹¶(c) shall be met by a corporation for any period
3 if during that period:

4 (a) ¹¶(a) at least 80 percent ¹¶(b) of the assets of the
5 corporation ¹, by value,¹ are used by the corporation in the active
6 conduct of one or more qualified trades or businesses; and

7 (b) ¹¶(b) The the¹ corporation is a domestic corporation, but
8 ¹¶(b) shall¹ not ¹¶(b) include including¹ any of the following: (i) a
9 domestic international sales corporation (DISC) or former DISC;
10 (ii) ¹¶(b) A corporation with respect to which an election under section
11 936 of the Internal Revenue Code (26 U.S.C. s.936) is in effect or
12 which has a direct or indirect subsidiary with respect to which the
13 election is in effect; (iii) ¹¶(b) a regulated investment company, real
14 estate investment trust (REIT), or real estate mortgage investment
15 conduit (REMIC); or ¹¶(b) (iv) A (iii) a¹ cooperative.

16 (2) ¹¶(2) For purposes of this paragraph (2), if, Assets used in the
17 following activities of a corporation¹ in connection with any future
18 qualified trade or business, ¹¶(2) a corporation is engaged in shall be
19 treated as used in the active conduct of a qualified trade or business,
20 whether or not a corporation has any gross income from those
21 activities at the time of a determination pursuant to this paragraph,
22 including¹ :

23 (a) ¹¶(a) Startup startup¹ activities described in section
24 195(c)(1)(A) of the Internal Revenue Code (26 U.S.C.
25 s.195(c)(1)(A)) ¹¶(a) ,¹

26 (b) ¹¶(b) Activities activities¹ resulting in the payment or
27 incurring of expenditures which may be treated as research and
28 experimental expenditures under section 174 of the Internal
29 Revenue Code (26 U.S.C. s.174) ¹¶(b) ,¹ or

30 (c) Activities with respect to in-house research expenses
31 described in section 41(b)(4) of the Internal Revenue Code (26
32 U.S.C. s.41(b)(4)) ¹¶(c), then assets used in those activities shall be
33 treated as used in the active conduct of a qualified trade or business.
34 Any determination under this paragraph (1) shall be made without
35 regard to whether a corporation has any gross income from those
36 activities at the time of the determination¹.

37 (3) For purposes of this subsection ¹¶(d), “qualified trade or
38 business” means any trade or business other than any of the
39 following:

40 (a) ¹¶(a) Any any¹ trade or business involving the performance of
41 services in the fields of health, law, engineering, architecture,
42 accounting, actuarial science, performing arts, consulting, athletics,
43 financial services, brokerage services, or any trade or business
44 where the principal asset of the trade or business is the reputation or
45 skill of one or more of its employees ¹¶(a) ,¹

1 (b) **Any** any banking, insurance, financing, leasing,
2 investing, or similar business **].** ;

3 (c) **Any** any farming business **[(** , including the business
4 of raising or harvesting trees **].** ;

5 (d) **Any** any business involving the production or extraction
6 of products of a character with respect to which a deduction is
7 allowable under section 613 or 613A of the Internal Revenue Code
8 (26 U.S.C. s.613 or s.613A) **].** ; or

9 (e) **Any** any business of operating a hotel, motel, restaurant,
10 or similar business.

11 (4) (a) For purposes of this subsection **[d.]**, stock and debt in
12 any subsidiary corporation shall be disregarded and the parent
13 corporation shall be deemed to own its ratable share of the
14 subsidiary's assets, and to conduct its ratable share of the
15 subsidiary's activities.

16 (b) A corporation shall be treated as failing to meet the
17 requirements of paragraph (1) of this subsection **[d.]** for any
18 period during which more than 10 percent of the value of its assets
19 **[(** , in excess of liabilities **)]** , consists of stock or securities in
20 other corporations which are not subsidiaries of the corporation
21 **[(** , other than assets described in paragraph (5) of this
22 subsection **)]**.

23 (c) For purposes of this paragraph **[(4)]**, a corporation shall
24 be considered a subsidiary if the parent owns more than 50 percent
25 of the combined voting power of all classes of stock entitled to
26 vote, or more than 50 percent in value of all outstanding stock, of
27 the corporation.

28 (5) **(a)** For purposes of subparagraph (a) of paragraph (1) of
29 this subsection **[d.]**, the following assets shall be treated as used
30 in the active conduct of a qualified trade or business:

31 **[(a) Assets]** (i) assets that are held as a part of the reasonably
32 required working capital needs of a qualified trade or business of
33 the corporation **].** ; and

34 **[(b) Assets]** (ii) assets that are held for investment and are
35 reasonably expected to be used within two years to finance research
36 and experimentation in a qualified trade or business or increases in
37 working capital needs of a qualified trade or business.

38 **(b)** For periods after the corporation has been in existence for
39 at least two years, in no event may more than 50 percent of the
40 assets of the corporation qualify as used in the active conduct of a
41 qualified trade or business by reason of this paragraph.

42 (6) A corporation shall not be treated as meeting the
43 requirements of paragraph (1) of this subsection **[d.]** for any
44 period during which more than 10 percent of the total value of its
45 assets consists of real property that is not used in the active conduct
46 of a qualified trade or business. For purposes of **[the preceding**

1 sentence] this paragraph¹ the ownership of, dealing in, or renting
2 of, real property shall not be treated as the active conduct of a
3 qualified trade or business.

4 (7) For purposes of paragraph (1) of this subsection, rights to
5 computer software that produces active business computer software
6 royalties ¹[()]¹ within the meaning of section 543(d)(1) of the
7 Internal Revenue Code (26 U.S.C. s.543(d)(1)) ¹[()]¹ shall be
8 treated as an asset used in the active conduct of a trade or business.

9 e. If any stock in a corporation is acquired solely through the
10 conversion of other stock in the corporation that is qualified small
11 business stock in the hands of the taxpayer, the stock so acquired
12 shall be treated as qualified small business stock in the hands of the
13 taxpayer and the stock so acquired shall be treated as having been
14 held during the period during which the converted stock was held.

15 f. (1) If any amount included in gross income by reason of
16 holding an interest in a pass-through entity meets the requirements
17 of paragraph (2) of this subsection ¹[(f.)]¹, the following shall apply:

18 (a) ¹[(The)] the¹ amount shall be treated as gain described in
19 subsection a. of this section; and

20 (b) ¹[(For)] for¹ purposes of applying subsection b. of this
21 section, the amount shall be treated as gain from a disposition of
22 stock in the corporation issuing the stock disposed of by the pass-
23 through entity and the taxpayer's proportionate share of the
24 adjusted basis of the pass-through entity in the stock shall be taken
25 into account.

26 (2) An amount shall meet the requirements of paragraph (1) of
27 this subsection ¹[(f.)]¹ if:

28 (a) ¹[(The)] the¹ amount is attributable to gain on the sale or
29 exchange by the pass-through entity of stock that is qualified small
30 business stock in the hands of the entity ¹[()]¹ determined by
31 treating the entity as an individual ¹[()]¹ and that was held by that
32 entity for more than five years; and

33 (b) ¹[(The)] the¹ amount is includable in the gross income of the
34 taxpayer by reason of the holding of an interest in the entity that
35 was held by the taxpayer on the date on which the pass-through
36 entity acquired the stock and at all times thereafter before the
37 disposition of the stock by the pass-through entity.

38 ¹[(Provided however, that)] (3) Notwithstanding any provision of
39 law to the contrary,¹ paragraph (1) of this subsection ¹[(f.)]¹ shall
40 not apply to any amount to the extent the amount exceeds the
41 amount to which that paragraph ¹[(1)]¹ would have applied if the
42 amount was determined by reference to the interest the taxpayer
43 held in the pass-through entity on the date the qualified small
44 business stock was acquired. ¹[(Provided further, that)]

1 (4) For purposes of this subsection,¹ “pass-through entity”
2 means any of the following: a partnership; an S corporation; a
3 regulated investment company; or a common trust fund.

4 g. For purposes of this section:

5 (1) In the case of a transfer described in paragraph (2) of this
6 subsection, the transferee shall be treated as **‘[meeting] having’**¹
7 both: **‘[having]’**¹ acquired the stock in the same manner as the
8 transferor; and **‘[having]’**¹ held the stock during any continuous
9 period immediately preceding the transfer during which it was held
10 **‘[() ,’**¹ or treated as held **‘[under this subdivision)] ,’**¹ by the
11 transferor.

12 (2) A transfer **‘[is] , as’**¹ described in this subsection **‘[if the] ,’**
13 shall include any¹ transfer **‘[is any of the following] made’**¹:

14 (a) **‘[By] by’**¹ gift **‘[.] ;’**¹

15 (b) **‘[At] at’**¹ death **‘[.] ; or’**¹

16 (c) **‘[From] from’**¹ a partnership to a partner of stock with
17 respect to which requirements similar to the requirements of
18 subsection f. of this section are met at the time of the transfer **‘[() ,’**¹
19 without regard to the five-year holding period requirement **‘[.]’**¹.

20 (3) Rules similar to the rules of section 1244(d)(2) of the
21 Internal Revenue Code (26 U.S.C. s.1244(d)(2)) shall apply for
22 purposes of this section.

23 (4) (a) In the case of a transaction described in section 351 of
24 the Internal Revenue Code (26 U.S.C. s.351) or a reorganization
25 described in section 368 of the Internal Revenue Code (26 U.S.C.
26 s.368), if qualified small business stock is exchanged for other stock
27 that would not qualify as qualified small business stock but for this
28 paragraph **‘[(4)]’**¹, the other stock shall be treated as qualified small
29 business stock acquired on the date on which the exchanged stock
30 was acquired.

31 (b) This subsection **‘[e.]’**¹ shall apply to gain from the sale or
32 exchange of stock treated as qualified small business stock by
33 reason of subparagraph (a) of this paragraph only to the extent of
34 the gain that would have been recognized at the time of the transfer
35 described in subparagraph (a) of this paragraph if section 351 or
36 368 of the Internal Revenue Code (26 U.S.C. s.351 or s.368) had
37 not applied at that time. The preceding sentence shall not apply if
38 the stock that is treated as qualified small business stock by reason
39 of subparagraph (a) of this paragraph is issued by a corporation that
40 **‘[() ,’**¹ as of the time of the transfer described in that subparagraph
41 **‘[.]’**¹ is a qualified small business.

42 (c) For purposes of this paragraph **‘[(4)]’**¹, stock treated as
43 qualified small business stock under subparagraph (a) **‘of this**
44 paragraph¹ shall be so treated for subsequent transactions or
45 reorganizations, except that the limitation of subparagraph (b) **‘of**
46 this paragraph¹ shall be applied as of the time of the first transfer to

1 which the limitation applied ¹[() ,¹ determined after the application
2 of the second sentence of subparagraph (b) ¹[()] of this paragraph¹.

3 (d) In the case of a transaction described in section 351 of the
4 Internal Revenue Code (26 U.S.C. s.351), this paragraph shall apply
5 only if immediately after the transaction the corporation issuing the
6 stock owns directly or indirectly stock representing control ¹[() ,¹
7 within the meaning of section 368(c) of the Internal Revenue Code
8 (26 U.S.C. s.368(c)) ¹[()] ,¹ of the corporation whose stock was
9 exchanged.

10 h. For purposes of this section:

11 (1) In the case in which the taxpayer transfers property ¹[() ,¹
12 other than money or stock ¹[()] ,¹ to a corporation in exchange for
13 stock in the corporation, the stock shall be treated as having been
14 acquired by the taxpayer on the date of the exchange and the basis
15 of the stock in the hands of the taxpayer shall in no event be less
16 than the fair market value of the property exchanged.

17 (2) If the adjusted basis of any qualified small business stock is
18 adjusted by reason of any contribution to capital after the date on
19 which the stock was originally issued, in determining the amount of
20 the adjustment by reason of the contribution, the basis of the
21 contributed property shall in no event be treated as less than its fair
22 market value on the date of the contribution.

23 i. (1) If the taxpayer has an offsetting short position with
24 respect to any qualified small business stock, subsection a. ¹of this
25 section¹ shall not apply to any gain from the sale or exchange of the
26 stock unless the stock was held by the taxpayer for more than five
27 years as of the first day on which there was such a short position
28 and the taxpayer elects to recognize gain as if the stock was sold on
29 that first day for its fair market value.

30 (2) For purposes of paragraph (1) of this subsection, the
31 taxpayer shall be treated as having an offsetting short position with
32 respect to any qualified small business stock if any of the following
33 apply:

34 (a) ¹[(The) the¹ taxpayer has made a short sale of substantially
35 identical property ¹[()] ;¹

36 (b) ¹[(The) the¹ taxpayer has acquired an option to sell
37 substantially identical property at a fixed price ¹[()] ; or¹

38 (c) ¹[(To) to¹ the extent provided in regulations, the taxpayer
39 has entered into any other transaction that substantially reduces the
40 risk of loss from holding the qualified small business stock. For
41 purposes of the preceding sentence, any reference to the taxpayer
42 shall be treated as including a reference to any person who is related
43 ¹[()] ,¹ within the meaning of section 267(b) or 707(b) of the
44 Internal Revenue Code (26 U.S.C. s.267(b) or s.707(b)) ¹[()] ,¹ to
45 the taxpayer.

1 j. A corporation that issues qualified small business stock
2 agrees to submit reports to the Director of the Division of Taxation
3 in the Department of the Treasury and to its shareholders as the
4 director may require to carry out the purposes of this section.

5
6 2. The Director of the Division of Taxation in the Department
7 of the Treasury shall prescribe regulations pursuant to the provision
8 of the "Administrative Procedure Act," P.L.1968, c.410 (C.52:14B-
9 1 et seq.) as may be appropriate to carry out the purposes of this act,
10 including any regulations that may conform to those regulations
11 promulgated by the Secretary of the Treasury under section 1202(k)
12 of the Internal Revenue Code (26 U.S.C. s.1202(k)) that shall apply
13 to the extent that those regulations do not conflict with this act, and
14 such further regulation that shall include but be not limited to
15 regulations to prevent the avoidance of the purposes of this act
16 through splitups, shell corporations, partnerships, or otherwise.

17
18 3. This act shall take effect immediately ¹and shall apply to
19 taxable years beginning on or after the date of enactment¹.

[Second Reprint]

ASSEMBLY, No. 4455

STATE OF NEW JERSEY
221st LEGISLATURE

INTRODUCED JUNE 3, 2024

Sponsored by:

Assemblyman ROY FREIMAN

District 16 (Hunterdon, Mercer, Middlesex and Somerset)

Assemblyman GARY S. SCHAER

District 36 (Bergen and Passaic)

Assemblyman ROBERT J. KARABINCHAK

District 18 (Middlesex)

Co-Sponsored by:

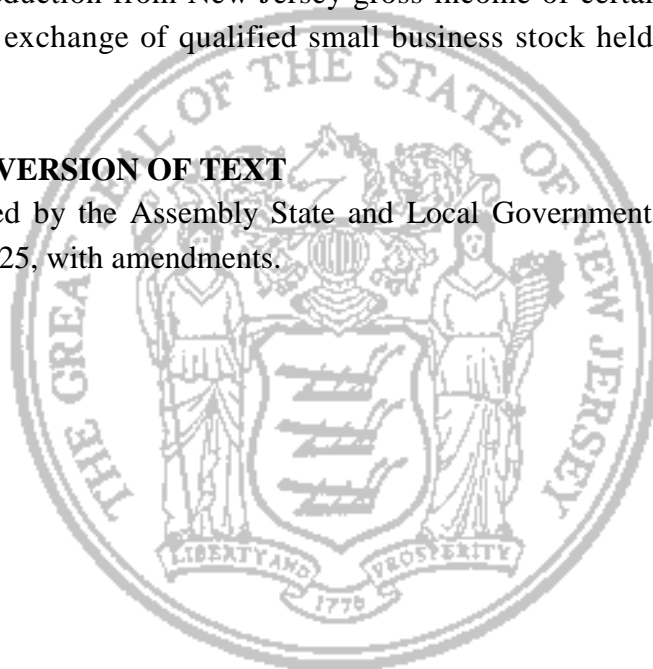
**Assemblymen Miller, Hutchison, Egan, Assemblywoman Park,
Assemblyman Atkins, Assemblywoman Drulis, Assemblymen Spearman,
Calabrese, Assemblywomen Reynolds-Jackson and Haider**

SYNOPSIS

Allows deduction from New Jersey gross income of certain capital gains from sale or exchange of qualified small business stock held for more than five years.

CURRENT VERSION OF TEXT

As reported by the Assembly State and Local Government Committee on March 20, 2025, with amendments.



(Sponsorship Updated As Of: 6/19/2025)

1 AN ACT allowing a deduction from New Jersey gross income of
 2 certain capital gains from sale or exchange of ²[New Jersey]²
 3 qualified small business stock held for more than five years,
 4 supplementing Title 54A of the New Jersey Statutes.

5
 6 **BE IT ENACTED** by the Senate and General Assembly of the State
 7 of New Jersey:

8
 9 1. a. Notwithstanding the provisions of N.J.S.54A:5-1, a
 10 taxpayer who is an individual shall be allowed to deduct from the
 11 taxpayer's gross income ¹[in a] , for any¹ taxable year ¹beginning
 12 on or after the effective date of P.L. , c. (C.) (pending
 13 before the Legislature as this bill),¹ the eligible gain from the sale
 14 or exchange of ²[New Jersey]² qualified small business stock held
 15 for more than five years ¹, in accordance with the maximum
 16 allowable deductions established pursuant to ²[the schedule in]²
 17 subsection b. of this section¹.

18 b. (1) If the taxpayer has eligible gain for the taxable year from
 19 one or more dispositions of ¹qualified small business¹ stock
 20 ¹[issued by any corporation]¹, the aggregate amount of the gain
 21 from dispositions of stock issued by the corporation which may be
 22 taken into account ¹[under subsection a.]¹ for the taxable year shall
 23 ²[not exceed the greater of either of the following] be determined
 24 as follows:² ¹[:

25 (a) Ten million dollars (\$10,000,000)] ²[dollar amounts or
 26 aggregate adjusted basis amounts identified in the following
 27 schedule, which amounts are applicable to the percentage of the
 28 corporation's payroll, as measured by total dollar value, attributable
 29 to employment located within this State. The applicable dollar
 30 amount shall be¹ reduced by the aggregate amount of eligible gain
 31 taken into account by the taxpayer under subsection a. for prior
 32 taxable years and attributable to dispositions of stock issued by the
 33 corporation. ¹The applicable]

34 (a) If at least 80 percent of the corporation's payroll, as measured
 35 by total dollar value, is attributable to employment located within
 36 this State, the taxpayer shall be entitled to a maximum allowable
 37 deduction not to exceed the greater of:

38 (i) \$10,000,000; or

39 (ii) 10 times the² aggregate adjusted ¹[bases] basis¹ of qualified
 40 small business stock ²[¹shall be a multiple of the aggregate adjusted
 41 basis of qualified small business stock¹]² issued by the corporation
 42 and disposed of by the taxpayer during the taxable year ¹[. For

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.

Matter enclosed in superscript numerals has been adopted as follows:

¹Assembly ACE committee amendments adopted March 6, 2025.

²Assembly ASL committee amendments adopted March 20, 2025.

1 purposes of this subparagraph (b), the adjusted basis of any stock
 2 shall be determined] ² ₁ without regard to any addition to basis
 3 after the date on which the stock was originally issued.

4

<u>¹Percentage payroll attributable to employment within State:</u>	<u>Dollar Amount:</u>	<u>Aggregate Adjusted Basis Amount:</u>
<u>100%</u>	<u>\$10,000,000</u>	<u>10 times</u>
<u>At least 90% but less than 100%</u>	<u>\$9,000,000</u>	<u>9 times</u>
<u>At least 80% but less than 90%</u>	<u>\$8,000,000</u>	<u>8 times</u>
<u>At least 70% but less than 80%</u>	<u>\$7,000,000</u>	<u>7 times</u>
<u>At least 60% but less than 70%</u>	<u>\$6,000,000</u>	<u>6 times</u>
<u>At least 50% but less than 60%</u>	<u>\$5,000,000</u>	<u>5 times</u>
<u>At least 40% but less than 50%</u>	<u>\$4,000,000</u>	<u>4 times</u>
<u>At least 30% but less than 40%</u>	<u>\$3,000,000</u>	<u>3 times</u>
<u>At least 20% but less than 30%</u>	<u>\$2,000,000</u>	<u>2 times</u>
<u>At least 10% but less than 20%</u>	<u>\$1,000,000</u>	<u>1 time</u>
<u>Less than 10%</u>	<u>\$0</u>	<u>0¹ ; or</u>

5

6 (b) If less than 80 percent of the corporation's payroll, as
 7 measured by total dollar value, is attributable to employment
 8 located within this State, the taxpayer shall be entitled to a
 9 maximum allowable deduction not to exceed the greater of:

10 (i) \$8,000,000; or

11 (ii) eight times the aggregate adjusted basis of qualified small
 12 business stock issued by the corporation and disposed of by the
 13 taxpayer in the taxable year.

14 (c) Notwithstanding any provision of this paragraph to the
 15 contrary, the maximum allowable deduction amounts set forth in
 16 subparagraphs (a) and (b) of this paragraph shall be reduced by the
 17 aggregate amount of eligible gain taken into account by the
 18 taxpayer under this section for any prior taxable year attributable to
 19 dispositions of stock issued by the corporation. The applicable
 20 aggregate adjusted basis of qualified small business stock shall be
 21 determined without regard to any addition to basis after the date on
 22 which the stock was originally issued.²

1 (2) For purposes of this subsection ¹**["b.]"**, the term “eligible
2 gain” means any gain from the sale or exchange of qualified small
3 business stock held for more than five years.

4 (3) (a) In the case of a married individual filing a separate
5 return, ¹**["subparagraph (a) of paragraph (1) of"]** the maximum
6 deduction allowed pursuant to¹ this subsection shall be ¹**["five**
7 **million dollars (\$5,000,000)"]** the greater of: 50 percent of the
8 dollar value allowed; or 50 percent of the aggregate adjusted basis
9 allowed, pursuant to this subsection¹.

10 (b) In the case of a married taxpayer filing a joint return, the
11 amount of gain taken into account under ¹**["subsection a."]** this
12 subsection¹ shall be allocated equally between the spouses for
13 purposes of applying this subsection to subsequent taxable years.

14 c. As used in this section:

15 (1) “Qualified small business stock” means any stock in a C
16 corporation which is originally issued ¹**["on or"]** after ¹**["the effective**
17 **date of P.L. , c. (C.) (pending before the Legislature as this**
18 **bill)"]** January 1, 2015¹, if both of the following apply:

19 (a) As of the date of issuance, the corporation is a qualified
20 small business.

21 (b) Except as provided in subsections e. and g., the stock is
22 acquired by the taxpayer at its original issue ¹**["()"]** directly or
23 through an underwriter ¹**["()"]** in either of the following manners:

24 (i) ¹**["In"]** in¹ exchange for money or other property ¹**["()"]** not
25 including stock ¹**["()"]** ; or¹

26 (ii) ¹**["As"]** as¹ compensation for services provided to the
27 corporation ¹**["()"]** other than services performed as an underwriter
28 of the stock ¹**["()"]**.

29 (2) (a) Stock in a corporation shall not be treated as qualified
30 small business stock unless, during substantially all of the
31 taxpayer’s holding period for the stock, the corporation meets the
32 active business requirements of subsection d. of this section and the
33 corporation is a C corporation.

34 (b) (i) Notwithstanding subsection d. of this section, a
35 corporation shall be treated as meeting the active business
36 requirements of subsection d. ¹**["of this section"]** for any period during
37 which the corporation qualifies as a specialized small business
38 investment company.

39 (ii) For purposes of ¹**["subsubparagraph"]** sub-subparagraph¹ (i)
40 of this subparagraph, the term “specialized small business
41 investment company” means any eligible corporation ¹**["(as defined**
42 **in"]** , pursuant to¹ paragraph (4) of subsection d. of this
43 section ¹**["()"]** that is licensed to operate under Section 301(d) of the
44 federal Small Business Investment Act of 1958 ¹**["()"]** as in effect
45 on May 13, 1993 ¹**["()"]**.

1 (3) (a) Stock acquired by the taxpayer shall not be treated as
2 qualified small business stock if, at any time during the four-year
3 period beginning on the date two years before the issuance of the
4 stock, the corporation issuing the stock purchased ¹[()] ¹ directly or
5 indirectly ¹[()] ¹ any of its stock from the taxpayer or from a
6 related person to the taxpayer. For the purposes of this
7 subparagraph, "related person" means a corporation, partnership,
8 association ¹ ¹ or trust controlled by the taxpayer; an individual,
9 corporation, partnership, association ¹ ¹ or trust that is in the control
10 of the taxpayer; a corporation, partnership, association ¹ ¹ or trust
11 controlled by an individual, corporation, partnership, association or
12 trust that is in the control of the taxpayer; or a member of the same
13 controlled group as the taxpayer.

14 (b) Stock issued by a corporation shall not be treated as
15 qualified small business stock if, during the two-year period
16 beginning on the date one year before the issuance of the stock, the
17 corporation made one or more purchases of its stock with an
18 aggregate value ¹[()] ¹ as of the time of the respective purchases
19 ¹[()] ¹ exceeding five percent of the aggregate value of all of its
20 stock as of the beginning of the two-year period.

21 (c) If any transaction is treated under section 304(a) of the
22 Internal Revenue Code (26 U.S.C. s.304(a)) as a distribution in
23 redemption of the stock of any corporation, for purposes of
24 subparagraphs (a) and (b) ¹of this paragraph¹, the corporation shall
25 be treated as purchasing an amount of its stock equal to the amount
26 treated as a distribution in redemption of the stock of the
27 corporation under section 304(a) of the Internal Revenue Code (26
28 U.S.C. s.304(a)).

29 (4) "Qualified small business" means any domestic corporation
30 ¹[()] ¹ as defined in section 7701(a)(4) of the Internal Revenue
31 Code (26 U.S.C. s.7701(a)(4)) ¹[()] ¹ which is a C corporation, if
32 all of the following apply:

33 (a) The aggregate gross assets of the corporation ¹[()] ¹ or any
34 predecessor thereof ¹[()] ¹ at all times on or after the effective date
35 of P.L. , c. (C.) (pending before the Legislature as this bill),
36 and before the issuance did not exceed \$50,000,000;

37 (b) The aggregate gross assets of the corporation immediately
38 after the issuance ¹[()] ¹ determined by taking into account
39 amounts received in the issuance ¹[()] ¹ do not exceed
40 \$50,000,000, where "aggregate gross assets" mean the amount of
41 cash and the aggregate adjusted basis of other property held by the
42 corporation, but the adjusted basis of any property contributed to
43 the corporation ¹[()] ¹ or other property with a basis determined in
44 whole or in part by reference to the adjusted basis of property so
45 contributed ¹[()] ¹ shall be determined as if the basis of the
46 property contributed to the corporation immediately after the

1 contribution was equal to its fair market value as of the time of the
2 contribution; and

3 (c) ¹~~Has~~ The corporation has¹ fewer than 225 employees
4 ²~~and at least ¹80~~ 10¹ percent of the corporation's payroll, as
5 measured by total dollar value, is attributable to employment
6 located within this State².

7 ¹~~Provided, however, that~~ (d) For the purposes of this
8 subsection,¹ all corporations which are members of the same parent-
9 subsidiary controlled group shall be treated as one corporation for
10 purposes of this subsection, where "parent-subsidary controlled
11 group" means any controlled group of corporations as defined in
12 section 1563(a)(1) of the Internal Revenue Code (26 U.S.C.
13 s.1563(a)(1)), except that ¹~~that~~¹ percentages of ownership and
14 value that control shall exist in situations involving at least 50
15 percent of ownership and value as otherwise provided involving at
16 least 80 percent required by section 1563(a)(1) (26 U.S.C.
17 s.1563(a)(1)), and section 1563(a)(4) of the Internal Revenue Code
18 (26 U.S.C. s.1563(a)(4)) shall not apply.

19 d. (1) The active business requirements of ¹~~paragraph (2) of~~
20 this¹ subsection ¹~~c.~~¹ shall be met by a corporation for any period
21 if during that period:

22 (a) ¹~~At~~ at¹ least 80 percent ¹~~(by value)~~¹ of the assets of the
23 corporation ¹~~, by value,~~¹ are used by the corporation in the active
24 conduct of one or more qualified trades or businesses; and

25 (b) ¹~~The~~ the¹ corporation is a domestic corporation, but
26 ¹~~shall~~¹ not ¹~~include~~ including¹ any of the following: (i) a
27 domestic international sales corporation (DISC) or former DISC;
28 (ii) ¹~~A corporation with respect to which an election under section~~
29 936 of the Internal Revenue Code (26 U.S.C. s.936) is in effect or
30 which has a direct or indirect subsidiary with respect to which the
31 election is in effect; (iii) ~~A~~ a¹ regulated investment company, real
32 estate investment trust (REIT), or real estate mortgage investment
33 conduit (REMIC); or ¹~~(iv) A~~ (iii) a¹ cooperative.

34 (2) ¹~~For purposes of this paragraph (2), if,~~ Assets used in the
35 following activities of a corporation¹ in connection with any future
36 qualified trade or business, ¹~~a corporation is engaged in~~ shall be
37 treated as used in the active conduct of a qualified trade or business,
38 whether or not a corporation has any gross income from those
39 activities at the time of a determination pursuant to this paragraph,
40 including¹ :

41 (a) ¹~~Startup~~ startup¹ activities described in section
42 195(c)(1)(A) of the Internal Revenue Code (26 U.S.C.
43 s.195(c)(1)(A)) ¹~~,~~¹

44 (b) ¹~~Activities~~ activities¹ resulting in the payment or
45 incurring of expenditures which may be treated as research and

- 1 experimental expenditures under section 174 of the Internal
2 Revenue Code (26 U.S.C. s.174) ¹[.] ₁ or
- 3 (c) Activities with respect to in-house research expenses
4 described in section 41(b)(4) of the Internal Revenue Code (26
5 U.S.C. s.41(b)(4)) ¹[.] , then assets used in those activities shall be
6 treated as used in the active conduct of a qualified trade or business.
7 Any determination under this paragraph (1) shall be made without
8 regard to whether a corporation has any gross income from those
9 activities at the time of the determination ¹[.] ₁.
- 10 (3) For purposes of this subsection ¹[d.] ₁, “qualified trade or
11 business” means any trade or business other than any of the
12 following:
- 13 (a) ¹[Any] any ¹ trade or business involving the performance of
14 services in the fields of health, law, engineering, architecture,
15 accounting, actuarial science, performing arts, consulting, athletics,
16 financial services, brokerage services, or any trade or business
17 where the principal asset of the trade or business is the reputation or
18 skill of one or more of its employees ¹[.] ₁
- 19 (b) ¹[Any] any ¹ banking, insurance, financing, leasing,
20 investing, or similar business ¹[.] ₁
- 21 (c) ¹[Any] any ¹ farming business ¹[()] ₁ including the business
22 of raising or harvesting trees ¹[.] ₁
- 23 (d) ¹[Any] any ¹ business involving the production or extraction
24 of products of a character with respect to which a deduction is
25 allowable under section 613 or 613A of the Internal Revenue Code
26 (26 U.S.C. s.613 or s.613A) ¹[.] ; or ¹
- 27 (e) ¹[Any] any ¹ business of operating a hotel, motel, restaurant,
28 or similar business.
- 29 (4) (a) For purposes of this subsection ¹[d.] ₁, stock and debt in
30 any subsidiary corporation shall be disregarded and the parent
31 corporation shall be deemed to own its ratable share of the
32 subsidiary’s assets, and to conduct its ratable share of the
33 subsidiary’s activities.
- 34 (b) A corporation shall be treated as failing to meet the
35 requirements of paragraph (1) of this subsection ¹[d.] ₁ for any
36 period during which more than 10 percent of the value of its assets
37 ¹[()] ₁ in excess of liabilities ¹[()] ₁ consists of stock or securities in
38 other corporations which are not subsidiaries of the corporation
39 ¹[()] ₁ other than assets described in paragraph (5) of this
40 subsection ¹[d.] ₁.
- 41 (c) For purposes of this paragraph ¹[(4)] ₁, a corporation shall
42 be considered a subsidiary if the parent owns more than 50 percent
43 of the combined voting power of all classes of stock entitled to
44 vote, or more than 50 percent in value of all outstanding stock, of
45 the corporation.

1 (5) ¹(a)¹ For purposes of subparagraph (a) of paragraph (1) of
2 this subsection ¹[d.]¹, the following assets shall be treated as used
3 in the active conduct of a qualified trade or business:

4 ¹[(a) Assets] (i) assets¹ that are held as a part of the reasonably
5 required working capital needs of a qualified trade or business of
6 the corporation ¹[.] ; and¹

7 ¹[(b) Assets] (ii) assets¹ that are held for investment and are
8 reasonably expected to be used within two years to finance research
9 and experimentation in a qualified trade or business or increases in
10 working capital needs of a qualified trade or business.

11 ¹(b)¹ For periods after the corporation has been in existence for
12 at least two years, in no event may more than 50 percent of the
13 assets of the corporation qualify as used in the active conduct of a
14 qualified trade or business by reason of this paragraph.

15 (6) A corporation shall not be treated as meeting the
16 requirements of paragraph (1) of this subsection ¹[d.]¹ for any
17 period during which more than 10 percent of the total value of its
18 assets consists of real property that is not used in the active conduct
19 of a qualified trade or business. For purposes of ¹[the preceding
20 sentence] this paragraph¹ the ownership of, dealing in, or renting
21 of, real property shall not be treated as the active conduct of a
22 qualified trade or business.

23 (7) For purposes of paragraph (1) of this subsection, rights to
24 computer software that produces active business computer software
25 royalties ¹[()]¹ within the meaning of section 543(d)(1) of the
26 Internal Revenue Code (26 U.S.C. s.543(d)(1)) ¹[]¹ shall be
27 treated as an asset used in the active conduct of a trade or business.

28 e. If any stock in a corporation is acquired solely through the
29 conversion of other stock in the corporation that is qualified small
30 business stock in the hands of the taxpayer, the stock so acquired
31 shall be treated as qualified small business stock in the hands of the
32 taxpayer and the stock so acquired shall be treated as having been
33 held during the period during which the converted stock was held.

34 f. (1) If any amount included in gross income by reason of
35 holding an interest in a pass-through entity meets the requirements
36 of paragraph (2) of this subsection ¹[f.]¹, the following shall apply:

37 (a) ¹[The] the¹ amount shall be treated as gain described in
38 subsection a. of this section; and

39 (b) ¹[For] for¹ purposes of applying subsection b. of this
40 section, the amount shall be treated as gain from a disposition of
41 stock in the corporation issuing the stock disposed of by the pass-
42 through entity and the taxpayer's proportionate share of the
43 adjusted basis of the pass-through entity in the stock shall be taken
44 into account.

45 (2) An amount shall meet the requirements of paragraph (1) of
46 this subsection ¹[f.]¹ if:

1 (a) **1** **["The"]** the¹ amount is attributable to gain on the sale or
2 exchange by the pass-through entity of stock that is qualified small
3 business stock in the hands of the entity **1** **["(1)"]** ¹ determined by
4 treating the entity as an individual **1** **["(1)"]** ¹ and that was held by that
5 entity for more than five years; and

6 (b) **1** **["The"]** the¹ amount is includable in the gross income of the
7 taxpayer by reason of the holding of an interest in the entity that
8 was held by the taxpayer on the date on which the pass-through
9 entity acquired the stock and at all times thereafter before the
10 disposition of the stock by the pass-through entity.

11 **1** **["Provided however, that"]** (3) Notwithstanding any provision of
12 law to the contrary,¹ paragraph (1) of this subsection **1** **["f."]**¹ shall
13 not apply to any amount to the extent the amount exceeds the
14 amount to which that paragraph **1** **["(1)"]**¹ would have applied if the
15 amount was determined by reference to the interest the taxpayer
16 held in the pass-through entity on the date the qualified small
17 business stock was acquired. **1** **["Provided further, that"]**

18 (4) For purposes of this subsection,¹ "pass-through entity"
19 means any of the following: a partnership; an S corporation; a
20 regulated investment company; or a common trust fund.

21 g. For purposes of this section:

22 (1) In the case of a transfer described in paragraph (2) of this
23 subsection, the transferee shall be treated as **1** **["meeting"]** having¹
24 both: **1** **["having"]**¹ acquired the stock in the same manner as the
25 transferor; and **1** **["having"]**¹ held the stock during any continuous
26 period immediately preceding the transfer during which it was held
27 **1** **["(1)"]** ¹ or treated as held **1** **["under this subdivision)"]** ¹ by the
28 transferor.

29 (2) A transfer **1** **["is"]** , as¹ described in this subsection **1** **["if the"]** ,
30 shall include any¹ transfer **1** **["is any of the following"]** made¹:

31 (a) **1** **["By"]** by¹ gift **1** **["."]** ;¹

32 (b) **1** **["At"]** at¹ death **1** **["."]** ;¹ or¹

33 (c) **1** **["From"]** from¹ a partnership to a partner of stock with
34 respect to which requirements similar to the requirements of
35 subsection f. of this section are met at the time of the transfer **1** **["(1)"]**¹
36 without regard to the five-year holding period requirement **1** **["(1)"]**¹.

37 (3) Rules similar to the rules of section 1244(d)(2) of the
38 Internal Revenue Code (26 U.S.C. s.1244(d)(2)) shall apply for
39 purposes of this section.

40 (4) (a) In the case of a transaction described in section 351 of
41 the Internal Revenue Code (26 U.S.C. s.351) or a reorganization
42 described in section 368 of the Internal Revenue Code (26 U.S.C.
43 s.368), if qualified small business stock is exchanged for other stock
44 that would not qualify as qualified small business stock but for this
45 paragraph **1** **["(4)"]**¹, the other stock shall be treated as qualified small

1 business stock acquired on the date on which the exchanged stock
2 was acquired.

3 (b) This subsection ¹~~[(e)]~~¹ shall apply to gain from the sale or
4 exchange of stock treated as qualified small business stock by
5 reason of subparagraph (a) of this paragraph only to the extent of
6 the gain that would have been recognized at the time of the transfer
7 described in subparagraph (a) of this paragraph if section 351 or
8 368 of the Internal Revenue Code (26 U.S.C. s.351 or s.368) had
9 not applied at that time. The preceding sentence shall not apply if
10 the stock that is treated as qualified small business stock by reason
11 of subparagraph (a) of this paragraph is issued by a corporation that
12 ¹~~[(1)]~~¹ as of the time of the transfer described in that subparagraph
13 (a) ¹~~[(1)]~~¹ is a qualified small business.

14 (c) For purposes of this paragraph ¹~~[(4)]~~¹, stock treated as
15 qualified small business stock under subparagraph (a) ¹of this
16 paragraph¹ shall be so treated for subsequent transactions or
17 reorganizations, except that the limitation of subparagraph (b) ¹of
18 this paragraph¹ shall be applied as of the time of the first transfer to
19 which the limitation applied ¹~~[(1)]~~¹ determined after the application
20 of the second sentence of subparagraph (b) ¹~~[(1)]~~¹ of this paragraph¹.

21 (d) In the case of a transaction described in section 351 of the
22 Internal Revenue Code (26 U.S.C. s.351), this paragraph shall apply
23 only if immediately after the transaction the corporation issuing the
24 stock owns directly or indirectly stock representing control ¹~~[(1)]~~¹
25 within the meaning of section 368(c) of the Internal Revenue Code
26 (26 U.S.C. s.368(c)) ¹~~[(1)]~~¹ of the corporation whose stock was
27 exchanged.

28 h. For purposes of this section:

29 (1) In the case in which the taxpayer transfers property ¹~~[(1)]~~¹
30 other than money or stock ¹~~[(1)]~~¹ to a corporation in exchange for
31 stock in the corporation, the stock shall be treated as having been
32 acquired by the taxpayer on the date of the exchange and the basis
33 of the stock in the hands of the taxpayer shall in no event be less
34 than the fair market value of the property exchanged.

35 (2) If the adjusted basis of any qualified small business stock is
36 adjusted by reason of any contribution to capital after the date on
37 which the stock was originally issued, in determining the amount of
38 the adjustment by reason of the contribution, the basis of the
39 contributed property shall in no event be treated as less than its fair
40 market value on the date of the contribution.

41 i. (1) If the taxpayer has an offsetting short position with
42 respect to any qualified small business stock, subsection a. ¹of this
43 section¹ shall not apply to any gain from the sale or exchange of the
44 stock unless the stock was held by the taxpayer for more than five
45 years as of the first day on which there was such a short position

1 and the taxpayer elects to recognize gain as if the stock was sold on
2 that first day for its fair market value.

3 (2) For purposes of paragraph (1) of this subsection, the
4 taxpayer shall be treated as having an offsetting short position with
5 respect to any qualified small business stock if any of the following
6 apply:

7 (a) ~~["The"]~~ the¹ taxpayer has made a short sale of substantially
8 identical property ~~["."]~~¹

9 (b) ~~["The"]~~ the¹ taxpayer has acquired an option to sell
10 substantially identical property at a fixed price ~~["."]~~¹ ~~or~~¹

11 (c) ~~["To"]~~ to¹ the extent provided in regulations, the taxpayer
12 has entered into any other transaction that substantially reduces the
13 risk of loss from holding the qualified small business stock. For
14 purposes of the preceding sentence, any reference to the taxpayer
15 shall be treated as including a reference to any person who is related
16 ~~["("]~~¹ within the meaning of section 267(b) or 707(b) of the
17 Internal Revenue Code (26 U.S.C. s.267(b) or s.707(b)) ~~["")]~~¹ to
18 the taxpayer.

19 j. A corporation that issues qualified small business stock
20 agrees to submit reports to the Director of the Division of Taxation
21 in the Department of the Treasury and to its shareholders as the
22 director may require to carry out the purposes of this section.

23

24 2. The Director of the Division of Taxation in the Department
25 of the Treasury shall prescribe regulations pursuant to the provision
26 of the "Administrative Procedure Act," P.L.1968, c.410 (C.52:14B-
27 1 et seq.) as may be appropriate to carry out the purposes of this act,
28 including any regulations that may conform to those regulations
29 promulgated by the Secretary of the Treasury under section 1202(k)
30 of the Internal Revenue Code (26 U.S.C. s.1202(k)) that shall apply
31 to the extent that those regulations do not conflict with this act, and
32 such further regulation that shall include but be not limited to
33 regulations to prevent the avoidance of the purposes of this act
34 through splitups, shell corporations, partnerships, or otherwise.

35

36 3. This act shall take effect immediately and shall apply to
37 taxable years beginning on or after the date of enactment¹.

ASSEMBLY COMMITTEE SUBSTITUTE FOR
ASSEMBLY, No. 4455

STATE OF NEW JERSEY
221st LEGISLATURE

ADOPTED JUNE 19, 2025

Sponsored by:

Assemblyman ROY FREIMAN

District 16 (Hunterdon, Mercer, Middlesex and Somerset)

Assemblyman GARY S. SCHAER

District 36 (Bergen and Passaic)

Assemblyman ROBERT J. KARABINCHAK

District 18 (Middlesex)

Co-Sponsored by:

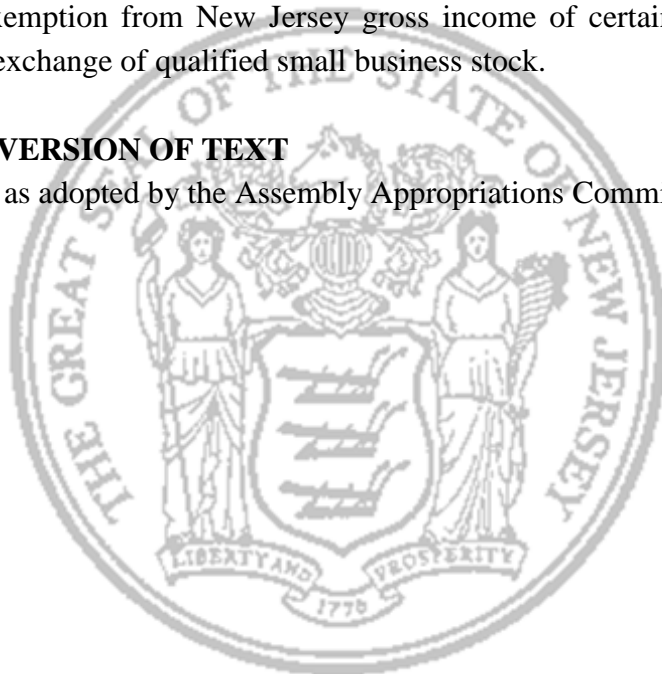
**Assemblymen Miller, Hutchison, Egan, Assemblywoman Park,
Assemblyman Atkins, Assemblywoman Drulis, Assemblymen Spearman,
Calabrese, Assemblywomen Reynolds-Jackson and Haider**

SYNOPSIS

Allows exemption from New Jersey gross income of certain capital gains from sale or exchange of qualified small business stock.

CURRENT VERSION OF TEXT

Substitute as adopted by the Assembly Appropriations Committee.



1 AN ACT allowing an exemption from New Jersey gross income of
2 certain capital gains from the sale or exchange of qualified small
3 business stock and supplementing Title 54A of the New Jersey
4 Statutes.

5

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

8

9 1. Notwithstanding any law or regulation to the contrary, gross
10 income shall not include net gains or income derived from the sale,
11 exchange, or other disposition of qualified small business stock to
12 the extent such income is exempt from federal taxation pursuant to
13 section 1202 of the federal Internal Revenue Code of 1986 (26
14 U.S.C. s.1202).

15

16 2. This act shall take effect immediately and shall apply
17 retroactively to taxable years beginning on or after January 1, 2025.

[First Reprint]

ASSEMBLY COMMITTEE SUBSTITUTE FOR
ASSEMBLY, No. 4455

STATE OF NEW JERSEY
221st LEGISLATURE

ADOPTED JUNE 19, 2025

Sponsored by:

Assemblyman ROY FREIMAN

District 16 (Hunterdon, Mercer, Middlesex and Somerset)

Assemblyman GARY S. SCHAER

District 36 (Bergen and Passaic)

Assemblyman ROBERT J. KARABINCHAK

District 18 (Middlesex)

Senator PAUL A. SARLO

District 36 (Bergen and Passaic)

Senator RAJ MUKHERJI

District 32 (Hudson)

Co-Sponsored by:

Senator Space, Assemblymen Miller, Hutchison, Egan, Assemblywoman Park, Assemblyman Atkins, Assemblywoman Drulis, Assemblymen Spearman, Calabrese, Assemblywomen Reynolds-Jackson, Haider, Swain and Assemblyman Tully

SYNOPSIS

Allows exemption from New Jersey gross income of certain capital gains from sale or exchange of qualified small business stock.

CURRENT VERSION OF TEXT

As reported by the Assembly Budget Committee on June 26, 2025, with amendments.

(Sponsorship Updated As Of: 6/30/2025)

1 AN ACT allowing an exemption from New Jersey gross income of
2 certain capital gains from the sale or exchange of qualified small
3 business stock and supplementing Title 54A of the New Jersey
4 Statutes.

5

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

8

9 1. Notwithstanding any law or regulation to the contrary, gross
10 income shall not include net gains or income derived from the sale,
11 exchange, or other disposition of qualified small business stock to
12 the extent such ¹gains or income ¹**[is]** are¹ exempt from federal
13 taxation pursuant to section 1202 of the federal Internal Revenue
14 Code of 1986 (26 U.S.C. s.1202).

15

16 2. This act shall take effect immediately and shall apply
17 ¹**[retroactively]**¹ to taxable years beginning on or after ¹the¹
18 January 1 ¹**[, 2025]** next following the date of enactment¹.

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.

Matter enclosed in superscript numerals has been adopted as follows:

¹**Assembly ABU committee amendments adopted June 26, 2025.**

ASSEMBLY COMMERCE, ECONOMIC DEVELOPMENT AND
AGRICULTURE COMMITTEE

STATEMENT TO
ASSEMBLY, No. 4455

with committee amendments

STATE OF NEW JERSEY

DATED: MARCH 6, 2025

The Assembly Commerce, Economic Development and Agriculture Committee reports favorably and with committee amendments Assembly Bill No. 4455.

As amended, this bill allows a taxpayer to claim a deduction from New Jersey gross income for the capital gains earned from the sale or exchange of New Jersey qualified small business stock (QSBS) held for more than five years. The maximum deduction allowable under the bill depends on the percentage of the qualified small business' payroll, as measured by total dollar value, which is attributable to employment located within the State.

If a taxpayer has capital gains for the taxable year from one or more dispositions of QSBS, the taxpayer would be allowed to claim a deduction equal to the greater of a specific dollar amount, or a multiple of the aggregate adjusted basis amount of the QSBS, based on a diminishing sliding scale. Specifically, the allowable deduction amounts would depend on the percentage of the corporation's payroll, as measured by total dollar value, that is attributable to employment within this State. For example, if the percentage of the qualified small business's payroll attributable to in-State employees is 100 percent, the maximum allowable deduction for capital gains from the sale or exchange of the QSBS would be \$10 million or 10 times the aggregate adjusted basis of QSBS. In contrast, if the percentage of the qualified small business's payroll attributable to in-State employees is at least 10 percent but less than 20 percent, the maximum allowable deduction would be \$1 million or the aggregate adjusted basis of QSBS.

The maximum deduction of \$10 million or 10 times the aggregate adjusted basis of QSBS is modeled on the federal capital gains exclusion allowed under section 1202 of the federal Internal Revenue Code.

Under the bill, a QSBS is generally defined to include any stock that is originally issued by a C corporation on or after January 1, 2015, provided the corporation qualifies as a qualified small business as of the date of issuance, and the stock was acquired by the taxpayer at its original issue, not a secondary market. The bill also requires the

QSBS to have been acquired in exchange for money or property, or as compensation for services provided to the corporation.

For an individual taxpayer to qualify for the special capital gains treatment under the bill, the taxpayer is required to have held the QSBS for at least five years. Specifically, the stock is required to be in a qualified small business that is a domestic C corporation, and remains a C corporation during substantially all of the time the individual holds the stock, and which meets all of the following criteria: (1) the aggregate gross assets of the corporation do not exceed \$50 million, both at all times after the effective date of the bill and before the issuance of the stock; (2) the aggregate gross assets of the corporation do not exceed \$50 million as of the date the stock was issued and immediately thereafter; and (3) the corporation has fewer than 225 employees and at least 10 percent of the corporation's payroll, as measured by total dollar value, is attributable to employment located within this State.

Additionally, during substantially all of the time the stock is held, at least 80 percent of the value of the corporation's assets is required to be used in the active conduct of one or more qualified businesses. As under section 1202 of the federal Internal Revenue Code, the bill provides that a gross income tax deduction may not be claimed for a capital gain realized from the sale or exchange of a QSBS in a business that is: a service business in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, or brokerage services; a banking, insurance, financing, leasing, investing, or similar business; a farming business; a business of operating a hotel, motel, restaurant, or similar business.

If the individual taxpayer holds qualifying stock for at least five years, then the taxpayer would be able to exclude the capital gains made on the disposition of the stock, and thus pay no gross income on the capital gains. The special exclusion of capital gains for qualified stock that is held by "pass through entities," including a partnership, an "S" corporation, a regulated investment company, or a common trust fund, that otherwise meet the requirements of this bill, is available to the individual gross income taxpayers who hold interests in those pass-through entities.

COMMITTEE AMENDMENTS:

The committee amendments expand the definition of a "qualified small business" to include, among other criteria, a requirement that the corporation have at least 10 percent of the corporation's payroll, as measured by total dollar value, attributable to employment located within this State. As introduced, the bill's definition of a "qualified small business" included a requirement that at least 80 percent of the corporation's payroll, as measured by total dollar value, be attributable to employment located within the State.

The committee amendments also incorporate a schedule to specify the maximum allowable deduction that a taxpayer may claim for the gains derived from the sale or exchange of QSBS for a qualified small business. The maximum allowable deduction to the taxpayer would be equal to the greater of a specific dollar amount or a multiple of the aggregate adjusted basis amount of the QSBS, as determined based on a diminishing sliding scale depending on the percentage of the corporation's payroll attributable to in-State employment.

The committee amendments further provide that, in the case of a married individual filing a separate return, the maximum deduction allowed under the bill would be the greater of: 50 percent of the allowable dollar value, or 50 percent of the allowable aggregate adjusted basis provided under the bill. As introduced, the maximum deduction would have been \$5 million.

In addition, the committee amendments expand the scope of QSBS for which the deduction may be claimed. As amended, a QSBS would include any stock in a C corporation that was originally issued on or after January 1, 2015, provided that all other eligibility requirements are met. As introduced, a QSBS would have only included stock issued on or after the effective date of the bill.

The amendments also clarify that assets used in connection with any future qualified trade or business would be treated as being used in the active conduct of a qualified trade or business, regardless of whether a corporation has any gross income from those activities at the time. A corporation is required to satisfy the active business requirements, among other criteria, in order for its stock to be considered QSBS eligible for the deduction provided under the bill.

Additionally, the amendments clarify that the deduction allowed under the bill could only be claimed for taxable years beginning on or after the effective date of the bill.

The committee amendments also make technical changes to the bill to reflect the repeal of section 936 of the federal Internal Revenue Code (26 U.S.C. s.936), and make other corrections.

ASSEMBLY STATE AND LOCAL GOVERNMENT
COMMITTEE

STATEMENT TO

[First Reprint]

ASSEMBLY, No. 4455

with committee amendments

STATE OF NEW JERSEY

DATED: MARCH 20, 2025

The Assembly State and Local Government Committee reports favorably and with committee amendments Assembly Bill No. 4455 (1R).

As amended, this bill allows a taxpayer to claim a deduction from New Jersey gross income for the capital gains earned from the sale or exchange of qualified small business stock (QSBS) held for more than five years. The maximum deduction allowable under the bill depends on the percentage of the qualified small business' payroll, as measured by total dollar value, which is attributable to employment located within the State.

Specifically, if a taxpayer has capital gains for the taxable year from one or more dispositions of QSBS, the taxpayer would be allowed to claim a deduction, as follows: (1) if the percentage of the qualified small business's payroll attributable to in-State employees is at least 80 percent, the maximum allowable deduction would be the greater of \$10 million or 10 times the aggregate adjusted basis of the QSBS; and (2) if the percentage of the qualified small business's payroll attributable to in-State employees is less than 80 percent, the maximum allowable deduction would be the greater of \$8 million or 8 times the aggregate adjusted basis of the QSBS. However, these maximum allowable deduction amounts would be reduced by the aggregate amount of eligible gain claimed by the taxpayer for any prior taxable year and attributable to dispositions of stock issued by the corporation.

The maximum deduction of \$10 million or 10 times the aggregate adjusted basis of QSBS is modeled on the federal capital gains exclusion allowed under section 1202 of the federal Internal Revenue Code.

Under the bill, a QSBS is generally defined to include any stock that is originally issued by a C corporation on or after January 1, 2015, provided the corporation qualifies as a qualified small business as of the date of issuance, and the stock was acquired by the taxpayer at its original issue, not a secondary market. The bill also requires the

QSBS to have been acquired in exchange for money or property, or as compensation for services provided to the corporation.

For an individual taxpayer to qualify for the special capital gains treatment under the bill, the taxpayer is required to have held the QSBS for at least five years. Specifically, the stock is required to be in a qualified small business that is a domestic C corporation, and remains a C corporation during substantially all of the time the individual holds the stock, and which meets all of the following criteria: (1) the aggregate gross assets of the corporation do not exceed \$50 million, both at all times after the effective date of the bill and before the issuance of the stock; (2) the aggregate gross assets of the corporation do not exceed \$50 million as of the date the stock was issued and immediately thereafter; and (3) the corporation has fewer than 225 employees.

Additionally, during substantially all of the time the stock is held, at least 80 percent of the value of the corporation's assets is required to be used in the active conduct of one or more qualified businesses. As under section 1202 of the federal Internal Revenue Code, the bill provides that a gross income tax deduction may not be claimed for a capital gain realized from the sale or exchange of a QSBS in a business that is: a service business in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, or brokerage services; a banking, insurance, financing, leasing, investing, or similar business; a farming business; a business of operating a hotel, motel, restaurant, or similar business.

If the individual taxpayer holds qualifying stock for at least five years, then the taxpayer would be able to exclude the capital gains made on the disposition of the stock, and thus pay no gross income on the capital gains. The special exclusion of capital gains for qualified stock that is held by "pass through entities," including a partnership, an "S" corporation, a regulated investment company, or a common trust fund, that otherwise meet the requirements of this bill, is available to the individual gross income taxpayers who hold interests in those pass-through entities.

COMMITTEE AMENDMENTS:

The committee amendments revise the manner in which the maximum allowable deduction would be calculated under the bill. Specifically, the amendments provide that the maximum allowable deduction would be determined, as follows:

(1) if the percentage of the qualified small business's payroll attributable to in-State employees is at least 80 percent, the maximum allowable deduction would be the greater of \$10 million or 10 times the aggregate adjusted basis of the QSBS; and

(2) if the percentage of the qualified small business's payroll attributable to in-State employees is less than 80 percent, the

maximum allowable deduction would be the greater of \$8 million or 8 times the aggregate adjusted basis of the QSBS.

However, the amendments provide that these maximum allowable amounts would be reduced by the aggregate amount of eligible gain claimed by the taxpayer for any prior taxable year and attributable to dispositions of stock issued by the corporation.

Previously, the bill incorporated a schedule specifying the maximum allowable deduction that could be claimed by a taxpayer. Under that schedule, the maximum allowable deduction would have been the greater of a specific dollar amount or a multiple of the aggregate adjusted basis amount of the QSBS, as determined based on a diminishing sliding scale depending on the percentage of the corporation's payroll attributable to in-State employment.

Additionally, the committee amendments revise the definition of "qualified small business" to remove the requirement for at least 10 percent of the corporation's payroll, as measured by total dollar value, to be attributable to employment located within this State.

The committee amendments also provide technical changes to the bill, including revisions to the title and synopsis of the bill.

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

ASSEMBLY COMMITTEE SUBSTITUTE FOR
ASSEMBLY, No. 4455

STATE OF NEW JERSEY

DATED: JUNE 19, 2025

The Assembly Appropriations Committee reports favorably an Assembly Committee Substitute for Assembly Bill No. 4455.

As reported, this committee substitute would allow an exemption from New Jersey gross income for the capital gains derived from the sale or exchange of qualified small business stock (QSBS) to the extent that such gains are exempt for the purposes of federal taxation pursuant to section 1202 of the federal Internal Revenue Code of 1986.

Under federal law, gains derived from the sale or exchange of QSBS that is held for more than five years is exempt from federal income taxation provided that the aggregate amount of such gain from dispositions of stock issued by such corporation which may be taken into account for the taxable year does not exceed the greater of either: (1) \$10 million reduced by the aggregate amount of eligible gain taken into account by the taxpayer in prior taxable years; or (2) 10 times the aggregate adjusted basis of QSBS issued by such a corporation and disposed of by the taxpayer during the taxable year.

FISCAL IMPACT:

The Executive estimates that the bill would result in a State revenue loss of \$10.4 million in FY 2026.

ASSEMBLY BUDGET COMMITTEE

STATEMENT TO

ASSEMBLY COMMITTEE SUBSTITUTE FOR **ASSEMBLY, No. 4455**

with committee amendments

STATE OF NEW JERSEY

DATED: JUNE 26, 2025

The Assembly Budget Committee reports favorably and with committee amendments Assembly Bill No. 4455 ACS.

As amended and reported, this bill would allow an exemption from New Jersey gross income for the capital gains or income derived from the sale or exchange of qualified small business stock (QSBS) to the extent that such gains or income are exempt for the purposes of federal taxation pursuant to section 1202 of the federal Internal Revenue Code of 1986.

Under federal law, gains derived from the sale or exchange of QSBS that is held for more than five years are exempt from federal income taxation provided that the aggregate amount of such gain from dispositions of stock issued by such corporation which may be taken into account for the taxable year does not exceed the greater of either: (1) \$10 million reduced by the aggregate amount of eligible gain taken into account by the taxpayer in prior taxable years; or (2) 10 times the aggregate adjusted basis of QSBS issued by such a corporation and disposed of by the taxpayer during the taxable year.

COMMITTEE AMENDMENTS:

The committee amendments revise the bill to:

(1) provide that the bill's provisions apply to taxable years beginning on or after the January 1 next following the date of enactment; and

(2) make technical changes.

FISCAL IMPACT:

The Office of Legislative Services estimates this bill will result in annual State revenue losses of \$10 million to \$12. million annually, beginning in FY 2027.

LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

ASSEMBLY COMMITTEE SUBSTITUTE FOR

ASSEMBLY, No. 4455

STATE OF NEW JERSEY
221st LEGISLATURE

DATED: JULY 3, 2025

SUMMARY

- Synopsis:** Allows exemption from New Jersey gross income of certain capital gains from sale or exchange of qualified small business stock.
- Type of Impact:** Annual State revenue loss to the Property Tax Relief Fund.
- Agencies Affected:** Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2027 & Annually Thereafter</u>
State Revenue Loss	\$10 million to \$12 million

- The Office of Legislative Services (OLS) projects that the bill will result in a loss of State gross income tax revenues of approximately \$10 million to \$12 million annually. This estimate assumes that the bill will be enacted in calendar year 2025.
- There are no precise data regarding the utilization of the federal qualified small business stock deduction by taxpayers in different brackets. However, a report published by the U.S. Department of the Treasury indicates that almost 90 percent of all excluded qualified small business stock income was attributable to taxpayers with income of \$400,000 or more.
- The OLS assumes that the taxpayers most likely to exclude income from the sale or exchange of qualified small business stock have a gross income of \$500,000 or more. Accordingly, the OLS estimates that income from the sale or exchange of qualified small business stock that would be excluded from taxation under the bill would be subject to a higher effective tax rates under current law.

BILL DESCRIPTION

The bill provides an exemption from New Jersey gross income for the capital gains derived from the sale or exchange of qualified small business stock to the extent that such gains are exempt

for the purposes of federal taxation pursuant to section 1202 of the federal Internal Revenue Code of 1986.

Under federal law, gains derived from the sale or exchange of qualified small business stock that is held for more than five years is exempt from federal income taxation provided that the aggregate amount of such gain from dispositions of stock issued by such corporation which may be taken into account for the taxable year does not exceed the greater of either: (1) \$10 million reduced by the aggregate amount of eligible gain taken into account by the taxpayer in prior taxable years; or (2) 10 times the aggregate adjusted basis of qualified small business stock issued by such a corporation and disposed of by the taxpayer during the taxable year.

The bill takes effect immediately and applies to taxable years beginning on or after the January 1 next following enactment.

FISCAL ANALYSIS

EXECUTIVE BRANCH

The Executive has not submitted a formal, written fiscal note on this bill. However, in the FY 2026 Budget in Brief, the Executive indicated that excluding certain capital gains from the sale or exchange of qualified small business stock would reduce State revenue collections by \$10.4 million annually, beginning in FY 2026. The Executive's estimate is based on information from the federal Statistics of Income prepared by the Internal Revenue Service (IRS) and federal tax expenditure prepared by the U.S. Department of the Treasury. The Executive's estimate is also based on a Statewide effective gross income tax rate of 3.2 percent for all taxpayers in tax year 2018.

OFFICE OF LEGISLATIVE SERVICES

The OLS generally concurs with the Executive that the bill will result in an annual State revenue loss. However, the OLS estimates that the bill will result in State revenue loss of approximately \$10 million to \$12 million annually, beginning in FY 2027. The OLS concludes that the taxpayers most likely to exclude gains from the sale of qualified small business stock will have higher New Jersey gross income and that the income from the sale or qualified small business stock would be subject to higher gross income tax rates under current law.

Assuming this bill is enacted in calendar year 2025, there will be no revenue loss prior to FY 2027 because the bill allows taxpayers to exclude from New Jersey gross income gains from the sale of qualified small business stock beginning or after the January 1 next following enactment. If the bill enacted in calendar year 2025, the exclusion will first apply in calendar year 2026. Calendar year 2026 tax returns, in turn, will be due in April of 2027, or in FY 2027.

There is no precise information regarding the utilization of the federal qualified small business stock deduction among taxpayers within different income brackets. However, in a working paper issued in January 2025, the Office of Tax Analysis in the U.S. Department of the Treasury indicated that although taxpayers account with income of \$400,000 or more account for 45 percent of qualified small business stock deduction claims, almost 90 percent of all excluded qualified small business stock income was attributable to taxpayers with income of \$400,000 or more. The IRS Statistics of Income for tax years 2018 through 2022 also indicate that 70 to 80 percent of net income from capital gains is reported by taxpayers with adjusted federal gross income of \$500,000 or more.

The U.S. Department of the Treasury estimated in March 2024 that the federal exclusion from taxable income of gains from qualified small business stock dispositions would reduce federal FY 2024 revenue collections by \$1.93 billion. Using the IRS data, the OLS estimates that 2.73 percent of reported net income from capital gains for federal tax purposes in tax year 2021. Applying that proportion to the \$1.93 billion federal tax expenditure yields an estimated \$52.6 million in income from the sale or exchange qualified small business stock attributable to New Jersey taxpayers. Assuming that taxpayers most likely to exclude gains from the sale of qualified small business stock are taxpayers with gross income of \$500,000 or more, the OLS calculated estimated effective State and federal income tax rates. To account for differences in State and federal taxation, the OLS proportionalized the estimated effective tax rate for New Jersey to the estimated effective federal tax rate. The proportionalized rate was then applied to New Jersey's estimate share of the federal qualified small business stock tax expenditure to arrive at a projected State revenue loss of \$10 million to \$12 million.

Section: Revenue, Finance and Appropriations
Analyst: Scott A. Brodsky
Staff Fiscal and Budget Analyst
Approved: Thomas Koenig
Legislative Budget and Finance Officer

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).

SENATE, No. 4503

STATE OF NEW JERSEY 221st LEGISLATURE

INTRODUCED MAY 22, 2025

Sponsored by:

Senator PAUL A. SARLO

District 36 (Bergen and Passaic)

Senator RAJ MUKHERJI

District 32 (Hudson)

Co-Sponsored by:

Senator Space

SYNOPSIS

Allows deduction from New Jersey gross income of certain capital gains from sale or exchange of qualified small business stock held for more than five years.

CURRENT VERSION OF TEXT

As introduced.



(Sponsorship Updated As Of: 5/29/2025)

1 AN ACT allowing a deduction from New Jersey gross income of
2 certain capital gains from sale or exchange of qualified small
3 business stock held for more than five years, supplementing Title
4 54A of the New Jersey Statutes.

5
6 **BE IT ENACTED** by the Senate and General Assembly of the State
7 of New Jersey:

8
9 1. a. Notwithstanding the provisions of N.J.S.54A:5-1, a
10 taxpayer who is an individual shall be allowed to deduct from the
11 taxpayer's gross income, for any taxable year beginning on or after
12 the effective date of P.L. , c. (C.) (pending before the
13 Legislature as this bill), the eligible gain from the sale or exchange
14 of qualified small business stock held for more than five years, in
15 accordance with the maximum allowable deductions established
16 pursuant to subsection b. of this section.

17 b. (1) If the taxpayer has eligible gain for the taxable year from
18 one or more dispositions of qualified small business stock, the
19 aggregate amount of the gain from dispositions of stock issued by
20 the corporation which may be taken into account for the taxable
21 year shall be determined as follows:

22 (a) If at least 80 percent of the corporation's payroll, as measured
23 by total dollar value, is attributable to employment located within
24 this State, the taxpayer shall be entitled to a maximum allowable
25 deduction not to exceed the greater of:

26 (i) \$10,000,000; or

27 (ii) 10 times the aggregate adjusted basis of qualified small
28 business stock issued by the corporation and disposed of by the
29 taxpayer during the taxable year; or

30 (b) If less than 80 percent of the corporation's payroll, as
31 measured by total dollar value, is attributable to employment
32 located within this State, the taxpayer shall be entitled to a
33 maximum allowable deduction not to exceed the greater of:

34 (i) \$8,000,000; or

35 (ii) eight times the aggregate adjusted basis of qualified small
36 business stock issued by the corporation and disposed of by the
37 taxpayer in the taxable year.

38 (c) Notwithstanding any provision of this paragraph to the
39 contrary, the maximum allowable deduction amounts set forth in
40 subparagraphs (a) and (b) of this paragraph shall be reduced by the
41 aggregate amount of eligible gain taken into account by the
42 taxpayer under this section for any prior taxable year attributable to
43 dispositions of stock issued by the corporation. The applicable
44 aggregate adjusted basis of qualified small business stock shall be
45 determined without regard to any addition to basis after the date on
46 which the stock was originally issued.

1 (2) For purposes of this subsection, the term “eligible gain”
2 means any gain from the sale or exchange of qualified small
3 business stock held for more than five years.

4 (3) (a) In the case of a married individual filing a separate
5 return, the maximum deduction allowed pursuant to this subsection
6 shall be the greater of: 50 percent of the dollar value allowed; or 50
7 percent of the aggregate adjusted basis allowed, pursuant to this
8 subsection.

9 (b) In the case of a married taxpayer filing a joint return, the
10 amount of gain taken into account under this subsection shall be
11 allocated equally between the spouses for purposes of applying this
12 subsection to subsequent taxable years.

13 c. As used in this section:

14 (1) “Qualified small business stock” means any stock in a C
15 corporation which is originally issued on or after January 1, 2015, if
16 both of the following apply:

17 (a) As of the date of issuance, the corporation is a qualified
18 small business.

19 (b) Except as provided in subsections e. and g., the stock is
20 acquired by the taxpayer at its original issue, directly or through an
21 underwriter, in either of the following manners:

22 (i) in exchange for money or other property, not including
23 stock; or

24 (ii) as compensation for services provided to the corporation,
25 other than services performed as an underwriter of the stock.

26 (2) (a) Stock in a corporation shall not be treated as qualified
27 small business stock unless, during substantially all of the
28 taxpayer’s holding period for the stock, the corporation meets the
29 active business requirements of subsection d. of this section and the
30 corporation is a C corporation.

31 (b) (i) Notwithstanding subsection d. of this section, a
32 corporation shall be treated as meeting the active business
33 requirements of subsection d. of this section for any period during
34 which the corporation qualifies as a specialized small business
35 investment company.

36 (ii) For purposes of sub-subparagraph (i) of this subparagraph,
37 the term “specialized small business investment company” means
38 any eligible corporation, pursuant to paragraph (4) of subsection d.
39 of this section, that is licensed to operate under Section 301(d) of
40 the federal Small Business Investment Act of 1958, as in effect on
41 May 13, 1993.

42 (3) (a) Stock acquired by the taxpayer shall not be treated as
43 qualified small business stock if, at any time during the four-year
44 period beginning on the date two years before the issuance of the
45 stock, the corporation issuing the stock purchased, directly or
46 indirectly, any of its stock from the taxpayer or from a related
47 person to the taxpayer. For the purposes of this subparagraph,
48 "related person" means a corporation, partnership, association, or

1 trust controlled by the taxpayer; an individual, corporation,
2 partnership, association, or trust that is in the control of the
3 taxpayer; a corporation, partnership, association, or trust controlled
4 by an individual, corporation, partnership, association or trust that
5 is in the control of the taxpayer; or a member of the same controlled
6 group as the taxpayer.

7 (b) Stock issued by a corporation shall not be treated as
8 qualified small business stock if, during the two-year period
9 beginning on the date one year before the issuance of the stock, the
10 corporation made one or more purchases of its stock with an
11 aggregate value, as of the time of the respective purchases,
12 exceeding five percent of the aggregate value of all of its stock as of
13 the beginning of the two-year period.

14 (c) If any transaction is treated under section 304(a) of the
15 Internal Revenue Code (26 U.S.C. s.304(a)) as a distribution in
16 redemption of the stock of any corporation, for purposes of
17 subparagraphs (a) and (b) of this paragraph, the corporation shall be
18 treated as purchasing an amount of its stock equal to the amount
19 treated as a distribution in redemption of the stock of the
20 corporation under section 304(a) of the Internal Revenue Code (26
21 U.S.C. s.304(a)).

22 (4) "Qualified small business" means any domestic corporation,
23 as defined in section 7701(a)(4) of the Internal Revenue Code (26
24 U.S.C. s.7701(a)(4)), which is a C corporation, if all of the
25 following apply:

26 (a) The aggregate gross assets of the corporation, or any
27 predecessor thereof, at all times on or after the effective date of
28 P.L. , c. (C.) (pending before the Legislature as this bill),
29 and before the issuance did not exceed \$50,000,000;

30 (b) The aggregate gross assets of the corporation immediately
31 after the issuance, determined by taking into account amounts
32 received in the issuance, do not exceed \$50,000,000, where
33 "aggregate gross assets" mean the amount of cash and the aggregate
34 adjusted basis of other property held by the corporation, but the
35 adjusted basis of any property contributed to the corporation, or
36 other property with a basis determined in whole or in part by
37 reference to the adjusted basis of property so contributed, shall be
38 determined as if the basis of the property contributed to the
39 corporation immediately after the contribution was equal to its fair
40 market value as of the time of the contribution; and

41 (c) The corporation has fewer than 225 employees.

42 (d) For the purposes of this subsection, all corporations which
43 are members of the same parent-subsidiary controlled group shall
44 be treated as one corporation for purposes of this subsection, where
45 "parent-subsidiary controlled group" means any controlled group of
46 corporations as defined in section 1563(a)(1) of the Internal
47 Revenue Code (26 U.S.C. s.1563(a)(1)), except that percentages of
48 ownership and value that control shall exist in situations involving

1 at least 50 percent of ownership and value as otherwise provided
2 involving at least 80 percent required by section 1563(a)(1) (26
3 U.S.C. s.1563(a)(1)), and section 1563(a)(4) of the Internal
4 Revenue Code (26 U.S.C. s.1563(a)(4)) shall not apply.

5 d. (1) The active business requirements of this subsection shall
6 be met by a corporation for any period if during that period:

7 (a) at least 80 percent of the assets of the corporation, by value,
8 are used by the corporation in the active conduct of one or more
9 qualified trades or businesses; and

10 (b) the corporation is a domestic corporation, but not including
11 any of the following: (i) a domestic international sales corporation
12 (DISC) or former DISC; (ii) a regulated investment company, real
13 estate investment trust (REIT), or real estate mortgage investment
14 conduit (REMIC); or (iii) a cooperative.

15 (2) Assets used in the following activities of a corporation in
16 connection with any future qualified trade or business, shall be
17 treated as used in the active conduct of a qualified trade or business,
18 whether or not a corporation has any gross income from those
19 activities at the time of a determination pursuant to this paragraph,
20 including:

21 (a) startup activities described in section 195(c)(1)(A) of the
22 Internal Revenue Code (26 U.S.C. s.195(c)(1)(A));

23 (b) activities resulting in the payment or incurring of
24 expenditures which may be treated as research and experimental
25 expenditures under section 174 of the Internal Revenue Code
26 (26 U.S.C. s.174); or

27 (c) Activities with respect to in-house research expenses
28 described in section 41(b)(4) of the Internal Revenue Code (26
29 U.S.C. s.41(b)(4)).

30 (3) For purposes of this subsection, “qualified trade or business”
31 means any trade or business other than any of the following:

32 (a) any trade or business involving the performance of services
33 in the fields of health, law, engineering, architecture, accounting,
34 actuarial science, performing arts, consulting, athletics, financial
35 services, brokerage services, or any trade or business where the
36 principal asset of the trade or business is the reputation or skill of
37 one or more of its employees;

38 (b) any banking, insurance, financing, leasing, investing, or
39 similar business;

40 (c) any farming business, including the business of raising or
41 harvesting trees;

42 (d) any business involving the production or extraction of
43 products of a character with respect to which a deduction is
44 allowable under section 613 or 613A of the Internal Revenue Code
45 (26 U.S.C. s.613 or s.613A); or

46 (e) any business of operating a hotel, motel, restaurant, or
47 similar business.

1 (4) (a) For purposes of this subsection, stock and debt in any
2 subsidiary corporation shall be disregarded and the parent
3 corporation shall be deemed to own its ratable share of the
4 subsidiary's assets, and to conduct its ratable share of the
5 subsidiary's activities.

6 (b) A corporation shall be treated as failing to meet the
7 requirements of paragraph (1) of this subsection for any period
8 during which more than 10 percent of the value of its assets, in
9 excess of liabilities, consists of stock or securities in other
10 corporations which are not subsidiaries of the corporation, other
11 than assets described in paragraph (5) of this subsection.

12 (c) For purposes of this paragraph, a corporation shall be
13 considered a subsidiary if the parent owns more than 50 percent of
14 the combined voting power of all classes of stock entitled to vote,
15 or more than 50 percent in value of all outstanding stock, of the
16 corporation.

17 (5) (a) For purposes of subparagraph (a) of paragraph (1) of this
18 subsection, the following assets shall be treated as used in the active
19 conduct of a qualified trade or business:

20 (i) assets that are held as a part of the reasonably required
21 working capital needs of a qualified trade or business of the
22 corporation; and

23 (ii) assets that are held for investment and are reasonably
24 expected to be used within two years to finance research and
25 experimentation in a qualified trade or business or increases in
26 working capital needs of a qualified trade or business.

27 (b) For periods after the corporation has been in existence for at
28 least two years, in no event may more than 50 percent of the assets
29 of the corporation qualify as used in the active conduct of a
30 qualified trade or business by reason of this paragraph.

31 (6) A corporation shall not be treated as meeting the
32 requirements of paragraph (1) of this subsection for any period
33 during which more than 10 percent of the total value of its assets
34 consists of real property that is not used in the active conduct of a
35 qualified trade or business. For purposes of this paragraph the
36 ownership of, dealing in, or renting of, real property shall not be
37 treated as the active conduct of a qualified trade or business.

38 (7) For purposes of paragraph (1) of this subsection, rights to
39 computer software that produces active business computer software
40 royalties, within the meaning of section 543(d)(1) of the Internal
41 Revenue Code (26 U.S.C. s.543(d)(1)), shall be treated as an asset
42 used in the active conduct of a trade or business.

43 e. If any stock in a corporation is acquired solely through the
44 conversion of other stock in the corporation that is qualified small
45 business stock in the hands of the taxpayer, the stock so acquired
46 shall be treated as qualified small business stock in the hands of the
47 taxpayer and the stock so acquired shall be treated as having been
48 held during the period during which the converted stock was held.

1 f. (1) If any amount included in gross income by reason of
2 holding an interest in a pass-through entity meets the requirements
3 of paragraph (2) of this subsection, the following shall apply:

4 (a) the amount shall be treated as gain described in subsection a.
5 of this section; and

6 (b) for purposes of applying subsection b. of this section, the
7 amount shall be treated as gain from a disposition of stock in the
8 corporation issuing the stock disposed of by the pass-through entity
9 and the taxpayer's proportionate share of the adjusted basis of the
10 pass-through entity in the stock shall be taken into account.

11 (2) An amount shall meet the requirements of paragraph (1) of
12 this subsection if:

13 (a) the amount is attributable to gain on the sale or exchange by
14 the pass-through entity of stock that is qualified small business
15 stock in the hands of the entity, determined by treating the entity as
16 an individual, and that was held by that entity for more than five
17 years; and

18 (b) the amount is includable in the gross income of the taxpayer
19 by reason of the holding of an interest in the entity that was held by
20 the taxpayer on the date on which the pass-through entity acquired
21 the stock and at all times thereafter before the disposition of the
22 stock by the pass-through entity.

23 (3) Notwithstanding any provision of law to the contrary,
24 paragraph (1) of this subsection shall not apply to any amount to the
25 extent the amount exceeds the amount to which that paragraph
26 would have applied if the amount was determined by reference to
27 the interest the taxpayer held in the pass-through entity on the date
28 the qualified small business stock was acquired.

29 (4) For purposes of this subsection, "pass-through entity" means
30 any of the following: a partnership; an S corporation; a regulated
31 investment company; or a common trust fund.

32 g. For purposes of this section:

33 (1) In the case of a transfer described in paragraph (2) of this
34 subsection, the transferee shall be treated as having both: acquired
35 the stock in the same manner as the transferor; and held the stock
36 during any continuous period immediately preceding the transfer
37 during which it was held, or treated as held, by the transferor.

38 (2) A transfer, as described in this subsection, shall include any
39 transfer made:

40 (a) by gift;

41 (b) at death; or

42 (c) from a partnership to a partner of stock with respect to which
43 requirements similar to the requirements of subsection f. of this
44 section are met at the time of the transfer, without regard to the
45 five-year holding period requirement.

46 (3) Rules similar to the rules of section 1244(d)(2) of the
47 Internal Revenue Code (26 U.S.C. s.1244(d)(2)) shall apply for
48 purposes of this section.

1 (4) (a) In the case of a transaction described in section 351 of
2 the Internal Revenue Code (26 U.S.C. s.351) or a reorganization
3 described in section 368 of the Internal Revenue Code (26 U.S.C.
4 s.368), if qualified small business stock is exchanged for other stock
5 that would not qualify as qualified small business stock but for this
6 paragraph, the other stock shall be treated as qualified small
7 business stock acquired on the date on which the exchanged stock
8 was acquired.

9 (b) This subsection shall apply to gain from the sale or exchange
10 of stock treated as qualified small business stock by reason of
11 subparagraph (a) of this paragraph only to the extent of the gain that
12 would have been recognized at the time of the transfer described in
13 subparagraph (a) of this paragraph if section 351 or 368 of the
14 Internal Revenue Code (26 U.S.C. s.351 or s.368) had not applied at
15 that time. The preceding sentence shall not apply if the stock that is
16 treated as qualified small business stock by reason of subparagraph
17 (a) of this paragraph is issued by a corporation that, as of the time of
18 the transfer described in that subparagraph (a), is a qualified small
19 business.

20 (c) For purposes of this paragraph, stock treated as qualified
21 small business stock under subparagraph (a) of this paragraph shall
22 be so treated for subsequent transactions or reorganizations, except
23 that the limitation of subparagraph (b) of this paragraph shall be
24 applied as of the time of the first transfer to which the limitation
25 applied, determined after the application of the second sentence of
26 subparagraph (b) of this paragraph.

27 (d) In the case of a transaction described in section 351 of the
28 Internal Revenue Code (26 U.S.C. s.351), this paragraph shall apply
29 only if immediately after the transaction the corporation issuing the
30 stock owns directly or indirectly stock representing control, within
31 the meaning of section 368(c) of the Internal Revenue Code (26
32 U.S.C. s.368(c)), of the corporation whose stock was exchanged.

33 h. For purposes of this section:

34 (1) In the case in which the taxpayer transfers property, other
35 than money or stock, to a corporation in exchange for stock in the
36 corporation, the stock shall be treated as having been acquired by
37 the taxpayer on the date of the exchange and the basis of the stock
38 in the hands of the taxpayer shall in no event be less than the fair
39 market value of the property exchanged.

40 (2) If the adjusted basis of any qualified small business stock is
41 adjusted by reason of any contribution to capital after the date on
42 which the stock was originally issued, in determining the amount of
43 the adjustment by reason of the contribution, the basis of the
44 contributed property shall in no event be treated as less than its fair
45 market value on the date of the contribution.

46 i. (1) If the taxpayer has an offsetting short position with
47 respect to any qualified small business stock, subsection a. of this
48 section shall not apply to any gain from the sale or exchange of the

1 stock unless the stock was held by the taxpayer for more than five
2 years as of the first day on which there was such a short position
3 and the taxpayer elects to recognize gain as if the stock was sold on
4 that first day for its fair market value.

5 (2) For purposes of paragraph (1) of this subsection, the
6 taxpayer shall be treated as having an offsetting short position with
7 respect to any qualified small business stock if any of the following
8 apply:

9 (a) the taxpayer has made a short sale of substantially identical
10 property;

11 (b) the taxpayer has acquired an option to sell substantially
12 identical property at a fixed price; or

13 (c) to the extent provided in regulations, the taxpayer has
14 entered into any other transaction that substantially reduces the risk
15 of loss from holding the qualified small business stock. For
16 purposes of the preceding sentence, any reference to the taxpayer
17 shall be treated as including a reference to any person who is
18 related, within the meaning of section 267(b) or 707(b) of the
19 Internal Revenue Code (26 U.S.C. s.267(b) or s.707(b)), to the
20 taxpayer.

21 j. A corporation that issues qualified small business stock
22 agrees to submit reports to the Director of the Division of Taxation
23 in the Department of the Treasury and to its shareholders as the
24 director may require to carry out the purposes of this section.

25

26 2. The Director of the Division of Taxation in the Department
27 of the Treasury shall prescribe regulations pursuant to the provision
28 of the "Administrative Procedure Act," P.L.1968, c.410 (C.52:14B-
29 1 et seq.) as may be appropriate to carry out the purposes of this act,
30 including any regulations that may conform to those regulations
31 promulgated by the Secretary of the Treasury under section 1202(k)
32 of the Internal Revenue Code (26 U.S.C. s.1202(k)) that shall apply
33 to the extent that those regulations do not conflict with this act, and
34 such further regulation that shall include but be not limited to
35 regulations to prevent the avoidance of the purposes of this act
36 through splitups, shell corporations, partnerships, or otherwise.

37

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

40

41

42

STATEMENT

43

44 This bill allows a taxpayer to claim a deduction from New Jersey
45 gross income for the capital gains earned from the sale or exchange of
46 qualified small business stock (QSBS) held for more than five years.
47 The maximum deduction allowable under the bill depends on the
48 percentage of the qualified small business' payroll, as measured by

1 total dollar value, which is attributable to employment located within
2 the State.

3 Specifically, if a taxpayer has capital gains for the taxable year
4 from one or more dispositions of QSBS, the taxpayer would be
5 allowed to claim a deduction, as follows: (1) if the percentage of the
6 qualified small business's payroll attributable to in-State employees is
7 at least 80 percent, the maximum allowable deduction would be the
8 greater of \$10 million or 10 times the aggregate adjusted basis of the
9 QSBS; and (2) if the percentage of the qualified small business's
10 payroll attributable to in-State employees is less than 80 percent, the
11 maximum allowable deduction would be the greater of \$8 million or 8
12 times the aggregate adjusted basis of the QSBS. However, these
13 maximum allowable deduction amounts would be reduced by the
14 aggregate amount of eligible gain claimed by the taxpayer for any
15 prior taxable year and attributable to dispositions of stock issued by
16 the corporation.

17 The maximum deduction of \$10 million or 10 times the aggregate
18 adjusted basis of QSBS is modeled on the federal capital gains
19 exclusion allowed under section 1202 of the federal Internal Revenue
20 Code.

21 Under the bill, a QSBS is generally defined to include any stock
22 that is originally issued by a C corporation on or after January 1, 2015,
23 provided the corporation qualifies as a qualified small business as of
24 the date of issuance, and the stock was acquired by the taxpayer at its
25 original issue, not a secondary market. The bill also requires the
26 QSBS to have been acquired in exchange for money or property, or as
27 compensation for services provided to the corporation.

28 For an individual taxpayer to qualify for the special capital gains
29 treatment under the bill, the taxpayer is required to have held the
30 QSBS for at least five years. Specifically, the stock is required to be in
31 a qualified small business that is a domestic C corporation, and
32 remains a C corporation during substantially all of the time the
33 individual holds the stock, and which meets all of the following
34 criteria: (1) the aggregate gross assets of the corporation do not exceed
35 \$50 million, both at all times after the effective date of the bill and
36 before the issuance of the stock; (2) the aggregate gross assets of the
37 corporation do not exceed \$50 million as of the date the stock was
38 issued and immediately thereafter; and (3) the corporation has fewer
39 than 225 employees.

40 Additionally, during substantially all of the time the stock is held,
41 at least 80 percent of the value of the corporation's assets is required to
42 be used in the active conduct of one or more qualified businesses. As
43 under section 1202 of the federal Internal Revenue Code, the bill
44 provides that a gross income tax deduction may not be claimed for a
45 capital gain realized from the sale or exchange of a QSBS in a
46 business that is: a service business in the fields of health, law,
47 engineering, architecture, accounting, actuarial science, performing
48 arts, consulting, athletics, financial services, or brokerage services; a

1 banking, insurance, financing, leasing, investing, or similar business; a
2 farming business; a business of operating a hotel, motel, restaurant, or
3 similar business.

4 If the individual taxpayer holds qualifying stock for at least five
5 years, then the taxpayer would be able to exclude the capital gains
6 made on the disposition of the stock, and thus pay no gross income on
7 the capital gains. The special exclusion of capital gains for qualified
8 stock that is held by “pass through entities,” including a partnership,
9 an “S” corporation, a regulated investment company, or a common
10 trust fund, that otherwise meet the requirements of this bill, is
11 available to the individual gross income taxpayers who hold interests
12 in those pass-through entities.

SENATE COMMITTEE SUBSTITUTE FOR
SENATE, No. 4503

STATE OF NEW JERSEY
221st LEGISLATURE

ADOPTED JUNE 26, 2025

Sponsored by:

Senator PAUL A. SARLO
District 36 (Bergen and Passaic)
Senator RAJ MUKHERJI
District 32 (Hudson)

Co-Sponsored by:

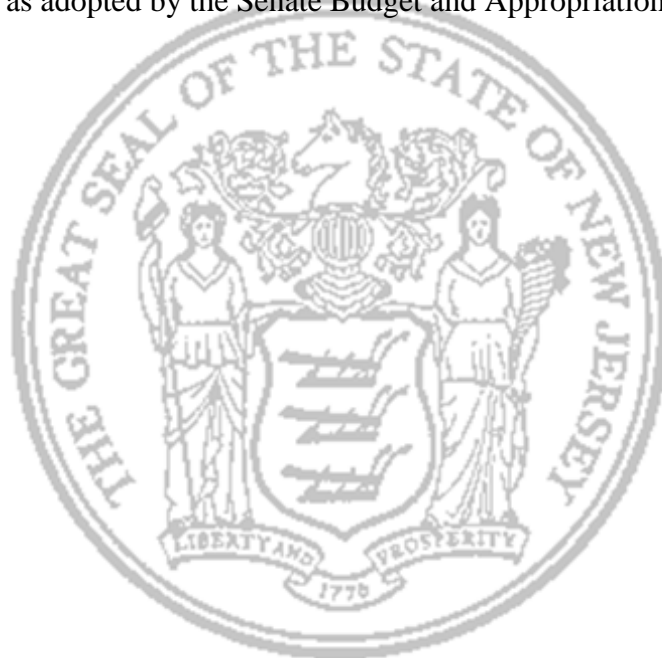
Senator Space

SYNOPSIS

Allows exemption from New Jersey gross income of certain capital gains from sale or exchange of qualified small business stock.

CURRENT VERSION OF TEXT

Substitute as adopted by the Senate Budget and Appropriations Committee.



1 AN ACT allowing an exemption from New Jersey gross income of
2 certain capital gains from the sale or exchange of qualified small
3 business stock and supplementing Title 54A of the New Jersey
4 Statutes.

5

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

8

9 1. Notwithstanding any law or regulation to the contrary, gross
10 income shall not include net gains or income derived from the sale,
11 exchange, or other disposition of qualified small business stock to
12 the extent such gains or income are exempt from federal taxation
13 pursuant to section 1202 of the federal Internal Revenue Code of
14 1986 (26 U.S.C. s.1202).

15

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

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE COMMITTEE SUBSTITUTE FOR **SENATE, No. 4503**

STATE OF NEW JERSEY

DATED: JUNE 26, 2025

The Senate Budget and Appropriations Committee reports favorably a Senate Committee Substitute for Senate Bill No. 4503.

As reported, this committee substitute would allow an exemption from New Jersey gross income for the capital gains or income derived from the sale or exchange of qualified small business stock (QSBS) to the extent that such gains or income are exempt for the purposes of federal taxation pursuant to section 1202 of the federal Internal Revenue Code of 1986.

Under federal law, gains derived from the sale or exchange of QSBS that is held for more than five years are exempt from federal income taxation provided that the aggregate amount of such gain from dispositions of stock issued by such corporation which may be taken into account for the taxable year does not exceed the greater of either: (1) \$10 million reduced by the aggregate amount of eligible gain taken into account by the taxpayer in prior taxable years; or (2) 10 times the aggregate adjusted basis of QSBS issued by such a corporation and disposed of by the taxpayer during the taxable year.

FISCAL IMPACT:

Fiscal information for this bill is currently unavailable.

LEGISLATIVE FISCAL ESTIMATE
SENATE COMMITTEE SUBSTITUTE FOR
SENATE, No. 4503
STATE OF NEW JERSEY
221st LEGISLATURE

DATED: JULY 3, 2025

SUMMARY

- Synopsis:** Allows exemption from New Jersey gross income of certain capital gains from sale or exchange of qualified small business stock.
- Type of Impact:** Annual State revenue loss to the Property Tax Relief Fund.
- Agencies Affected:** Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2027 & Annually Thereafter</u>
State Revenue Loss	\$10 million to \$12 million

- The Office of Legislative Services (OLS) projects that the bill will result in a loss of State gross income tax revenues of approximately \$10 million to \$12 million annually. This estimate assumes that the bill will be enacted in calendar year 2025.
- There are no precise data regarding the utilization of the federal qualified small business stock deduction by taxpayers in different brackets. However, a report published by the U.S. Department of the Treasury indicates that almost 90 percent of all excluded qualified small business stock income was attributable to taxpayers with income of \$400,000 or more.
- The OLS assumes that the taxpayers most likely to exclude income from the sale or exchange of qualified small business stock have a gross income of \$500,000 or more. Accordingly, the OLS estimates that income from the sale or exchange of qualified small business stock that would be excluded from taxation under the bill would be subject to a higher effective tax rates under current law.

BILL DESCRIPTION

The bill provides an exemption from New Jersey gross income for the capital gains derived from the sale or exchange of qualified small business stock to the extent that such gains are exempt

for the purposes of federal taxation pursuant to section 1202 of the federal Internal Revenue Code of 1986.

Under federal law, gains derived from the sale or exchange of qualified small business stock that is held for more than five years is exempt from federal income taxation provided that the aggregate amount of such gain from dispositions of stock issued by such corporation which may be taken into account for the taxable year does not exceed the greater of either: (1) \$10 million reduced by the aggregate amount of eligible gain taken into account by the taxpayer in prior taxable years; or (2) 10 times the aggregate adjusted basis of qualified small business stock issued by such a corporation and disposed of by the taxpayer during the taxable year.

The bill takes effect immediately and applies to taxable years beginning on or after the January 1 next following enactment.

FISCAL ANALYSIS

EXECUTIVE BRANCH

The Executive has not submitted a formal, written fiscal note on this bill. However, in the FY 2026 Budget in Brief, the Executive indicated that excluding certain capital gains from the sale or exchange of qualified small business stock would reduce State revenue collections by \$10.4 million annually, beginning in FY 2026. The Executive's estimate is based on information from the federal Statistics of Income prepared by the Internal Revenue Service (IRS) and federal tax expenditure prepared by the U.S. Department of the Treasury. The Executive's estimate is also based on a Statewide effective gross income tax rate of 3.2 percent for all taxpayers in tax year 2018.

OFFICE OF LEGISLATIVE SERVICES

The OLS generally concurs with the Executive that the bill will result in an annual State revenue loss. However, the OLS estimates that the bill will result in State revenue loss of approximately \$10 million to \$12 million annually, beginning in FY 2027. The OLS concludes that the taxpayers most likely to exclude gains from the sale of qualified small business stock will have higher New Jersey gross income and that the income from the sale or qualified small business stock would be subject to higher gross income tax rates under current law.

Assuming this bill is enacted in calendar year 2025, there will be no revenue loss prior to FY 2027 because the bill allows taxpayers to exclude from New Jersey gross income gains from the sale of qualified small business stock beginning or after the January 1 next following enactment. If the bill enacted in calendar year 2025, the exclusion will first apply in calendar year 2026. Calendar year 2026 tax returns, in turn, will be due in April of 2027, or in FY 2027.

There is no precise information regarding the utilization of the federal qualified small business stock deduction among taxpayers within different income brackets. However, in a working paper issued in January 2025, the Office of Tax Analysis in the U.S. Department of the Treasury indicated that although taxpayers account with income of \$400,000 or more account for 45 percent of qualified small business stock deduction claims, almost 90 percent of all excluded qualified small business stock income was attributable to taxpayers with income of \$400,000 or more. The IRS Statistics of Income for tax years 2018 through 2022 also indicate that 70 to 80 percent of net income from capital gains is reported by taxpayers with adjusted federal gross income of \$500,000 or more.

The U.S. Department of the Treasury estimated in March 2024 that the federal exclusion from taxable income of gains from qualified small business stock dispositions would reduce federal FY 2024 revenue collections by \$1.93 billion. Using the IRS data, the OLS estimates that 2.73 percent of reported net income from capital gains for federal tax purposes in tax year 2021. Applying that proportion to the \$1.93 billion federal tax expenditure yields an estimated \$52.6 million in income from the sale or exchange qualified small business stock attributable to New Jersey taxpayers. Assuming that taxpayers most likely to exclude gains from the sale of qualified small business stock are taxpayers with gross income of \$500,000 or more, the OLS calculated estimated effective State and federal income tax rates. To account for differences in State and federal taxation, the OLS proportionalized the estimated effective tax rate for New Jersey to the estimated effective federal tax rate. The proportionalized rate was then applied to New Jersey's estimate share of the federal qualified small business stock tax expenditure to arrive at a projected State revenue loss of \$10 million to \$12 million.

Section: Revenue, Finance and Appropriations
Analyst: Scott A. Brodsky
Staff Fiscal and Budget Analyst
Approved: Thomas Koenig
Legislative Budget and Finance Officer

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).

Bills Gov Acted On

Posted on - 06/30/2025

The Governor has acted on the following bills:

BILL SIGNINGS:

S-4620/A-5879 (McKnight, Mukherji/McCann Stamato) - Amends Fiscal Year 2025 annual appropriations act to assign distribution of Old Courthouse asbestos remediation funding from Hudson County to Jersey City

S-2788wGR/A-4569 (Cruz-Perez, Turner/Freiman, Katz, Simmons) - Appropriates \$128.241 million from constitutionally dedicated CBT revenues to State Agriculture Development Committee for farmland preservation purposes

A-5100/S-3991 (Rodriguez/Stack) - Re-appropriates unexpended balance of FY 2024 appropriation for Town of West New York to support recreation center; appropriates \$3 million for Town of West New York – Recreation Center to restore lapsed FY 2024 funding

A-5807/S-4655 (Pintor Marin/Sarlo) - Makes FY2025 supplemental appropriations of \$142,615,000; adds various language provisions to FY2025 Appropriations Act

A-5803/SCS for S-3064 (Bagolie/McKeon, Turner) - Modifies tax on certain forms of online gaming and wagering

ACS for A-4455/SCS for S-4503 (Freiman, Schaer, Karabinchak /Sarlo, Mukherji) - Allows exemption from New Jersey gross income of certain capital gains from sale or exchange of qualified small business stock

A-5805/SCS for S-4659 and 4661 (Venezia/Sarlo, Vitale) - Modifies tax rate on certain nicotine products

A-5804/S-4666 (Reynolds-Jackson/Wimberly) - Modifies payer of additional fees and taxes imposed on certain real property transfers; modifies fees and taxes imposed on property transfers valued over \$2 million

A-5809/S-4656 (Murphy/Vitale) - "Healthcare Finance Enhancement Act"

S-3189/A-2365 (Zwicker, Sarlo/Tully, Murphy, DePhillips) - Makes various changes to “New Jersey Angel Investor Tax Credit Act” and Technology Business Tax Certificate Transfer Program; repeals “New Jersey Ignite Act”

S-4654/A-5878 (Scutari, A.M. Bucco/Schnall, Inganamort) - Provides for publication of required legal notices on government Internet websites and through certain online news publications

A-5801/S-4692 (Freiman/Sarlo) - Appropriates \$247,128,000 from “New Jersey Debt Defeasance and Prevention Fund”; establishes process for authorizing future appropriations for debt defeasance and capital projects

(BUDGET BILL – w/Rev Cert. LIV, Summary)

BILL VETOED:

[S-2026/A-5800](#) (Sarlo/Pintor Marin, Park) – w/LINE ITEM Appropriates \$58,782,119,000 in State funds and \$31,007,261,743 in federal funds for the State budget for fiscal year 2026

BILL SIGNINGS:

A-5810/S-4660 (Pintor Marin, Dolon, Bagolie/McKeon, McKnight) - Promotes equity in health insurance appeal process

S-4632/A-5812 (Scutari, Ruiz/Schaer) - Establishes grant program in DOE for public schools to purchase and install point-of-use filtered bottle-filling stations and filtered faucets

S-3618/A-4926 (Smith, Greenstein/Calabrese, Tully, Haider) - Directs DEP and DOT to establish “Wildlife Corridor Action Plan”

S-3933/A-5075 (Ruiz, McKnight/Swain, Morales, Bagolie) - Establishes School Supervisor Mentorship Pilot Program; appropriates \$500,000

A-5077/S-4375 (Morales, Bagolie, Carter/Ruiz, Zwicker) - Extends statutory pause on collection of student growth objective data

A-5795/S-4619 (Pintor Marin, Freiman, Drulis/Zwicker) - Modifies certain provisions of "New Jersey Innovation Evergreen Act"

S-4618/A-5827 (Mukherji, Gopal/Pintor Marin, Peterpaul, Donlon) - Modifies certain requirements and award availability under film and digital media content production tax credit program

S-4122/A-5257 (Burzichelli/Stanley, Egan) - Revises apportionment of State lottery contributions

Governor Murphy Signs Package of Bills to Support Innovative Businesses in New Jersey

Posted on - 06/30/2025

TRENTON – Governor Murphy today signed a three-bill package to help support New Jersey’s thriving innovation ecosystem by enabling entrepreneurs to start and grow their businesses in the Garden State.

“Over the course of our administration, we have firmly established New Jersey as a global leader in technology and innovation. Aided by strategic investments to provide our entrepreneurs with the tools and resources necessary to drive their businesses forward, New Jersey has become the destination to both start and scale a business,” **said Governor Murphy**. “Today’s bill signing underscores our commitment to aspiring entrepreneurs and innovative companies while driving our state’s economy forward.”

“Governor Murphy and the New Jersey Legislature have consistently recognized the vital role entrepreneurs play in New Jersey’s economy and remain committed to providing them with the resources needed to build and grow successful businesses,” **said NJEDA Chief Executive Officer Tim Sullivan**. “The New Jersey Innovation Evergreen Fund and Angel Tax Credit programs have become key NJEDA tools to help bolster early-stage innovation companies, resulting in greater investment into the life sciences, technology, and clean energy sectors. The package of bills signed today will increase participation into the programs, unlock capital for entrepreneurs, and spur greater venture investment. Additionally, the QSBS bill perfectly complements the suite of innovation programs built under the Murphy Administration and will encourage entrepreneurs to continue building new businesses in New Jersey. Together, these bills will support new cutting-edge businesses, job creation, and a stronger innovation economy.”

The three bills signed today include:

- [A5795/S4619](#), which modifies the New Jersey Innovation Evergreen Act to increase the maximum amount of the qualified investment. The bill would also allow for a “qualified investment” to be a venture firm’s second or later investment into a business if it is larger than the first investment or occurs at a higher valuation than the first investment. It also allows the Economic Development Authority to conduct additional tax credit auctions through the program.
- [A2365/S3189](#), which increases the amount of the tax credit provided under the New Jersey Angel Investor Tax Credit Act. The bill allows the Economic Development Authority to utilize unused credits from the annual allocation from the Technology Business Tax Certificate Transfer Program to support the award of tax credits under the “New Jersey Angel Investor Tax Credit Act.” It also revises the definitions of “New Jersey based business” and “New Jersey emerging technology business” to lower the maximum number of employees that a business may employ to qualify for the tax credit.
- [A4455/S4503](#), which allows exemption from New Jersey gross income of certain capital gains from sale or exchange of qualified small business stock (QSBS) after December 31, 2025.

“These bills will support emerging businesses, attract private investment, and ensure that our economy benefits from the incredible talent and research institutions already based in our state,” **said Senator Andrew Zwicker**. “By supporting fledgling startups and women and minority-owned businesses through the use of tax credits and public matching funds, we will ensure they can grow and thrive in New Jersey. These changes will allow entrepreneurs to continue to innovate the next breakthrough technologies in our state, creating high-quality jobs and positioning New Jersey as the best place to start a business.”

“We aspire to make New Jersey the best State for people to start a business, especially in emerging technology industries. This legislation is the next step in making that aspiration a reality,” **said Senator Paul Sarlo**. “Raising the Angel Investor Tax Credit will exponentially increase the investment that we see in start-ups across our State, helping small businesses to grow and create the breakthrough technologies of tomorrow.”

“By joining the other 45 states that recognize QSBS, New Jersey is sending a clear signal that we welcome innovation and are committed to fostering long-term investment in our small and emerging businesses. We’re giving entrepreneurs, investors, and job creators a powerful reason to build and stay in the Garden State,” **said Senator Raj Mukherji**. “This law is a smart, strategic incentive that will remove a competitive disadvantage and drive economic growth, especially for startups.”

“This bill aims to revise the New Jersey Innovation Evergreen Fund policies, further strengthening the State’s ability to invest in promising startups, encouraging their growth, and creating a stronger incentive for others to build their business right here in New Jersey,” **said Assemblywoman Eliana Pintor Marin**. “By expanding both the scope of potential investments as well as the amount we can invest, we are telling these innovative businesses that they have our support.”

“New Jersey’s innovation industry drives our economy, creates good-paying jobs, and delivers revolutionary breakthroughs that impact the entire world,” **said Assemblyman Chris Tully, Chair of the Assembly Science, Innovation and Technology Committee**. “Through A2365, we’re encouraging early-stage investment in New Jersey companies by increasing the tax credits available to eligible investors.

“Young companies rely on angel funding to grow their businesses and entrepreneurs have repeatedly hailed the Angel Investor Tax Credit Program as an important tool in attracting investments,” **said Assemblywoman Carol Murphy**. “By increasing the amount that a taxpayer can receive for their investments into a New Jersey-based company through this program, we’re reaffirming our commitment to the state’s innovation sector and to small businesses throughout the Garden State.”

“The goal here is to further incentivize investment in New Jersey’s early stage startups, not just to grow the technology industry, but to support jobs and stimulate the economy. This legislation signals to the industry that New Jersey can not only compete nationally, but globally in the innovation economy,” **said Assemblyman Christopher P. DePhillips**.

“New Jersey has always been a place where businesses and startups can grow, but to stay competitive, we need to keep supporting investment in our small and mid-sized businesses,” **said Assemblyman Roy Freiman**. “This legislation is an essential step in protecting the backbone of our economy and ensuring the tools to thrive are not only available, but accessible to those that need them most.”

“By making it easier to attract capital, we can help grow local businesses and build a more inclusive economy that benefits everyone,” **said Assemblyman Gary Schaer**. “Through this legislation we remove one of the barriers that has unfortunately made New Jersey less competitive for investors. By aligning ourselves with the federal

standard, we're giving small businesses a better shot at success and strengthening the communities they support."

"Through this bill we send a clear message to the rest of the country that New Jersey is ready to support innovation, economic growth, and the job growth that follows," **said Assemblyman Robert Karabinchak**. "By encouraging long-term investment in local companies, we're giving these businesses the tools they need to thrive and ensuring that the next generation of talent and innovation happens right here in New Jersey."

"Coinciding with the State budget, BioNJ commends the Governor and Legislature for passing several pieces of legislation that will enhance New Jersey's competitiveness and foster innovation-driven growth. The expansion of the Angel Investor Tax Credit program, along with novel policies to incentivize the development of manufacturing in New Jersey – including the Next New Jersey Manufacturing Program and New Jersey Innovation Evergreen Act – are prudent measures to support continued growth of our life sciences sector," **said Debbie Hart, President and CEO of BioNJ**. "We appreciate the receptivity that the Governor and Legislature both demonstrated regarding opportunities for the State to sustain our reputation as being the Medicine Chest of the World. BioNJ remains committed to working alongside policymakers to advance innovation in New Jersey, Because Patients Can't Wait®."

"The Innovation Evergreen Fund and the Angel Tax Credit were great programs to support the entrepreneurial ecosystem in New Jersey, and I am very glad that the Governor has taken to heart suggestions that will make them even better," **said Stephen Socolof, Managing Partner, Tech Council Ventures**. "QSBS also aligns New Jersey with many other states as well as federal tax incentives for long-term business investment. Thanks to the Governor for making these changes."

Governor Murphy Signs Fiscal Year 2026 Budget into Law

Posted on - 06/30/2025

Budget Builds on Governor Murphy's Historic Record of Fiscal Responsibility – With a \$6.7 Billion Surplus to Help Weather Future Financial Challenges Compared to Just \$409 Million Surplus Inherited in 2018

Budget Provides An All-Time High Level of Property Tax Relief, the Highest Level of School Funding in History, and a Fifth Consecutive Full Pension Payment

Budget Makes Historic Investments in Women's Health Care and Provides Funding to Fully Modernize NJ TRANSIT's Fleet

TRENTON – Governor Phil Murphy today signed into law the Fiscal Year 2026 Appropriations Act, marking a culmination of the Murphy Administration's longstanding commitment to fiscal responsibility, affordability, and opportunity. Over nine budgets spanning nearly eight years in office, Governor Murphy has presided over sustained economic growth while making long overdue investments in addressing the needs of working New Jerseyans, from property tax relief, to school funding, to restoring funding for the State's pension systems.

The \$58.78 billion Fiscal Year 2026 (FY2026) budget, which was passed by the Legislature earlier today, redirects over 75 percent of the total budget back into our communities in the form of grants-in-aid for property tax relief, social services, higher education, as well as State aid to schools, municipalities, and counties. The budget includes an all-time high level of direct property tax relief for homeowners and renters, yields the highest level of school funding in history, and delivers a fifth consecutive full pension payment. It also prioritizes quality health services for women and families, and it invests in beginning to fully modernize NJ TRANSIT's fleet.

Upon taking office, Governor Murphy inherited a \$409 million surplus from his predecessor. Eight years later, the Governor will leave his successor with a surplus 16 times greater than that amount—\$6.7 billion.

"This budget exemplifies our dedication to fiscal responsibility, affordability, and opportunity for all New Jerseyans," **said Governor Murphy**. "Over nearly eight years in office, we have maintained a steadfast commitment to building a stronger and fairer New Jersey and righting our fiscal ship. I'm proud that this budget caps off an eight-year journey to turn our state around and delivers greater economic security and opportunity to every family. With the help of our legislative partners, we are moving New Jersey toward a brighter future for every child, student, worker, parent, and senior citizen who calls our great state home."

"The budget upholds our administration's promise to make sure that New Jersey remains the best state in the nation to live, work, raise a family, and retire," **said Lieutenant Governor Tahesha Way**. "Over the past seven and a half years, we have made historic strides in making our state more affordable for hardworking residents and families through expanded tax relief and major investments in affordable housing, social services, and

education. This state budget is a direct result of the strong collaboration between Governor Murphy, Treasurer Muoio, and legislative leadership.”

“This budget is the culmination of a nearly eight-year effort to improve conditions for all New Jerseyans, building a fiscally stronger state that is more affordable for all,” **said State Treasurer Elizabeth Maher Muoio.** “As always, this budget could not have been completed without the hard work of my staff at the Department of the Treasury and particularly the folks at the Office of Management and Budget and the Office of Revenue and Economic Analysis. I want to thank all of them for their tireless work, dedication, and exemplary professionalism over the past seven and a half years.”

“This is a fiscally responsible budget that puts New Jersey families first. At a time when working people are being left behind by misguided decisions in Washington, we’re making smart, strategic investments that deliver meaningful support, especially through historic property tax reductions, strong funding for public education, higher education, healthcare, transit, and a full pension payment,” **said Senate President Nick Scutari, Senate Majority Leader M. Teresa Ruiz and Senator Paul Sarlo, Chair of the Senate Budget Committee.** “We’re grateful to Governor Murphy and our colleagues in the Legislature for coming together to enact a disciplined, forward-looking budget that safeguards essential services, expands opportunity, and reinforces New Jersey’s long-term fiscal strength.”

Fiscal Responsibility

The budget once again provides a full payment to the pension systems. This year’s \$7.2 billion payment marks the fifth year in a row Governor Murphy has fully funded the systems. Total pension contributions by the Murphy Administration are on track to exceed \$47 billion – nearly four times the \$12.2 billion in total contributions of the previous six governors combined.

With an eye toward ensuring New Jersey remains prepared for the future, this budget provides a surplus of \$6.7 billion, more than ten times larger than the average surplus under the previous administration.

Additionally, the budget includes \$788 million in funding from the Corporate Transit Fee dedicated to support NJ TRANSIT and builds upon \$1.358 billion in interest saved by taxpayers over the last four years by paying down debt and minimizing new debt taken on.

The budget also includes several tax policy changes, including increases for the highest tier of realty transfer fees, sports betting, and cigarettes and vaping, as well as a new exemption for small business investment and reforms to the Angel Investor Tax Credit.

These changes, along with the cuts in appropriations, help ensure that revenues are more closely in line with expenditures.

Affordability and Economic Security

Continuing efforts to make New Jersey affordable for all, this budget includes nearly \$4.3 billion in direct property tax relief for New Jersey homeowners and renters, including \$2.4 billion for the continuation of the popular ANCHOR program, which last year delivered more than \$2.2 billion in property tax relief to nearly two million residents. The budget also continues the Senior Freeze program, with a \$239 million allocation to benefit more than 235,000 taxpayers.

The budget also includes additional funding for the landmark Stay NJ program, allocating \$600 million in

resources to significantly reduce property taxes for more than 432,000 senior homeowners. Stay NJ is expected to launch for the 2025 tax season and will reimburse eligible seniors for up to 50 percent of their property tax bills.

Continuing the focus on making the state more affordable for working and middle-class families, the budget maintains recent expansions of the Earned Income Tax Credit, the Child and Dependent Care Tax Credit, and the Child Tax Credit.

The tax relief included in this budget brings the total relief provided by the Murphy Administration and our partners in the Legislature to more than double any prior administration.

Continuing efforts to provide quality health services for all, a top priority of this administration, the budget includes \$165 million for the continuation of Cover All Kids; \$55.4 million for the Pharmaceutical Assistance to the Aged and Disabled (PAAD) and Senior Gold programs, helping more than 149,000 seniors and residents with disabilities; \$52 million for family planning services and reproductive health programs; and \$35.8 million for Family Connects NJ, which has provided nearly 2,500 free in-home nurse visits to families with newborns and is now available in 11 counties; and \$52 million for family planning services and reproductive health programs.

The proposal also includes \$10 million for a new initiative to provide State employees with full pay while they take family leave to care for a newborn, adopted, or fostered child.

Supporting the Next Generation of New Jerseyans

Last year, Governor Murphy became the first Governor to fully fund the K-12 school funding formula. This budget builds on that commitment, providing record-high school funding in FY2026. The budget includes a record \$12.1 billion for K-12 schools, a nearly \$4 billion increase since FY2018. This budget also addresses feedback from school districts by capping losses in major school aid categories and reducing input volatility, ensuring no district sees a steep reduction in aid from one year to the next. A district's K-12 State aid will not decrease by an amount greater than 3% of the prior year's State aid in the four primary categories: equalization, special education, security, and transportation.

The budget also proposes \$7.5 million in new grant funding to support districts in providing high-impact tutoring to students in need of extra academic support, as well as \$3 million in incentive grants for schools that want to go entirely phone-free, giving students the best opportunity to learn without distraction.

Continuing the push for universal pre-school throughout New Jersey, the FY2026 budget proposes \$1.27 billion for Preschool Education Aid. Since 2018, the Murphy Administration has expanded pre-K to 229 school districts and created nearly 20,000 new seats.

Building New Jersey's Future

In an effort to fortify our transportation infrastructure, this budget includes \$1.23 billion for critical investments in State and local highway and bridge projects, and another \$767 million for NJ TRANSIT to begin to fully modernize its fleet.

To ensure stability and future success for New Jersey's institutions of higher education, this budget provides \$755.2 million in institutional support for State colleges and universities, as well as \$169.1 million for county colleges and \$8.6 million for independent institutions of higher education in New Jersey. This totals \$932.9 million, a nearly 50% increase over the \$629.6 million in funding provided in FY2018.

The budget agreement also provides for \$250 million in bonding for capital grants to higher education institutions. This builds on the \$400 million in capital grants announced in 2023.

The budget also sets aside \$222 million from the Debt Defeasance and Prevention Fund for a critical investment in the construction of a new correctional facility to replace the Edna Mahan Correctional Facility for Women.

An additional one-page policy summary on the central commitments of the FY2026 budget can be found online [here](#).

Governor Murphy signed the Appropriations Act into law today:

S-2026/A-5800 (Sarlo/Pintor Marin, Park) – w/LINE ITEM Appropriates \$58,782,119,000 in State funds and \$31,007,261,743 in federal funds for the State budget for fiscal year 2026

[Line Item Veto Message](#)

[Line Item Veto Summary](#)

[Revenue Certification](#)

In addition to the Appropriations Act, Governor Murphy also signed the following bills into law today:

S-4620/A-5879 (McKnight, Mukherji/McCann Stamato) - Amends Fiscal Year 2025 annual appropriations act to assign distribution of Old Courthouse asbestos remediation funding from Hudson County to Jersey City

S-2788wGR/A-4569 (Cruz-Perez, Turner/Freiman, Katz, Simmons) - Appropriates \$128.241 million from constitutionally dedicated CBT revenues to State Agriculture Development Committee for farmland preservation purposes

A-5100/S-3991 (Rodriguez/Stack) - Re-appropriates unexpended balance of FY 2024 appropriation for Town of West New York to support recreation center; appropriates \$3 million for Town of West New York – Recreation Center to restore lapsed FY 2024 funding

A-5807/S-4655 (Pintor Marin/Sarlo) - Makes FY2025 supplemental appropriations of \$142,615,000; adds various language provisions to FY2025 Appropriations Act

A-5803/SCS for S-3064 (Bagolie/McKeon, Turner) - Modifies tax on certain forms of online gaming and wagering

ACS for A-4455/SCS for S-4503 (Freiman, Schaer, Karabinchak /Sarlo, Mukherji) - Allows exemption from New Jersey gross income of certain capital gains from sale or exchange of qualified small business stock

A-5805/SCS for S-4659 and 4661 (Venezia/Sarlo, Vitale) - Modifies tax rate on certain nicotine products

A-5804/S-4666 (Reynolds-Jackson/Wimberly) - Modifies payer of additional fees and taxes imposed on certain real property transfers; modifies fees and taxes imposed on property transfers valued over \$2 million

A-5809/S-4656 (Murphy/Vitale) - "Healthcare Finance Enhancement Act

S-3189/A-2365 (Zwicker, Sarlo/Tully, Murphy, DePhillips) - Makes various changes to "New Jersey Angel Investor Tax Credit Act" and Technology Business Tax Certificate Transfer Program; repeals "New Jersey Ignite Act"

S-4654/A-5878 (Scutari, A.M. Bucco/Schnall, Inganamort) - Provides for publication of required legal notices on government Internet websites and through certain online news publications

A-5801/S-4692 (Freiman/Sarlo) - Appropriates \$247,128,000 from "New Jersey Debt Defeasance and Prevention Fund"; establishes process for authorizing future appropriations for debt defeasance and capital projects

A-5810/S-4660 (Pintor Marin, Dolon, Bagolie/McKeon, McKnight) - Promotes equity in health insurance appeal process

S-4632/A-5812 (Scutari, Ruiz/Schaer) - Establishes grant program in DOE for public schools to purchase and install point-of-use filtered bottle-filling stations and filtered faucets

S-3618/A-4926 (Smith, Greenstein/Calabrese, Tully, Haider) - Directs DEP and DOT to establish "Wildlife Corridor Action Plan"

S-3933/A-5075 (Ruiz, McKnight/Swain, Morales, Bagolie) - Establishes School Supervisor Mentorship Pilot Program; appropriates \$500,000

A-5077/S-4375 (Morales, Bagolie, Carter/Ruiz, Zwicker) - Extends statutory pause on collection of student growth objective data

A-5795/S-4619 (Pintor Marin, Freiman, Drulis/Zwicker) - Modifies certain provisions of "New Jersey Innovation Evergreen Act"

S-4618/A-5827 (Mukherji, Gopal/Pintor Marin, Peterpaul, Donlon) - Modifies certain requirements and award availability under film and digital media content production tax credit program

S-4122/A-5257 (Burzichelli/Stanley, Egan) - Revises apportionment of State lottery contributions