LEGISLATIVE HISTORY CHECKLIST

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LAWS OF: 1998

CHAPTER:57

NJSA:54A:5-1 et al
"Gross Income Tax -- Roth IRA's"

BILL NO: S840 (Substituted for A1660)

SPONSOR(S): Connors and Kenny

DATE INTRODUCED: March 2, 1998

COMMITTEE:
ASSEMBLY: Appropriations
*SENATE:*Budget and Appropriations

AMENDED DURING PASSAGE: No

DATE OF PASSAGE:
ASSEMBLY: May 28, 1998
SENATE: March 30, 1998

DATE OF APPROVAL: July 24, 1998

THE FOLLOWING ARE ATTACHED IF AVAILABLE:

FINAL TEXT OF BILL: Original(Corrected Copy)
(Amendments during passage denoted by superscript numbers)

S840

SPONSORS STATEMENT: *Yes* (Begins on page 7 of original bill)

COMMITTEE STATEMENT:
ASSEMBLY:*Yes*
SENATE: *Yes*

FLOOR AMENDMENT STATEMENTS: *No*

LEGISLATIVE FISCAL ESTIMATE: *Yes*

A1660

SPONSORS STATEMENT: *Yes* (Begins on page 7 of original bill)
(Bill and Sponsors Statement identical to S840)

COMMITTEE STATEMENT:
  ASSEMBLY: *Yes* (Identical to Senate Statement for S840)
  SENATE: *No*

FLOOR AMENDMENT STATEMENTS: *No*

LEGISLATIVE FISCAL ESTIMATE: *Yes*
(Identical to Legislative Fiscal Estimate for S840)

VETO MESSAGE: *No*

GOVERNOR'S PRESS RELEASE ON SIGNING: *Yes*

THE FOLLOWING WERE PRINTED:
To check for circulating copies contact New Jersey State Government Publications at the State Library
(609) 278-2640 ext. 102 or refdesk@njstatelib.org

REPORTS: *No*

HEARINGS: *No*

NEWSPAPER ARTICLES: *No*

[Corrected Copy]

SENATE, No. 840

STATE OF NEW JERSEY

208th LEGISLATURE

INTRODUCED MARCH 2, 1998

Sponsored by:
Senator LEONARD T. CONNORS, JR.
District 9 (Atlantic, Burlington and Ocean)
Senator BERNARD F. KENNY
District 33 (Hudson)

Co-Sponsored by:
Senators Ciesla, Palaia, Cafiero, Bassano, Robertson, Kavanaugh, Kosco, Schluter, Singer, Allen, Inverso, Matheussen, McNamara, O'Connor, Girgenti, Adler, Codey, Turner, Vitale, Furnari, Assemblywoman Quigley, Assemblymen Kelly, Caraballo, Garcia, Assemblywoman Pou, Assemblyman Romano, Assemblywoman Weinberg, Assemblymen Charles, Gusciora, Assemblywoman Watson Coleman, Assemblymen Greenwald, Biondi, Blee, T.Smith, Malone, Cottrell, Gibson, Assemblywoman Crecco, Assemblymen Azzolina, Zisa, Wisniewski, Doria, Payne, Stanley, Assemblywomen Gill, Friscia, Assemblymen Roberts, Bateman, Felice, LeFevre, Merkt, Wolfe, Assemblywoman Farragher, Assemblymen Luongo, Gregg, Carroll, Talarico, Zecker Barnes and Assemblywoman Buono

SYNOPSIS

Provides gross income tax exclusions for certain savings in Roth IRA's.

CURRENT VERSION OF TEXT

As introduced.

(Sponsorship Updated As Of: 5/29/1998)

AN ACT providing gross income tax exclusions for certain savings in Roth IRA's, amending N.J.S.54A:5-1 and supplementing Title 54A of the New Jersey Statutes.

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

1. N.J.S.54A:5-1 is amended to read as follows:

54A:5-1. New Jersey Gross Income Defined. New Jersey gross income shall consist of the following categories of income:

a. Salaries, wages, tips, fees, commissions, bonuses, and other remuneration received for services rendered whether in cash or in property.

b. Net profits from business. The net income from the operation of a business, profession or other activity after provision for all costs and expenses incurred in the conduct thereof, determined either on a cash or accrual basis in accordance with the method of accounting allowed for federal income tax purposes but without deduction of the amount of:

(1) taxes based on income;

(2) a civil, civil administrative, or criminal penalty or fine, including a penalty or fine under an administrative consent order, assessed and collected for a violation of a State or federal environmental law, an administrative consent order, or an environmental ordinance or resolution of a local governmental entity, and any interest earned on the penalty or fine, and any economic benefits having accrued to the violator as a result of a violation, which benefits are assessed and recovered in a civil, civil administrative, or criminal action, or pursuant to an administrative consent order. The provisions of this paragraph shall not apply to a penalty or fine assessed or collected for a violation of a State or federal environmental law, or local environmental ordinance or resolution, if the penalty or fine was for a violation that resulted from fire, riot, sabotage, flood, storm event, natural cause, or other act of God beyond the reasonable control of the violator, or caused by an act or omission of a person who was outside the reasonable control of the violator; and

(3) treble damages paid to the Department of Environmental Protection and Energy pursuant to subsection a. of section 7 of P.L.1976, c.141 (C.58:10-23.11f) for costs incurred by the department in removing, or arranging for the removal of, an unauthorized discharge upon the failure of the discharger to comply with a directive from the department to remove, or arrange for the removal of, a discharge.

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 <u>thus</u> is new matter.

c. Net gains or income from disposition of property. Net gains or net income, less net losses, derived from the sale, exchange or other disposition of property, including real or personal, whether tangible or intangible as determined in accordance with the method of accounting allowed for federal income tax purposes. For the purpose of determining gain or loss, the basis of property shall be the adjusted basis used for federal income tax purposes, except as expressly provided for under this act, but without a deduction for penalties, fines, or economic benefits excepted pursuant to paragraph (2), or for treble damages excepted pursuant to paragraph (3) of subsection b. of this section.

A taxpayer's net gain or loss on the sale, exchange or other disposition of a share of an S corporation shall be calculated by increasing the adjusted basis of the share by an amount equal to the shareholder's net losses and deductions in respect of the share allowed and deducted from income for federal income tax purposes, not including any personal net operating loss deductions, to the extent that such net losses were not offset by the taxpayer's pro rata share of S corporation income otherwise subject to taxation pursuant to subsection p. of this section in respect of another S corporation, subject to rules of priority and assignment determined by the director.

For the tax year 1976, any taxpayer with a tax liability under this subsection, or under the "Tax on Capital Gains and Other Unearned Income Act," P.L.1975, c.172 (C.54:8B-1 et seq.), shall not be subject to payment of an amount greater than the amount he would have paid if either return had covered all capital transactions during the full tax year 1976; provided, however, that the rate which shall apply to any capital gain shall be that in effect on the date of the transaction. To the extent that any loss is used to offset any gain under P.L.1975, c.172, it shall not be used to offset any gain under the "New Jersey Gross Income Tax Act," N.J.S.54A:1-1 et seq.

The term "net gains or income" shall not include gains or income derived from obligations which are referred to in clause (1) or (2) of N.J.S.54A:6-14 of this act or from securities which evidence ownership in a qualified investment fund as defined in section 2 of P.L.1987, c.310 (C.54A:6-14.1). The term "net gains or net income" shall not include gains or income from transactions to the extent to which nonrecognition is allowed for federal income tax purposes. The term "sale, exchange or other disposition" shall not include the exchange of stock or securities in a corporation a party to a reorganization in pursuance of a plan of reorganization, solely for stock or securities in such corporation or in another corporation a party to the reorganization and the transfer of property to a corporation by one or more persons solely in exchange for stock or securities in such corporation if immediately after the exchange such person or persons are in control of the corporation. For purposes of this clause, stock or securities issued for services shall not be considered as issued in return for property.

For purposes of this clause, the term "reorganization" means--

(i) A statutory merger or consolidation;

(ii) The acquisition by one corporation, in exchange solely for all or part of its voting stock (or in exchange solely for all or a part of the voting stock of a corporation which is in control of the acquiring corporation) of stock of another corporation if, immediately after the acquisition, the acquiring corporation has control of such other corporation (whether or not such acquiring corporation had control immediately before the acquisition);

(iii) The acquisition by one corporation, in exchange solely for all or part of its voting stock (or in exchange solely for all or a part of the voting stock of a corporation which is in control of the acquiring corporation), of substantially all of the properties of another corporation, but in determining whether the exchange is solely for stock the assumption by the acquiring corporation of a liability of the other, or the fact that property acquired is subject to a liability, shall be disregarded;

(iv) A transfer by a corporation of all or a part of its assets to another corporation if immediately after the transfer the transferor, or one or more of its shareholders (including persons who were shareholders immediately before the transfer), or any combination thereof, is in control of the corporation to which the assets are transferred;

(v) A recapitalization;

(vi) A mere change in identity, form, or place of organization however effected; or

(vii) The acquisition by one corporation, in exchange for stock of a corporation (referred to in this subclause as "controlling corporation") which is in control of the acquiring corporation, of substantially all of the properties of another corporation which in the transaction is merged into the acquiring corporation shall not disqualify a transaction under subclause (i) if such transaction would have qualified under subclause (i) if the merger had been into the controlling corporation, and no stock of the acquiring corporation is used in the transaction;

(viii) A transaction otherwise qualifying under subclause (i) shall not be disqualified by reason of the fact that stock of a corporation (referred to in this subclause as the "controlling corporation") which before the merger was in control of the merged corporation is used in the transaction, if after the transaction, the corporation surviving the merger holds substantially all of its properties and of the properties of the merged corporation (other than stock of the controlling corporation distributed in the transaction); and in the transaction, former shareholders of the surviving corporation exchanged, for an amount of voting stock of the controlling corporation, an amount of stock in the surviving corporation which constitutes control of such corporation.

For purposes of this clause, the term "control" means the ownership of stock possessing at least 80% of the total combined voting power of all classes of stock entitled to vote and at least 80% of the total number of shares of all other classes of stock of the corporation.

For purposes of this clause, the term "a party to a reorganization" includes a corporation resulting from a reorganization, and both corporations, in the case of a reorganization resulting from the acquisition by one corporation of stock or properties of another. In the case of a reorganization qualifying under subclause (i) by reason of subclause (vii) the term "a party to a reorganization" includes the controlling corporation referred to in such subclause (vii).

Notwithstanding any provisions hereof, upon every such exchange or conversion, the taxpayer's basis for the stock or securities received shall be the same as the taxpayer's actual or attributed basis for the stock, securities or property surrendered in exchange therefor.

d. Net gains or net income derived from or in the form of rents, royalties, patents, and copyrights.

e. Interest, except interest referred to in clause (1) or (2) of N.J.S.54A:6-14, or distributions paid by a qualified investment fund as defined in section 2 of P.L.1987, c.310 (C.54A:6-14.1), to the extent provided in that section.

f. Dividends. "Dividends" means any distribution in cash or property made by a corporation, association or business trust that is not an S corporation, (1) out of accumulated earnings and profits, or (2) out of earnings and profits of the year in which such dividend is paid and any distribution in cash or property made by an S corporation, as specifically determined pursuant to section 16 of P.L.1993, c.173 (C.54A:5-14).

The term "dividends" shall not include distributions paid by a qualified investment fund as defined in section 2 of P.L.1987, c.310 (C.54A:6-14.1), to the extent provided in that section.

g. Gambling winnings.

h. Net gains or income derived through estates or trusts.

i. Income in respect of a decedent.

j. Amounts distributed or withdrawn from an employee trust attributable to contributions to the trust which were excluded from gross income under the provisions of chapter 6 of Title 54A of the New Jersey Statutes, amounts rolled over from an IRA, as defined pursuant to subsection (a) of section 408 of the federal Internal Revenue Code of 1986, 26 U.S.C. s.408, that is not a Roth IRA, as defined pursuant to subsection (b) of section 2 of P.L. ,c. (C.)(now pending before the Legislature as this bill) to an IRA that is a Roth IRA, and pensions and annuities except to the extent of exclusions in N.J.S.54A:6-10 hereunder, notwithstanding the provisions of N.J.S.18A:66-51, P.L.1973, c.140, s.41 (C.43:6A-41), P.L.1954, c.84, s.53 (C.43:15A-53), P.L.1944, c.255, s.17 (C.43:16A-17), P.L.1965, c.89, s.45 (C.53:5A-45), R.S.43:10-14, P.L.1943, c.160, s.22 (C.43:10-18.22), P.L.1948, c.310, s.22 (C.43:10-18.71), P.L.1954, c.218, s.32 (C.43:13-22.34), P.L.1964, c.275, s.11 (C.43:13-22.60), R.S.43:10-57, P.L.1938, c.330, s.13 (C.43:10-105), R.S.43:13-44, and P.L.1943, c.189, s.5 (C.43:13-37.5).

k. Distributive share of partnership income.

l. Amounts received as prizes and awards, except as provided in N.J.S.54A:6-8 and N.J.S.54A:6-11 hereunder.

m. Rental value of a residence furnished by an employer or a rental allowance paid by an employer to provide a home.

n. Alimony and separate maintenance payments to the extent that such payments are required to be made under a decree of divorce or separate maintenance but not including payments for support of minor children.

o. Income, gain or profit derived from acts or omissions defined as crimes or offenses under the laws of this State or any other jurisdiction.

p. Net pro rata share of S corporation income.

(cf: P.L.1993, c.173, s.9)

2. (New section) a. Gross income shall not include distributions from a Roth IRA that are qualified distributions or that are rolled over to a Roth IRA.

b. "Roth IRA" means an individual retirement plan, as defined pursuant to section 7701 of the federal Internal Revenue Code of 1986, 26 U.S.C. s.7701, that is designated in the manner prescribed by the federal Secretary of the Treasury pursuant to section 408A of the federal Internal Revenue Code of 1986, 26 U.S.C. s.408A, as a Roth IRA and is subject to the contribution limits of that section.

"Qualified distribution" means any payment or distribution:

(1) made on or after the date on which the individual attains age 591/2,

(2) made to a beneficiary (or to the estate of the individual) on or after the death of the individual,

(3) attributable to the individual's being disabled (within the meaning of paragraph (7) of subsection (m) of section 72 of the federal Internal Revenue Code of 1986, 26 U.S.C. s.72, or

(4) which is a qualified first time home buyer distribution as defined by, and subject to the limitations of, paragraph (2) of subsection (t) of section 72 of the federal Internal Revenue Code of 1986, 26 U.S.C. s.72;

provided, however, that a payment or distribution shall not be treated as a qualified distribution if it is made within the 5-taxable-year period beginning with the first taxable year for which the individual made a contribution to a Roth IRA (or such individual's spouse made a contribution to a Roth IRA) established for such individual, or in the case of a payment or distribution allocable to a qualified rollover contribution from an individual retirement plan other than a Roth IRA (or income allocable thereto), it is made within the 5-taxable year period beginning with the taxable year in which the rollover contribution was made.

3. (New section) Notwithstanding the provisions of N.J.S.54A:5-1 or any other law to the contrary, in the case of a distribution before January 1, 1999, any amount required to be included in gross income by reason of the amendments to subsection j. of N.J.S.54A:5-1 enacted pursuant to section 1 of P.L. , c. (now pending before the Legislature as this bill) shall be so included ratably over the 4-taxable year period beginning with the taxable year in which the payment or distribution is made.

4. This act shall take effect immediately and apply to taxable years beginning after December 31, 1997.

STATEMENT

This bill conforms the New Jersey gross income tax treatment of the new federally authorized Roth IRA's to the federal tax treatment of these accounts. The Roth IRA provides a tax-favored account from which savings can be withdrawn without tax after a reasonable holding period for retirement or certain other special purposes, including the purchase of a first home.

The federal " Taxpayer Relief Act of 1997" creates a "Roth IRA" individual savings plan that allow individuals to contribute up to $2,000 or the individual's compensation for the year (actually, up to $2,000 for each spouse for married taxpayers filing jointly). Federal law phases out the maximum annual contribution that can be made to a Roth IRA for single individuals with Federal adjusted gross income of between $95,000 and $110,000 and for joint filers with Federal adjusted gross income between $150,000 and $160,000 (married taxpayers filing separately may not make contributions). Unlike the old federal IRA's, contributions to a Roth IRA may be made even after the individual by whom the account is maintained has attained age 70-1/2. The bill adopts the same federal standards for New Jersey tax purposes.

Under the bill, qualified distributions from a Roth IRA are not includible in taxable New Jersey gross income. A qualified distribution is a distribution that

(1) is made after the 5-taxable year period beginning with the first taxable year in which the individual made a contribution to a Roth IRA, and

(2) which is

(a) made on or after the date on which the individual attains age 59-1/2,

(b) made to a beneficiary (or to the individual's estate) on or after the death of the individual,

(c) attributable to the individual's being disabled, or

(d) for up to $10,000 of first-time home buyer expenses.

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE, No. 840

STATE OF NEW JERSEY

DATED: MAY 4, 1998

The Assembly Appropriations Committee reports favorably Senate Bill No. 840.

Senate Bill No. 840 conforms the New Jersey gross income tax treatment of the new federally authorized Roth IRA's to the federal tax treatment of these accounts.

The traditional individual retirement account or individual retirement annuity ("IRA") permits a federal taxpayer to make tax deductible contributions to the account, with tax being imposed upon distributions from the account, generally after retirement. The Roth IRA, authorized by the federal "Taxpayer Relief Act of 1997", is the inverse of the traditional IRA: contributions are not deductible (i.e., they are made with after-tax income), but qualified distributions, including account earnings and capital gains, are not subject to federal taxation. With a Roth IRA, individuals may contribute up to $2,000 or the individual's compensation for the year (for married taxpayers filing jointly, each spouse can contribute up to $2,000 to a Roth IRA). Federal law phases out the maximum annual contribution that can be made to a Roth IRA for single individuals with federal adjusted gross income of between $95,000 and $110,000, for joint filers with federal adjusted gross income between $150,000 and $160,000, and for married filers filing separately between $0.00 and $15,000. Unlike the traditional IRA's, contributions to a Roth IRA may be made even after the individual by whom the account is maintained has attained age 70½.

Under the New Jersey gross income tax, contributions to a traditional IRA account are not deductible as they are under federal income tax; on the other hand, distributions from the account are taxable when distributed only to the extent that they consist of earnings and capital gains. Currently, New Jersey law treats Roth IRA accounts in the same manner. This bill would not change New Jersey's tax treatment of traditional IRA's, but would alter the treatment of Roth accounts. Under the bill, qualified distributions from a Roth IRA, including distributions derived from amounts rolled over into the account from a traditional IRA, would not be includible in taxable New Jersey gross income. A qualified distribution is a distribution that:

(1) is made after the five-taxable-year period beginning with the

first taxable year in which the individual made a contribution to a Roth IRA, and

(2) which is (a) made on or after the date on which the individual attains age 59½, (b) made to a beneficiary (or to the individual's estate) on or after the death of the individual, (c) attributable to the individual's being disabled, or (d) for up to $10,000 of first-time home buyer expenses.

These rules for deductibility of Roth distributions are the same as those that apply under the federal law.

The bill includes a provision that prevents a taxpayer from permanently sheltering from New Jersey tax any earnings accumulated in a traditional IRA account by exercising the option, allowed under federal law, of rolling over deposits in that account into a Roth IRA. Under this provision, amounts so rolled over would become subject to tax (with an exclusion allowed for the taxpayer's contribution to the account, as New Jersey taxed the income from which those contributions derived in the year in which the contributions were made). If the rollover occurs before January 1, 1999, inclusion of the taxable amount in gross income would occur ratably over the four-taxable-year period beginning with the year in which the rollover occurs.

FISCAL IMPACT:

The Office of Legislative Services (OLS) estimates that this bill may result in a minimal annual revenue increase in New Jersey gross income tax collections in the short run due to acceleration, as a result of traditional-to-Roth IRA rollovers, in the imposition of tax on the earnings portion of the rollover. The OLS estimates that in the long run, the legislation will result in an annual loss of gross income tax revenues, because qualified distributions of earnings from the new Roth IRA *will not be taxable* under this bill, whereas distributions of earnings from traditional IRA's *are taxable* under current New Jersey law. No State tax data currently exist that would allow for a calculation of the revenue impact, but the impact on State revenue collections should be small relative to the overall income tax. For example, the federal Joint Committee on Taxation estimated the federal revenue impact of the Roth IRA at less than one tenth of one percent of total federal income tax collections in fiscal year 1999. If that federal proportion were applied to New Jersey gross income tax collections, the amount of revenue reduction would be less than $6,000,000 annually.

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE, No. 840

STATE OF NEW JERSEY

DATED: MARCH 26, 1998

The Senate Budget and Appropriations Committee reports favorably Senate Bill No. 840.

Senate Bill No. 840 conforms the New Jersey gross income tax treatment of the new federally authorized Roth IRA's to the federal tax treatment of these accounts.

The traditional individual retirement account or individual retirement annuity ("IRA") permits a federal taxpayer to make tax deductible contributions to the account, with tax being imposed upon distributions from the account, generally after retirement. The Roth IRA, authorized by the federal "Taxpayer Relief Act of 1997", is the inverse of the traditional IRA: contributions are not deductible (i.e., they are made with after-tax income), but qualified distributions, including earnings and capital gains, are not subject to federal taxation. Under the Roth IRA, individuals may contribute up to $2,000 or the individual's compensation for the year, or up to $2,000 for each spouse for married taxpayers filing jointly. (Married taxpayers filing separately may not make contributions.) Federal law phases out the maximum annual contribution that can be made to a Roth IRA for single individuals with federal adjusted gross income of between $95,000 and $110,000 and for joint filers with federal adjusted gross income between $150,000 and $160,000. Unlike the traditional IRA's, contributions to a Roth IRA may be made even after the individual by whom the account is maintained has attained age 70½.

Under New Jersey's income tax, contributions to a traditional IRA account are not deductible as they are under federal income tax; on the other hand, distributions from the account are taxable only to the extent that they consist of earnings and capital gains. Currently, New Jersey law treats Roth IRA accounts in the same manner. This bill would not change New Jersey's tax treatment of traditional IRA's, but would alter the treatment of Roth accounts. Under the bill, qualified distributions from a Roth IRA, including distributions derived from amounts rolled over into the account from a traditional IRA, would not be includible in taxable New Jersey gross income. A qualified distribution is a distribution that:

(1) is made after the five-taxable-year period beginning with the first taxable year in which the individual made a contribution to a Roth IRA, and

(2) which is (a) made on or after the date on which the individual attains age 59½, (b) made to a beneficiary (or to the individual's estate) on or after the death of the individual, (c) attributable to the individual's being disabled, or (d) for up to $10,000 of first-time home buyer expenses.
These rules for deductibility of Roth distributions are the same as those that apply under the federal law.

The bill includes a provision that prevents a taxpayer from permanently sheltering from New Jersey tax any earnings accumulated in a traditional IRA account by exercising the option, allowed under federal law, of rolling over deposits in that account into a Roth IRA. Under this provision, amounts so rolled over would become subject to tax, with an exclusion allowed for the taxpayer's contribution to the account (since New Jersey taxed the income from which those contributions derived in the year in which the contributions were made). If the rollover occurs before January 1, 1999, inclusion of the taxable amount in gross income would occur ratably over the four-taxable-year period beginning with the year in which the rollover occurs.

FISCAL IMPACT:

The Office of Legislative Services (OLS) estimates that this bill may result in a minimal annual revenue increase in New Jersey gross income tax collections in the short run due to acceleration, as a result of traditional-to-Roth IRA rollovers, in the imposition of tax on the earnings portion of the rollover. The OLS estimates that in the long run, the legislation will result in an annual loss of gross income tax revenues, because qualified earnings from the new Roth IRA *will not be taxable* under this bill, whereas earnings from traditional IRA's *are taxable* under current New Jersey law. No State tax data currently exist that would allow for a calculation of the revenue impact, but the impact on State revenue collections should be small relative to the overall income tax. For example, the federal Joint Committee on Taxation estimated the federal revenue impact of the Roth IRA at less than one tenth of one percent of total federal income tax collections in fiscal year 1999. If the federal proportion were applied to New Jersey gross income tax collections, the amount would be less than $6,000,000 annually.

LEGISLATIVE FISCAL ESTIMATE

SENATE, No. 840

STATE OF NEW JERSEY

208th LEGISLATURE

DATED: APRIL 16, 1998

BILL SUMMARY

Senate Bill No. 840 of 1998 conforms the New Jersey gross income tax treatment of the new federally authorized Roth IRA's to the federal tax treatment of these accounts. The Roth IRA provides a tax-favored account from which savings can be withdrawn without tax after a specified holding period for retirement or certain other special purposes, including the purchase of a first home.

The federal " Taxpayer Relief Act of 1997" creates a "Roth IRA" individual savings plan. For federal tax purposes, Roth IRA's are the inverse of traditional IRA's, funded with taxable contributions, but qualified distributions are not subject to taxation. Traditional IRA's permit federal taxpayers to make tax deductible contributions, but distributions are taxable. However, in New Jersey, traditional IRA contributions and distributed earnings are both taxable

The bill adopts the same federal Roth IRA standards for New Jersey tax purposes. Under the bill, qualified distributions from a Roth IRA are not includible in taxable New Jersey gross income, and taxpayers may elect to roll over a traditional IRA into a Roth IRA. A qualified distribution is a distribution that:

(1) is made after the 5-taxable year period beginning with the first taxable year in which the individual made a contribution to a Roth IRA, and

(2) which is (a) made on or after the date on which the individual attains age 59-1/2, (b) made to a beneficiary (or to the individual's estate) on or after the death of the individual, (c) attributable to the individual's being disabled, or (d) for up to $10,000 of first-time home buyer expenses.

OFFICE OF LEGISLATIVE SERVICES COMMENTS

The Office of Legislative Services (OLS) estimates that this bill may result in a minimal annual revenue increase in New Jersey gross income tax collections in the short run, and will result in an annual loss of gross income tax revenues in the long run. No State tax data currently exist that would allow for a calculation of the revenue impact, but the impact on State revenue collections should be small relative to the overall income tax. For example, the federal Joint Committee on Taxation estimated the federal revenue impact of the Roth IRA at less than one tenth of one percent of total federal income tax collections in fiscal year 1999. If the federal proportion were applied to New Jersey gross income tax collections, the amount would be less than $6,000,000 annually.

Whether or not this bill is enacted, State tax revenues will increase in the short run because some taxpayers will roll over existing traditional IRA's into the new Roth IRA. Such a roll over would make certain IRA earnings, otherwise not taxable until some future year, taxable in the year of the roll over (or the four year phase in period allowed in the bill). The OLS assumes that most taxpayers who would benefit from rolling a current IRA into a Roth IRA will choose to do so based on the federal tax advantages. The federal tax benefits for reducing taxable income under current law are significantly higher than the potential State tax benefits for reducing taxable income under this bill, because federal marginal income tax rates are significantly higher than New Jersey's marginal income tax rates. The highest federal marginal rate is 39.6 percent, compared with 6.37 percent in New Jersey, and the lowest federal marginal rate is 15.0 percent, compared with 1.4 percent in New Jersey. Accordingly, the additional rollovers that would be encouraged by this bill are likely to be limited.

New Jersey, unlike the federal government, will not experience a short term tax revenue increase from taxpayers who choose Roth IRA's over traditional IRA's because, for State tax purposes, contributions to both types of IRA's are taxable. The federal government will receive a revenue increase because contributions to Roth IRA's are taxable while contributions to traditional IRA's are not.

In the long run, however, the OLS anticipates that taxable income and taxable revenues will decline due to this bill, because qualified earnings from the new Roth IRA *will not be taxable* under this bill, whereas earnings from traditional IRA's *are taxable* under current New Jersey law. Unfortunately, State gross income tax records do not provide the detailed data necessary to determine how much current income is invested in IRA's, nor how much future IRA earnings, which would have been taxable under traditional IRA's, will not be taxable because of a switch to Roth IRA's.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67.

ASSEMBLY, No. 1660

STATE OF NEW JERSEY

208th LEGISLATURE

INTRODUCED FEBRUARY 19, 1998

Sponsored by:
Assemblywoman JOAN M. QUIGLEY
District 32 (Bergen and Hudson)
Assemblyman JOHN V. KELLY
District 36 (Bergen, Essex and Passaic)

Co-Sponsored by:
Assemblymen Caraballo, Garcia, Assemblywoman Pou, Assemblyman Romano, Assemblywoman Weinberg, Assemblymen Charles, Gusciora, Assemblywoman Watson Coleman, Assemblymen Greenwald, Biondi, Blee, T. Smith, Malone, Cottrell, Gibson, Assemblywoman Crecco, Assemblymen Azzolina, Zisa, Wisniewski, Doria, Payne, Stanley, Assemblywomen Gill, Friscia, Assemblymen Roberts, Bateman, Felice, LeFevre, Merkt, Wolfe, Assemblywoman Farragher, Assemblymen Luongo, Gregg, Carroll, Talarico, Zecker, Barnes and Assemblywoman Buono

SYNOPSIS
Provides gross income tax exclusions for certain savings in Roth IRA's.

CURRENT VERSION OF TEXT
As introduced.

(Sponsorship Updated As Of: 5/29/1998)

AN ACT providing gross income tax exclusions for certain savings in Roth IRA's, amending N.J.S.54A:5-1 and supplementing Title 54A of the New Jersey Statutes.

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

1. N.J.S.54A:5-1 is amended to read as follows:

54A:5-1. New Jersey Gross Income Defined. New Jersey gross income shall consist of the following categories of income:

a. Salaries, wages, tips, fees, commissions, bonuses, and other remuneration received for services rendered whether in cash or in property.

b. Net profits from business. The net income from the operation of a business, profession or other activity after provision for all costs and expenses incurred in the conduct thereof, determined either on a cash or accrual basis in accordance with the method of accounting allowed for federal income tax purposes but without deduction of the amount of:

(1) taxes based on income;

(2) a civil, civil administrative, or criminal penalty or fine, including a penalty or fine under an administrative consent order, assessed and collected for a violation of a State or federal environmental law, an administrative consent order, or an environmental ordinance or resolution of a local governmental entity, and any interest earned on the penalty or fine, and any economic benefits having accrued to the violator as a result of a violation, which benefits are assessed and recovered in a civil, civil administrative, or criminal action, or pursuant to an administrative consent order. The provisions of this paragraph shall not apply to a penalty or fine assessed or collected for a violation of a State or federal environmental law, or local environmental ordinance or resolution, if the penalty or fine was for a violation that resulted from fire, riot, sabotage, flood, storm event, natural cause, or other act of God beyond the reasonable control of the violator, or caused by an act or omission of a person who was outside the reasonable control of the violator; and

(3) treble damages paid to the Department of Environmental Protection and Energy pursuant to subsection a. of section 7 of P.L.1976, c.141 (C.58:10-23.11f) for costs incurred by the department in removing, or arranging for the removal of, an unauthorized discharge upon the failure of the discharger to comply with a directive from the department to remove, or arrange for the removal of, a discharge.

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.

c. Net gains or income from disposition of property. Net gains or net income, less net losses, derived from the sale, exchange or other disposition of property, including real or personal, whether tangible or intangible as determined in accordance with the method of accounting allowed for federal income tax purposes. For the purpose of determining gain or loss, the basis of property shall be the adjusted basis used for federal income tax purposes, except as expressly provided for under this act, but without a deduction for penalties, fines, or economic benefits excepted pursuant to paragraph (2), or for treble damages excepted pursuant to paragraph (3) of subsection b. of this section.

A taxpayer's net gain or loss on the sale, exchange or other disposition of a share of an S corporation shall be calculated by increasing the adjusted basis of the share by an amount equal to the shareholder's net losses and deductions in respect of the share allowed and deducted from income for federal income tax purposes, not including any personal net operating loss deductions, to the extent that such net losses were not offset by the taxpayer's pro rata share of S corporation income otherwise subject to taxation pursuant to subsection p. of this section in respect of another S corporation, subject to rules of priority and assignment determined by the director.

For the tax year 1976, any taxpayer with a tax liability under this subsection, or under the "Tax on Capital Gains and Other Unearned Income Act," P.L.1975, c.172 (C.54:8B-1 et seq.), shall not be subject to payment of an amount greater than the amount he would have paid if either return had covered all capital transactions during the full tax year 1976; provided, however, that the rate which shall apply to any capital gain shall be that in effect on the date of the transaction. To the extent that any loss is used to offset any gain under P.L.1975, c.172, it shall not be used to offset any gain under the "New Jersey Gross Income Tax Act," N.J.S.54A:1-1 et seq.

The term "net gains or income" shall not include gains or income derived from obligations which are referred to in clause (1) or (2) of N.J.S.54A:6-14 of this act or from securities which evidence ownership in a qualified investment fund as defined in section 2 of P.L.1987, c.310 (C.54A:6-14.1). The term "net gains or net income" shall not include gains or income from transactions to the extent to which nonrecognition is allowed for federal income tax purposes. The term "sale, exchange or other disposition" shall not include the exchange of stock or securities in a corporation a party to a reorganization in pursuance of a plan of reorganization, solely for stock or securities in such corporation or in another corporation a party to the reorganization and the transfer of property to a corporation by one or more persons solely in exchange for stock or securities in such corporation if immediately after the exchange such person or persons are in control of the corporation. For purposes of this clause, stock or securities issued for services shall not be considered as issued in return for property.

For purposes of this clause, the term "reorganization" means--

(i) A statutory merger or consolidation;

(ii) The acquisition by one corporation, in exchange solely for all or part of its voting stock (or in exchange solely for all or a part of the voting stock of a corporation which is in control of the acquiring corporation) of stock of another corporation if, immediately after the acquisition, the acquiring corporation has control of such other corporation (whether or not such acquiring corporation had control immediately before the acquisition);

(iii) The acquisition by one corporation, in exchange solely for all or part of its voting stock (or in exchange solely for all or a part of the voting stock of a corporation which is in control of the acquiring corporation), of substantially all of the properties of another corporation, but in determining whether the exchange is solely for stock the assumption by the acquiring corporation of a liability of the other, or the fact that property acquired is subject to a liability, shall be disregarded;

(iv) A transfer by a corporation of all or a part of its assets to another corporation if immediately after the transfer the transferor, or one or more of its shareholders (including persons who were shareholders immediately before the transfer), or any combination thereof, is in control of the corporation to which the assets are transferred;

(v) A recapitalization;

(vi) A mere change in identity, form, or place of organization however effected; or

(vii) The acquisition by one corporation, in exchange for stock of a corporation (referred to in this subclause as "controlling corporation") which is in control of the acquiring corporation, of substantially all of the properties of another corporation which in the transaction is merged into the acquiring corporation shall not disqualify a transaction under subclause (i) if such transaction would have qualified under subclause (i) if the merger had been into the controlling corporation, and no stock of the acquiring corporation is used in the transaction;

(viii) A transaction otherwise qualifying under subclause (i) shall not be disqualified by reason of the fact that stock of a corporation (referred to in this subclause as the "controlling corporation") which before the merger was in control of the merged corporation is used in the transaction, if after the transaction, the corporation surviving the merger holds substantially all of its properties and of the properties of the merged corporation (other than stock of the controlling corporation distributed in the transaction); and in the transaction, former shareholders of the surviving corporation exchanged, for an amount of voting stock of the controlling corporation, an amount of stock in the surviving corporation which constitutes control of such corporation.

For purposes of this clause, the term "control" means the ownership of stock possessing at least 80% of the total combined voting power of all classes of stock entitled to vote and at least 80% of the total number of shares of all other classes of stock of the corporation.

For purposes of this clause, the term "a party to a reorganization" includes a corporation resulting from a reorganization, and both corporations, in the case of a reorganization resulting from the acquisition by one corporation of stock or properties of another. In the case of a reorganization qualifying under subclause (i) by reason of subclause (vii) the term "a party to a reorganization" includes the controlling corporation referred to in such subclause (vii).

Notwithstanding any provisions hereof, upon every such exchange or conversion, the taxpayer's basis for the stock or securities received shall be the same as the taxpayer's actual or attributed basis for the stock, securities or property surrendered in exchange therefor.

d. Net gains or net income derived from or in the form of rents, royalties, patents, and copyrights.

e. Interest, except interest referred to in clause (1) or (2) of N.J.S.54A:6-14, or distributions paid by a qualified investment fund as defined in section 2 of P.L.1987, c.310 (C.54A:6-14.1), to the extent provided in that section.

f. Dividends. "Dividends" means any distribution in cash or property made by a corporation, association or business trust that is not an S corporation, (1) out of accumulated earnings and profits, or (2) out of earnings and profits of the year in which such dividend is paid and any distribution in cash or property made by an S corporation, as specifically determined pursuant to section 16 of P.L.1993, c.173 (C.54A:5-14).

The term "dividends" shall not include distributions paid by a qualified investment fund as defined in section 2 of P.L.1987, c.310 (C.54A:6-14.1), to the extent provided in that section.

g. Gambling winnings.

h. Net gains or income derived through estates or trusts.

i. Income in respect of a decedent.

j. Amounts distributed or withdrawn from an employee trust attributable to contributions to the trust which were excluded from gross income under the provisions of chapter 6 of Title 54A of the New Jersey Statutes<u>, amounts rolled over from an IRA, as defined pursuant to subsection (a) of section 408 of the federal Internal Revenue Code of 1986, 26 U.S.C. s.408, that is not a Roth IRA, as defined pursuant to subsection (b) of section 2 of P.L.   c.   (C.   )(now pending before the Legislature as this bill) to an IRA that is a Roth IRA,</u> and pensions and annuities except to the extent of exclusions in N.J.S.54A:6-10 hereunder, notwithstanding the provisions of N.J.S.18A:66-51, P.L.1973, c.140, s.41 (C.43:6A-41), P.L.1954, c.84, s.53 (C.43:15A-53), P.L.1944, c.255, s.17 (C.43:16A-17), P.L.1965, c.89, s.45 (C.53:5A-45), R.S.43:10-14, P.L.1943, c.160, s.22 (C.43:10-18.22), P.L.1948, c.310, s.22 (C.43:10-18.71), P.L.1954, c.218, s.32 (C.43:13-22.34), P.L.1964, c.275, s.11 (C.43:13-22.60), R.S.43:10-57, P.L.1938, c.330, s.13 (C.43:10-105), R.S.43:13-44, and P.L.1943, c.189, s.5 (C.43:13-37.5).

k. Distributive share of partnership income.

l. Amounts received as prizes and awards, except as provided in N.J.S.54A:6-8 and N.J.S.54A:6-11 hereunder.

m. Rental value of a residence furnished by an employer or a rental allowance paid by an employer to provide a home.

n. Alimony and separate maintenance payments to the extent that such payments are required to be made under a decree of divorce or separate maintenance but not including payments for support of minor children.

o. Income, gain or profit derived from acts or omissions defined as crimes or offenses under the laws of this State or any other jurisdiction.

p. Net pro rata share of S corporation income.

(cf: P.L.1993, c.173, s.9)

2. (New section) a. Gross income shall not include distributions from a Roth IRA that are qualified distributions or that are rolled over to a Roth IRA.

b. "Roth IRA" means an individual retirement plan, as defined pursuant to section 7701 of the federal Internal Revenue Code of 1986, 26 U.S.C. s.7701, that is designated in the manner prescribed by the federal Secretary of the Treasury pursuant to section 408A of the federal Internal Revenue Code of 1986, 26 U.S.C. s.408A, as a Roth IRA and is subject to the contribution limits of that section.

"Qualified distribution" means any payment or distribution:

(1) made on or after the date on which the individual attains age 591/2,

(2) made to a beneficiary (or to the estate of the individual) on or after the death of the individual,

(3) attributable to the individual's being disabled (within the meaning of paragraph (7) of subsection (m) of section 72 of the federal Internal Revenue Code of 1986, 26 U.S.C. s.72, or

(4) which is a qualified first time home buyer distribution as defined by, and subject to the limitations of, paragraph (2) of subsection (t) of section 72 of the federal Internal Revenue Code of 1986, 26 U.S.C. s.72;

provided, however, that a payment or distribution shall not be treated as a qualified distribution if it is made within the 5-taxable-year period beginning with the first taxable year for which the individual made a contribution to a Roth IRA (or such individual's spouse made a contribution to a Roth IRA) established for such individual, or in the case of a payment or distribution allocable to a qualified rollover contribution from an individual retirement plan other than a Roth IRA (or income allocable thereto), it is made within the 5-taxable year period beginning with the taxable year in which the rollover contribution was made.

3. (New section) Notwithstanding the provisions of N.J.S.54A:5-1 or any other law to the contrary, in the case of a distribution before January 1, 1999, any amount required to be included in gross income by reason of the amendments to subsection j. of N.J.S.54A:5-1 enacted pursuant to section 1 of P.L. , c. (now pending before the Legislature as this bill) shall be so included ratably over the 4-taxable year period beginning with the taxable year in which the payment or distribution is made.

4. This act shall take effect immediately and apply to taxable years beginning after December 31, 1997.

STATEMENT

This bill conforms the New Jersey gross income tax treatment of the new federally authorized Roth IRA's to the federal tax treatment of these accounts. The Roth IRA provides a tax-favored account from which savings can be withdrawn without tax after a reasonable holding period for retirement or certain other special purposes, including the purchase of a first home.

The federal " Taxpayer Relief Act of 1997" creates a "Roth IRA" individual savings plan that allow individuals to contribute up to $2,000 or the individual's compensation for the year (actually, up to $2,000 for each spouse for married taxpayers filing jointly). Federal law phases out the maximum annual contribution that can be made to a Roth IRA for single individuals with Federal adjusted gross income of between $95,000 and $110,000 and for joint filers with Federal adjusted gross income between $150,000 and $160,000 (married taxpayers filing separately may not make contributions). Unlike the old federal IRA's, contributions to a Roth IRA may be made even after the individual by whom the account is maintained has attained age 70-1/2. The bill adopts the same federal standards for New Jersey tax purposes.

Under the bill, qualified distributions from a Roth IRA are not includible in taxable New Jersey gross income. A qualified distribution is a distribution that

(1) is made after the 5-taxable year period beginning with the first taxable year in which the individual made a contribution to a Roth IRA, and

(2)which is

(a) made on or after the date on which the individual attains age 59-1/2,

(b) made to a beneficiary (or to the individual's estate) on or after the death of the individual,

(c) attributable to the individual's being disabled, or

(d) for up to $10,000 of first-time home buyer expenses.

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

ASSEMBLY, No. 1660

STATE OF NEW JERSEY

DATED: MAY 4, 1998

The Assembly Appropriations Committee reports favorably Assembly Bill No. 1660.

Assembly Bill No. 1660 conforms the New Jersey gross income tax treatment of the new federally authorized Roth IRA's to the federal tax treatment of these accounts.

The traditional individual retirement account or individual retirement annuity ("IRA") permits a federal taxpayer to make tax deductible contributions to the account, with tax being imposed upon distributions from the account, generally after retirement. The Roth IRA, authorized by the federal "Taxpayer Relief Act of 1997", is the inverse of the traditional IRA: contributions are not deductible (i.e., they are made with after-tax income), but qualified distributions, including account earnings and capital gains, are not subject to federal taxation. With a Roth IRA, individuals may contribute up to $2,000 or the individual's compensation for the year (for married taxpayers filing jointly, each spouse can contribute up to $2,000 to a Roth IRA). Federal law phases out the maximum annual contribution that can be made to a Roth IRA for single individuals with federal adjusted gross income of between $95,000 and $110,000, for joint filers with federal adjusted gross income between $150,000 and $160,000, and for married filers filing separately between $0.00 and $15,000. Unlike the traditional IRA's, contributions to a Roth IRA may be made even after the individual by whom the account is maintained has attained age 70½.

Under the New Jersey gross income tax, contributions to a traditional IRA account are not deductible as they are under federal income tax; on the other hand, distributions from the account are taxable when distributed only to the extent that they consist of earnings and capital gains. Currently, New Jersey law treats Roth IRA accounts in the same manner. This bill would not change New Jersey's tax treatment of traditional IRA's, but would alter the treatment of Roth accounts. Under the bill, qualified distributions from a Roth IRA, including distributions derived from amounts rolled over into the account from a traditional IRA, would not be includible in taxable New Jersey gross income. A qualified distribution is a distribution that:

(1) is made after the five-taxable-year period beginning with the

first taxable year in which the individual made a contribution to a Roth IRA, and

(2) which is (a) made on or after the date on which the individual attains age 59½, (b) made to a beneficiary (or to the individual's estate) on or after the death of the individual, (c) attributable to the individual's being disabled, or (d) for up to $10,000 of first-time home buyer expenses.

These rules for deductibility of Roth distributions are the same as those that apply under the federal law.

The bill includes a provision that prevents a taxpayer from permanently sheltering from New Jersey tax any earnings accumulated in a traditional IRA account by exercising the option, allowed under federal law, of rolling over deposits in that account into a Roth IRA. Under this provision, amounts so rolled over would become subject to tax (with an exclusion allowed for the taxpayer's contribution to the account, as New Jersey taxed the income from which those contributions derived in the year in which the contributions were made). If the rollover occurs before January 1, 1999, inclusion of the taxable amount in gross income would occur ratably over the four-taxable-year period beginning with the year in which the rollover occurs.

FISCAL IMPACT:

The Office of Legislative Services (OLS) estimates that this bill may result in a minimal annual revenue increase in New Jersey gross income tax collections in the short run due to acceleration, as a result of traditional-to-Roth IRA rollovers, in the imposition of tax on the earnings portion of the rollover. The OLS estimates that in the long run, the legislation will result in an annual loss of gross income tax revenues, because qualified distributions of earnings from the new Roth IRA *will not be taxable* under this bill, whereas distributions of earnings from traditional IRA's *are taxable* under current New Jersey law. No State tax data currently exist that would allow for a calculation of the revenue impact, but the impact on State revenue collections should be small relative to the overall income tax. For example, the federal Joint Committee on Taxation estimated the federal revenue impact of the Roth IRA at less than one tenth of one percent of total federal income tax collections in fiscal year 1999. If that federal proportion were applied to New Jersey gross income tax collections, the amount of revenue reduction would be less than $6,000,000 annually.

LEGISLATIVE FISCAL ESTIMATE

ASSEMBLY, No. 1660

STATE OF NEW JERSEY

208th LEGISLATURE

DATED: APRIL 20, 1998

BILL SUMMARY

Assembly Bill No.1660 of 1998 conforms the New Jersey gross income tax treatment of the new federally authorized Roth IRA's to the federal tax treatment of these accounts. The Roth IRA provides a tax-favored account from which savings can be withdrawn without tax after a specified holding period for retirement or certain other special purposes, including the purchase of a first home.

The federal " Taxpayer Relief Act of 1997" creates a "Roth IRA" individual savings plan. For federal tax purposes, Roth IRA's are the inverse of traditional IRA's, funded with taxable contributions, but qualified distributions are not subject to taxation. Traditional IRA's permit federal taxpayers to make tax deductible contributions, but distributions are taxable. However, in New Jersey, traditional IRA contributions and distributed earnings are both taxable

The bill adopts the same federal Roth IRA standards for New Jersey tax purposes. Under the bill, qualified distributions from a Roth IRA are not includible in taxable New Jersey gross income, and taxpayers may elect to roll over a traditional IRA into a Roth IRA. A qualified distribution is a distribution that:

(1) is made after the 5-taxable year period beginning with the first taxable year in which the individual made a contribution to a Roth IRA, and

(2) which is (a) made on or after the date on which the individual attains age 59-1/2, (b) made to a beneficiary (or to the individual's estate) on or after the death of the individual, (c) attributable to the individual's being disabled, or (d) for up to $10,000 of first-time home buyer expenses.

OFFICE OF LEGISLATIVE SERVICES COMMENTS

The Office of Legislative Services (OLS) estimates that this bill may result in a minimal annual revenue increase in New Jersey gross income tax collections in the short run, and will result in an annual loss of gross income tax revenues in the long run. No State tax data currently exist that would allow for a calculation of the revenue impact, but the impact on State revenue collections should be small relative to the overall income tax. For example, the federal Joint

Committee on Taxation estimated the federal revenue impact of the Roth IRA at less than one tenth of one percent of total federal income tax collections in fiscal year 1999. If the federal proportion were applied to New Jersey gross income tax collections, the amount would be less than $6,000,000 annually.

Whether or not this bill is enacted, State tax revenues will increase in the short run because some taxpayers will roll over existing traditional IRA's into the new Roth IRA. Such a roll over would make certain IRA earnings, otherwise not taxable until some future year, taxable in the year of the roll over (or the four year phase in period allowed in the bill). The OLS assumes that most taxpayers who would benefit from rolling a current IRA into a Roth IRA will choose to do so based on the federal tax advantages. The federal tax benefits for reducing taxable income under current law are significantly higher than the potential State tax benefits for reducing taxable income under this bill, because federal marginal income tax rates are significantly higher than New Jersey's marginal income tax rates. The highest federal marginal rate is 39.6 percent, compared with 6.37 percent in New Jersey, and the lowest federal marginal rate is 15.0 percent, compared with 1.4 percent in New Jersey. Accordingly, the additional rollovers that would be encouraged by this bill are likely to be limited.

New Jersey, unlike the federal government, will not experience a short term tax revenue increase from taxpayers who choose Roth IRA's over traditional IRA's because, for State tax purposes, contributions to both types of IRA's are taxable. The federal government will receive a revenue increase because contributions to Roth IRA's are taxable while contributions to traditional IRA's are not.

In the long run, however, the OLS anticipates that taxable income and taxable revenues will decline due to this bill, because qualified earnings from the new Roth IRA *will not be taxable* under this bill, whereas earnings from traditional IRA's *are taxable* under current New Jersey law. Unfortunately, State gross income tax records do not provide the detailed data necessary to determine how much current income is invested in IRA's, nor how much future IRA earnings, which would have been taxable under traditional IRA's, will not be taxable because of a switch to Roth IRA's.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67.

Office of the Governor
NEWS RELEASE

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RELEASE: July 24, 1998

Governor Helps Retirement Nest Eggs Grow, Signs Bill to Provide State Tax Breaks for Savings in Roth IRAs

Gov. Christie Whitman today praised the virtues of saving when she signed legislation to provide additional tax breaks for those who take advantage of the federal Roth IRA program. The bill eliminates state tax on interest earned in Roth IRAs.

With the signing of the bill today, New Jersey will now treat Roth IRA accounts the same way the federal government does, taxing only on the front end. There will be no state income tax on interest earned.

"We in the state of New Jersey want to encourage savings. It's the smart thing to do for yourself, your family, and our economy," said the Governor. "The Roth IRA that was created by the federal government last year is a great idea. And today, we are making it even better for the people of New Jersey."

"With the Roth IRA, New Jerseyans can now put their money away for a rainy day and know that the money will be there, free and clear, for retirement or a first home purchase," said Gov. Whitman. "I have long been committed to ensuring that hard- earned taxpayer dollars remain where they belong - in the hands of the taxpayers. This bill will allow New Jerseyans to keep more of that hard-earned money and save up a bigger nest egg for their golden years."

The legislation, S-840, was sponsored by Senators Leonard Connors (R-Atlantic/ Burlington/Ocean) and Bernard Kenny (D- Hudson) and Assembly Members Joan Quigley (D-Bergen/Hudson) and John Kelly (R-Bergen/Essex/Passaic).

Last year Congress passed the Taxpayer Relief Act of 1997, which included the creation of a special type of individual retirement account known as the Roth IRA. Contributions to Roth IRAs are made with after-tax dollars. There is no federal tax imposed on the interest earned on the Roth IRA.