


# Nontaxable Investment Income

## Understanding Income Tax



New Jersey's State animal is the horse.

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**Most investment income is taxable in New Jersey as interest, dividends, or capital gains.**

**However, some interest income is exempt from tax, including:**

- Interest and gains from government debt obligations (such as bonds) of the State of New Jersey or its political subdivisions. These subdivisions can include municipalities, counties, school districts and authorities;
- Interest and gains from debt obligations of the federal government, such as U.S. Savings Bonds and Treasury Bills;
- Certain distributions from New Jersey Qualified Investment Funds. (See definition below.);
- Distributions from mutual funds on interest earned from federal debt;
- Earnings on distributions from qualified State tuition programs. This includes the New Jersey Better Educational Savings Trust ([NJBEST](#)) program; and
- Earnings on tuition savings programs formed under Section 529A of the Internal Revenue Code. This includes the State's Achieving a Better Life Experience ([ABLE](#)) program.

## Taxable Debt Obligations

Interest and gains you receive from debt obligations of **other states and local governments** are taxed by New Jersey and must be reported on your [resident return](#) or [nonresident return](#).


## Gain or Loss From Sale

When determining your capital gains or income from selling securities, do not include income or gains from debt obligations (bonds) that are exempt from New Jersey tax. You also cannot deduct losses from sales of exempt bonds when calculating net gains or losses on [Schedule NJ-DOP](#), Form NJ-1040 (or Part I, Form NJ-1040NR).

## Qualified Investment Funds

### Nontaxable

Distributions and gains from a New Jersey qualified investment fund are exempt from State Income Tax if they are derived from the qualified nontaxable debt obligations held by the fund.



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A qualified investment fund must:

- Be a regulated investment company;
- Invest 80% or more of its funds (other than cash or receivables) in securities that are exempt from New Jersey Income Tax; and
- Complete and retain Form IF-1, Certification of Qualified Investment Fund, to document its status. This certification does not need to be filed with us, but must be made available upon request.

### Taxable

A fund may hold up to 20% of its investments in debt obligations that are taxable. You must report the portion of the fund's distributions and gains that are derived from taxable investments as dividends and/or capital gains (as indicated on your Form 1099) on your New Jersey Income Tax return.


Funds that are considered a New Jersey qualified investment fund must notify shareholders by February 15 about the nontaxable portion of their distribution. Contact your broker to determine if you own part of a qualified investment fund for New Jersey Income Tax purposes.

### Mutual Funds

Distributions received by shareholders of mutual funds are subject to New Jersey Income Tax as dividends and/or capital gains, unless the fund is considered a qualified investment fund for New Jersey purposes (see [Qualified Investment Funds](#)). However, distributions that are attributed to interest earned on federal debt obligations are not taxable regardless of whether they are held by a qualified investment fund.

### Unit Investment Trusts

A unit investment trust is a fund with a fixed number of units, which means a portfolio of securities such as stocks or bonds that does not change. This differs from certain mutual funds in which portfolio managers periodically buy and sell investments to enhance the fund's returns. The trust also expires after a specific period of time, unlike most mutual funds. Investors receive their share of the assets when the trust is terminated. Interest from the trust is exempt from New Jersey Income Tax, provided the investments of the trust consist of nontaxable debt obligations.



## **Nontaxable Investment Income** Understanding Income Tax

### **State Tuition Program Accounts**

#### **Nontaxable**

Earnings on qualified distributions from qualified State tuition program accounts, including the New Jersey Better Educational Savings Trust (NJBEST) accounts, are exempt from New Jersey Income Tax.

#### **Taxable**

Earnings from qualified State tuition program accounts, including NJBEST accounts, are taxed if they are considered nonqualified distributions.

### **State 529A Achieving a Better Life Experience (ABLE) Accounts**

Earnings on a qualified ABLE account are excluded from New Jersey Income Tax until the earnings are distributed from the account.


#### **Nontaxable**

Earnings distributed from the account are excluded from New Jersey Income Tax if they are used for qualified disability-related expenses, as defined pursuant to paragraph (5) of subsection (e) of section 529A of the federal Internal Revenue Code of 1986, 26 U.S.C. s.529 or 529A.

#### **Taxable Distributions**

Earnings distributed from a qualified ABLE account are taxable if they are not used for qualified disability-related expenses, as defined pursuant to paragraph (5) of subsection (e) of section 529A of the federal Internal Revenue Code of 1986, 26 U.S.C. s.529 or 529A or are reported on Form 1099 as nonqualified distributions.





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## Taxability of Federal and New Jersey Debt Obligations

The partial list below shows whether interest or gains from federal or New Jersey securities are taxable (T) or exempt (E).

### Federal Securities

Security	Interest	Capital Gain
Asian Development Bank	T	T
Bank for Cooperatives	E	E
Certificate of Accrual on Treasury Securities (CATS)	E	E
EE Bonds (Series EE)	E	E
Environmental Financing Authority	T	T
Export-Import Bank of the United States ("Eximbank"):		
Series 1978-B Debentures	E	E
Participation Certificates	T	T
Farmers Home Administration	E	E
Federal Deposit Insurance Corporation Obligations	E	E
Federal Farm Credit Systems Obligations	E	E
Federal Financing Bank	E	E
Federal Home Loan Bank	E	E
Federal Home Loan Mortgage Corporation	T	T
Federal Housing Authority (F.H.A.)	E	E
Federal Intermediate Credit Banks	E	E
Federal Land Banks	E	E
Federal National Mortgage Association (Fannie Mae):		
Guaranteed Participation Certification	T	T
Interest on Bonds and Debentures	T	T
Federal Savings and Loan Insurance Corporation Obligations	E	E
General Services Administration	E	E
Government National Mortgage Association (Ginnie Mae)	T	T
Guam	E	E
H & HH Bonds (Series H & HH)	E	E
H.U.D./New Communities	E	E
H.U.D. Public Housing Notes and Bonds:		




## Nontaxable Investment Income

### Understanding Income Tax

### Federal Securities (continued)

Security	Interest	Capital Gain
If issued in New Jersey	E	E
If issued in other states	T	T
If issued in D.C., Puerto Rico, or the Virgin Islands	E	E
Inter-American Development Bank Bonds	T	T
International Monetary Fund and Bank for Reconstruction and Development (World Bank)	T	T
Jonathan Development Corporation (Obligations Guaranteed Under New Communities Act of 1968)	T	T
Merchant Marine	E	E
Panama Canal Zone Bonds (exempt under 31 U.S.C. 744 & 745)	E	E
Production Credit Associations	E	E
Puerto Rico	E	E
Puerto Rico Water Resources — 4.2% bonds due 1/1/89 — Interest on Bonds	E	E
R.F.K. Stadium Bonds	T	T
Small Business Administration	E	E
Student Loan Marketing Association (Sallie Mae)	E	E
Tennessee Valley Authority	E	E
Treasury Investment Growth Receipt (TIGR)	E	E
U.S. Postal Service	E	E
U.S. Treasury	E	E
U.S. Treasury Bills (T-Bills)	E	E
USAVE Certificates—Farmers Home Administration Insured Loan Notes	Partially	—
Virgin Islands	E	E
Washington Metropolitan Area Transit Authority Bonds	T	T




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### Bonds Issued by New Jersey Authorities

Name of Authority	Interest	Capital Gain
Convention Hall Authorities	E	E
County and Municipal Sewerage Authorities	E	E
County Improvement Authorities	E	E
County Solid Waste Disposal Financing	E	E
County Solid Waste Management Authorities	E	E
Delaware Memorial Bridge	E	E
Delaware River and Bay Authority	E	E
Delaware River Joint Toll Commission	E	E
Delaware River Port Authority	E	E
Economic Development Authority	E	E
Educational Facilities Authority	E	E
First Class County Recreation Authority	E	E
Hackensack Meadowlands	E	E
Health Care Facilities Financing Authority	E	E
Highway Authority (includes Garden State Parkway and Cape May-Lewes Ferry)	E	E
Incinerator Authorities	E	E
Industrial Pollution Control Financing Authority	E	E
Municipal Utilities Authorities	E	E
New Jersey Building Authority	E	E
New Jersey Expressway Authority	E	E
New Jersey Housing Finance Agency	E	E
New Jersey Mortgage Finance Agency	E	E
New Jersey Turnpike Authority	E	E
Parking Authorities	E	E
Port Authorities	E	E
Port Authority of New York and New Jersey	E	E
Sanitary Sewer District Authorities of 1st and 2nd Class Counties	E	E
South Jersey Port Corporation	E	E
Sports and Exposition Authorities	E	E



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## Reporting Nontaxable and Taxable Debt Obligations

### Residents

**Nontaxable Debt Obligations.** You must report nontaxable interest income on line 16b, Form NJ-1040.

**Taxable Debt Obligations.** You must report on Form NJ-1040:

- Taxable interest income on line 16a;
- Taxable dividends on line 17;
- Taxable net gains on line 19 and/or line 4, Schedule NJ-DOP.


### Nonresidents

**Nontaxable Debt Obligations.** Do not report nontaxable obligations on Form NJ-1040NR. We do not require information on these obligations with a nonresident tax return.

**Taxable Debt Obligations.** You must report on Column A of Form NJ-1040NR:

- Taxable interest income on line 16;
- Taxable dividends on line 17;
- Taxable net gains on line 19 and/or line 68, Part I, Form NJ-1040NR.





## Nontaxable Investment Income Understanding Income Tax

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*The forms and amounts referred to in this Bulletin are those for Tax Year 2023. This document is designed to provide guidance to taxpayers, and is accurate as of the date issued.*