TAX TOPIC

# Credit for Taxes Paid to Other Jurisdictions (Business/Nonwage Income)

*Bulletin GIT-3B*

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***Important***

*Any reference in this bulletin to a spouse also refers to a spouse who entered into a valid same-sex marriage in another state or foreign nation and a partner in a* ***civil union (CU)*** *recognized under New Jersey law.*

This document is designed to provide guidance to taxpayers and is accurate as of the date issued. Subsequent changes in tax law or its interpretation may affect the accuracy of this publication.

## Introduction

A resident taxpayer of New Jersey, which includes an individual, estate, or trust, who paid income tax both to New Jersey and to another jurisdiction outside New Jersey on the same income for the same tax year, may be eligible for a credit against the income tax owed to New Jersey. (See N.J.S.A. 54A: 4-1 and N.J.A.C. 18:35-4.1.) This bulletin explains when a taxpayer is eligible to claim a credit for taxes paid to another jurisdiction and describes how to calculate the amount of the credit.

This bulletin explains important concepts and terminology to help determine what income can be included in the credit calculation and how to properly calculate any credit(s) a resident is eligible to claim. Special attention has been given to calculating the credit on income other than wages (e.g., S corporation income, income from a partnership or sole proprietorship, capital gain/loss, etc.), and how New Jersey adjustments and/or adjustments required by the other jurisdiction affect the credit calculation. The examples provided illustrate how to determine the tax credit in both simple and complex situations. (See ***List of Examples*** on page 14.)

A companion publication, Tax Topic Bulletin **GIT-3W**, *Credit for Taxes Paid to Other Jurisdictions (Wage Income),* contains examples of how to calculate the tax credit on wage income.

All New Jersey tax calculations shown in the examples use the tax table or tax rate schedules contained in the instructions for the 2016

New Jersey resident return (Form NJ-1040). Additional explanations and instructions for completing Schedule A of Form NJ-1040 can also be found in the instructions.

# Purpose of the Credit

The purpose of the credit is to minimize double taxation of income that is actually taxed by other jurisdictions. A credit reduces the taxpayer's New Jersey income tax; ***it does not necessarily entitle the taxpayer to a dollar-for-dollar credit for the total amount of taxes paid to the other jurisdiction***. The credit represents the amount of New Jersey income tax that would have been imposed if the income earned in the other jurisdiction had been earned in New Jersey, *or* the amount of tax actually paid to the other jurisdiction, *whichever is less.*

While the purpose of the credit is to minimize double taxation of income that is actually taxed by other jurisdictions, there are statutory limitations:

1. The income must have been taxed, in the same tax year, by *both* New Jersey and another qualified jurisdiction (see ***Jurisdiction*** on page 4); *and*
2. The credit cannot exceed the proportional credit limitation. (See ***Proportional Credit Limitation Formula*** on page 3.)

# How to Claim the Credit

To claim credit for taxes paid to another jurisdiction the taxpayer must:

1. Complete New Jersey Schedule A in its entirety. A taxpayer may have to complete more than one Schedule A in certain situations. (See *Completing More Than One Schedule A* below.) The fiduciary of a resident estate or trust must complete **Schedule C, Form NJ-1041**, to claim the credit.
2. If eligible to receive a property tax deduction or credit, the taxpayer must complete Worksheet J to determine whether the property tax deduction or the property tax credit provides the greater benefit.
3. Enclose Schedule A(s) with the NJ-1040 income tax return.

## Completing More Than One Schedule A

The taxpayer must complete a separate Schedule A for each jurisdiction for which a credit is being claimed. A separate Schedule A must also be completed for each tax imposed by a jurisdiction.

- *Two or more jurisdictions (i.e., a state and political subdivision(s) therein) impose tax on the same income.* For example, when both a state and a city within that state tax the same income, the taxpayer may have to complete and enclose a separate Schedule A for each jurisdiction. (See ***Income Subject to Tax by More Than One Jurisdiction Within One State*** on page 6.)
- *Different jurisdictions impose tax on different income.* For example, if the taxpayer had wages from State A and a gain from the sale of property from State B, the taxpayer must complete a separate Schedule A for each state.
- *Same Jurisdiction imposes more than one type of tax.* For example, if the taxpayer had wages and business income from a city that

imposes both a wage tax and a different tax on business income, the taxpayer must complete one Schedule A for the wage tax and a separate Schedule A for the tax on business income.

### Returns of the Other Jurisdiction(s)

New Jersey does not require that a copy of the income tax return(s) filed with the other jurisdiction(s) be enclosed with Form NJ-1040 or Form NJ-1041. However, taxpayers should keep complete copies of any returns filed with other jurisdiction(s). If a return is audited, the taxpayer will be asked to provide:

(a) A complete copy of the income tax return(s) filed with the other jurisdiction(s) — if one was filed or required to be filed. If the taxpayer filed electronically in the other jurisdiction, a copy of the Electronic Filing Income Tax Return must be included *along with* schedules, worksheets, etc. that establish the nature and source of the income being taxed by the other jurisdiction.

(b) If the taxpayer participated in a composite return filed in another jurisdiction, a statement, on the filing entity's letterhead, must be submitted that lists the jurisdiction, the taxpayer's share of the income taxed by the other jurisdiction, and the taxpayer's share of the tax paid.

(c) If the taxpayer was **not** required to file a return with the other jurisdiction, the following must be submitted as applicable:

- W-2 that lists the wage taxes paid and the name of the taxing jurisdiction.
- A statement from the business entity that filed a tax return based on income that lists the taxpayer's share of the income taxed by the other jurisdiction, the name of the tax, and the taxpayer's share of the tax paid (e.g., Philadelphia Net Profits Tax, New York City Unincorporated Business Tax).

## Proportional Credit Limitation Formula

The credit a taxpayer is allowed is limited to the *lesser* of the proportional credit limitation amount or the actual tax paid to the other jurisdiction. The "proportional credit limitation amount" represents the amount of New Jersey income tax that would have been imposed if the income earned in the other jurisdiction had been earned in New Jersey.

In general, if the other jurisdiction's effective tax rate is higher than New Jersey's, the credit will be limited to the proportional credit limitation amount. If the other jurisdiction's effective tax rate is lower than New Jersey's, the credit will be limited to the actual tax paid to the other jurisdiction.

The proportional credit limitation amount (PCL) is calculated by dividing the income actually taxed by both New Jersey and the other jurisdiction (a) by the income subject to tax by New Jersey (b) and applying the resulting percentage to the tax calculated on the total New Jersey taxable income (c). The formula is:

$$\frac{a}{b} \times c = PCL$$

The proportional credit limitation amount is then compared to the actual tax paid to the other jurisdiction. The credit allowed is the lesser of the two amounts. (See examples 2 and 3.)

When a state and a city within that state both impose a tax on the same income that New Jersey taxes, one credit calculation is done. The tax paid to both jurisdictions is added together before the comparison with the proportional credit limitation amount is made.

When one jurisdiction (e.g., Philadelphia) taxes different types of income (e.g., wages and business income) at different tax rates, separate Schedule A credit calculations must be made for each type of income. For each calculation, the actual tax paid on that income is compared to the corresponding proportional credit limitation amount to determine the credit allowed. The taxpayer claims the total of the credits allowed on the New Jersey return.

When different jurisdictions tax different income (e.g., taxpayer has wages from Delaware and wages from New York State or wages from Delaware and gain from the sale of land in Maryland), a separate Schedule A must be completed for each jurisdiction.

When several jurisdictions tax income of the same type (e.g., partnership income), separate Schedule A credit calculations must be made for each jurisdiction, starting with the jurisdiction with the highest tax rate. (See **example 4**.)

# Components of the Credit Calculation

Before a credit for taxes paid to another jurisdiction(s) can be calculated, the taxpayer must understand the components of the credit calculation and how to determine each of those components for each jurisdiction and each tax for which a credit is being claimed. The taxpayer must determine:

- What constitutes a *jurisdiction*
- Income *actually taxed* by the other jurisdiction
- Income *properly taxed* by another jurisdiction
- Income actually taxed by both New Jersey and the other jurisdiction
- Income taxed by New Jersey
- *Actual tax paid* to the other jurisdiction

## Jurisdiction

For purposes of determining the credit, jurisdiction means any state of the United States other than New Jersey; a political subdivision of any state other than New Jersey, such as a city or a municipality; or the District of Columbia. No credit is allowed for taxes paid to the U.S. Government, Canada, Puerto Rico, or to any other foreign country or territory.

For example, a taxpayer who lives in New Jersey and works in Delaware may be eligible to claim a credit on the New Jersey resident return for taxes paid to Delaware on the wages earned there because Delaware is considered “another jurisdiction.” However, a New Jersey resident who pays tax to Canada on income earned in that country is not eligible to claim a credit because a foreign country is not considered “another jurisdiction” for purposes of the credit.

## Income Actually Taxed by Another Jurisdiction

In general, the income actually taxed by another jurisdiction is the income sourced to the other jurisdiction, after adjustments allowed by the other jurisdiction have been made but before

deducting personal exemptions and standard or itemized deductions.

## Income Sourced to Another Jurisdiction v. "Worldwide Income"

Some states require nonresidents to determine the actual amount of tax due by first calculating a *base tax* on the taxpayer's total income from all sources ("worldwide income") as if the taxpayer were a resident of that state, and then multiplying the base tax by the percentage obtained from dividing the amount of income sourced to the other state by total (worldwide) income.

Although this method of tax calculation may result in a higher tax liability in the other jurisdiction for the nonresident, it does not increase the amount of income *subject to tax* by the other jurisdiction. Only the income sourced to that state, and not "worldwide income," is actually taxed by the other jurisdiction. (See **example 5**.)

As the New Jersey Tax Court stated in *Chin v. Director,* 14 NJ Tax 304 (Tax Ct. 1994): "It is clear that the use of the plaintiff's non-New York income in determining the tax rate to be imposed on his spouse's New York source income did not constitute taxation of that non-New York income. Accordingly, the Director properly excluded the non-New York income from the numerator of the resident credit fraction because it was not subject to tax in New York…."

The worldwide income is used to determine the tax rate to be imposed on the income sourced to the state, but is not actually taxed. Thus, only income actually sourced to the other state may be included in the numerator. (See *Chin v. Director*.)

## Income Allocations Allowed by the Other Jurisdiction

A jurisdiction may allow income to be allocated when it is earned partly inside and partly outside the state. For example, wages and compensation may be allocated using a ratio of days worked in the state over days worked everywhere. Since the allocation of time worked in the state reduces the wage income taxed by the other jurisdiction, it must be taken into consideration when determining the income actually taxed by the other jurisdiction.

## Adjustments (Deductions) Allowed by the Other Jurisdiction

A jurisdiction may allow subtractions or deductions from income to determine the income actually taxed by that jurisdiction. For example, items such as IRA contributions, employee business expenses, and moving expenses may be allowed as deductions from wages. Because those deductions reduce the wage income taxed by the other jurisdiction, they must be taken into consideration when determining the income actually taxed by the other jurisdiction. (See examples **6**, **7**, **8**, **9**, and **10**.)

## Adjustments (Deductions) Not Allowed by the Other Jurisdiction But Allowed by New Jersey

In some cases, a jurisdiction does not allow subtractions or deductions from income. Do not include in the numerator of the credit fraction any expenses allocated to the other jurisdiction that were used to reduce the income in the denominator but were not allowed in the other jurisdiction. For example, interest paid to finance the purchase of an interest in the partnership and expenses paid by the partner that were not

reimbursed by the partnership are not permitted as deductions in some states, but can be used to reduce income taxable in New Jersey. (See **example 11**.)

### Income Subject to Tax by More Than One Jurisdiction Within One State

Income can be reported only once on Schedule A. When the same income is taxed by one or more jurisdictions within the same state and the amount of income taxed by each jurisdiction is the same, only one credit calculation on Schedule A is made.

When the same income is taxed by one or more jurisdictions within the same state and the amount of income taxed by each jurisdiction differs, separate Schedule A calculations must be made. One credit is based on the amount of income taxed by all the jurisdictions, and the other credit is based on the difference ("excess income") between the amounts taxed by each jurisdiction.

For example, wages of $9,000 after adjustments were earned in and taxed by a state. However, wages of $15,000 were earned in and taxed by a city within that state. The amount of "excess income" is $6,000. In such case, two credit calculations must be made. The first calculation determines the credit allowed on the amount of income taxed by all the jurisdictions ($9,000); the second calculation determines the credit allowed on the $6,000 of "excess income" (the difference between the amounts taxed by the two jurisdictions). See **example 12**.

## Income Properly Taxed by Another Jurisdiction

Only income properly taxed by another jurisdiction is includible in the credit calculation.

### Income Properly Taxed

In general, another jurisdiction may *properly tax* a nonresident's income from:

- Services rendered within that jurisdiction.
- Net profits from a business, trade, or profession carried on within that jurisdiction, including interest earned by the business, etc.
- A partnership or S corporation as allocated to that jurisdiction.
- Real or tangible personal property located in that jurisdiction.
- Gambling in that jurisdiction.
- Estate or trust distributions that were derived from any of the above types of income located, allocated, or rendered within that jurisdiction.

### Income Not Properly Taxed

A nonresident's income from interest, dividends, or gains from intangible personal property that was *not* derived from a business, trade, or profession carried on in the other jurisdiction is *not properly taxable* by another jurisdiction. For example, interest on personal savings on deposit in a bank located in another jurisdiction is not properly taxable by the other jurisdiction. In addition, jurisdictions *cannot* tax a nonresident on most retirement benefits including distributions from deferred compensation plans (e.g., 401(k) plans, 457 plans) and individual retirement accounts.

A taxpayer who inadvertently reported and paid tax to another jurisdiction on income *not* properly taxable by that jurisdiction is not eligible for a credit on the New Jersey resident return for the tax paid on that income. The taxpayer should follow the other jurisdiction's procedures for requesting any refund due.

### Dual State Residents

A taxpayer who is considered to be a resident of both New Jersey and another jurisdiction for the same period can claim a credit based on *all* income taxed on both the New Jersey and the other jurisdiction's resident returns, *except* for any income allocated to New Jersey. For example, any S corporation or partnership income allocated to New Jersey cannot be included in the credit calculation.

When the same income is reported to two states, other than New Jersey, that income is included only once on Schedule A. For example, a taxpayer is a resident of both New York and New Jersey and has a business in Connecticut. He pays tax to Connecticut on his business income. He must also report that income on both his New Jersey and New York resident returns. The taxpayer must claim a credit on the tax return for the state with the highest tax rate first. Since the New York tax rate is higher than the New Jersey rate, he must first claim a credit on his New York return for the tax paid to Connecticut. He then calculates his New Jersey credit, also based on tax paid to Connecticut. He cannot claim a credit for New York tax because he did not pay tax to New York on this income.

## Income Actually Taxed by Both NJ and Another Jurisdiction

### Income Taxable in Another Jurisdiction Exempt From Tax in NJ

Income must be taxed by *both* New Jersey and the other jurisdiction to be included in the credit calculation. For example, unemployment compensation may be taxed by another jurisdiction but it is not taxable by New Jersey and cannot be included in the credit calculation.

### Other Jurisdiction's Additions to Income

The other jurisdiction may require additions to income that are not required by New Jersey and therefore are not reported on the New Jersey return. For example, a depreciation adjustment might be added to the business income taxed by the other jurisdiction, but if the adjustment is not required or reported on the New Jersey return, it cannot be included in the credit calculation. (See ***Adjustments (Deductions) Allowed by the Other Jurisdiction*** on page 5.)

## Income Taxed by New Jersey

The amount to be used as the denominator of the credit calculation fraction at Schedule A, Line 3 is the income subject to tax by New Jersey, Line 2, Schedule A. A taxpayer enters on Line 2, Schedule A the "New Jersey Gross Income" amount reported on the New Jersey resident return (Line 28 of Form NJ-1040). Line 28 is the total of all income reported on the New Jersey return less any New Jersey pension exclusion and other retirement income exclusion, but before exemptions and deductions. (See **example 1**.)

## Actual Tax Paid to the Other Jurisdiction

The actual tax paid to the other jurisdiction is the amount of tax that is due after deducting all tax credits allowed by that jurisdiction (e.g., Child and Dependent Care, New Job, Research and Development), but before the deduction of any payments made by the taxpayer, whether made as withholdings, estimated payments, extension payments, or an overpayment from a prior year.

If the same income was taxed by both a state and a jurisdiction within that state, the actual tax paid is the total tax paid to the state plus the tax paid to the jurisdiction on that income.

### Actual Tax Paid on Income Taxed by More Than One Jurisdiction in a State Outside NJ

When calculating a credit in situations when a state and one or more jurisdictions within the same state tax differing amounts of income, a separate Schedule A must be completed for each jurisdiction. The actual tax paid to the other jurisdiction(s) to be reported on each Schedule A must be the amount of tax paid to the other jurisdiction(s) on the amount of income reported on Line 1 of that Schedule A only. To prorate the tax paid to the other jurisdiction, divide the amount of income on Line 1 by the total amount of income taxed by that jurisdiction, and apply the resulting percentage to the total tax paid to the other jurisdiction. (See **example 12**.)

# Part-Year Residents

A part-year resident is anyone who meets the definition of New Jersey resident for only part of the tax year. (A part-year resident of New Jersey also is a part-year nonresident that year.) A part-year resident who is required to file a New Jersey resident income tax return must report on that return all the income received during the period of New Jersey residency, whether the income was from inside or outside New Jersey. (A part-year nonresident who received income from New Jersey sources during the period of nonresidency may also be required to file a part-year nonresident income tax return with New Jersey.) For more information on the filing responsibilities of part-year residents and part-year nonresidents, see the instructions for the New Jersey resident return (Form NJ-1040) and nonresident return (Form NJ-1040NR), or see Tax Topic Bulletin **GIT-6**, *Part-Year Residents.*

A part-year resident who paid income tax both to New Jersey and to another jurisdiction outside New Jersey on income that is reported on the part-year resident return may be eligible to claim a credit for the taxes paid to the other jurisdiction. In order to qualify for the credit, the income on which the credit is based must have been derived from the other jurisdiction during the period of time the taxpayer was a New Jersey resident, and must be actually and properly subject to tax in both the other jurisdiction and New Jersey. Part-year residents use the same criteria and methodology as full-year residents to determine the components of the credit calculation and the amount of the credit.

# Estates and Trusts

A resident estate or trust with income from sources outside New Jersey that is subject to tax both by New Jersey and by another jurisdiction outside New Jersey for the same year may be eligible to claim a credit against its New Jersey

income tax. The fiduciary of the estate or trust must apply the same principles as those prescribed for resident individuals to determine the components of the credit calculation and the amount of the credit. To receive the credit for the resident estate or trust, the fiduciary must complete Schedule C of Form NJ-1041. A copy of the fiduciary income tax return(s) filed with the other jurisdiction(s) should be kept and must be submitted to the Division of Taxation upon request. (See examples **13** and **14**.)

# S Corporation Income

If a taxpayer paid a tax based on income to another jurisdiction on S corporation income, and that income also is taxed in New Jersey in the same tax year, the taxpayer may be eligible for a credit for taxes paid to the other jurisdiction(s). If the other jurisdiction requires the taxpayer to report S corporation income (loss) in separate categories (e.g., as S corporation income, interest, gains), the separate amounts derived from the S corporation must be netted to determine the amount of income eligible for the credit. However, the income must actually be taxed by both New Jersey and the other jurisdiction. (See **example 15**.)

## Income Not Eligible for a Credit

A credit is *not* allowed:

- For any tax imposed by another jurisdiction on S corporation income that is allocated to New Jersey.
- For any taxes paid or accrued on or measured by profits or income imposed on or paid on behalf of a person other than the taxpayer, whether or not the taxpayer may be held liable for the tax.
- If the New Jersey tax is attributable to distributions received and those distributions are taxable to the taxpayer as dividends or as gains from the disposition of property.

S corporation income allocated to New Jersey is defined as the portion of the S corporation income that is allocated to New Jersey by the allocation factor of the S corporation. S corporation income not allocated to New Jersey is equal to total S corporation income less S corporation income allocated to New Jersey by the allocation factor.

To properly determine the New Jersey allocation factor, the S corporation must complete Schedule J, Form CBT-100S in its entirety. The allocation factor is applied to the shareholder's net pro rata share of S corporation income to determine the amount of income allocated inside and outside New Jersey. Only the income allocated outside New Jersey can be used to calculate a credit for taxes paid to other jurisdictions. If Schedule J is not completed by the S corporation, the credit for taxes paid to other jurisdictions on the S corporation income will be denied.

## Income Reported on a Composite Return

If a shareholder of an S corporation participated in one or more nonresident composite returns filed by the S corporation on behalf of its shareholders in other jurisdictions, a certified schedule from the S corporation specifying the taxpayer's share of S corporation income allocated to each state using the New Jersey allocation factor from Schedule J, Form CBT-100S, and the taxpayer's share of the tax paid to that state should be kept and must be submitted to the Division of Taxation upon request.

## Income From a Partnership/ Sole Proprietorship

If a taxpayer is a partner in a partnership or is a sole proprietor of a business and has paid tax to another jurisdiction on the income derived from the partnership or business, the taxpayer may be eligible for a credit for the taxes paid to the other jurisdiction provided the same income also is taxed in New Jersey in the same tax year.

Since New Jersey does not tax partnerships directly, any taxes measured by profits or income that are paid to another jurisdiction by the partnership are deemed to have been paid by the individual partner based on that partner's ownership percentage and are eligible for the resident credit. A sole proprietor also is deemed to have paid any taxes measured by profits or income that are paid by the sole proprietorship. Examples of such taxes are the New York City Unincorporated Business Tax, Philadelphia Business Income and Receipts Tax, and Net Profits Tax. (See examples **4**, **16**, **17**, **18**, **19**, and **21**.)

The sole proprietor or partner should keep copies of the documents listed below for each business entity. These documents must be submitted to the Division of Taxation upon request.

1. A copy of the tax return filed in the other jurisdiction by the sole proprietor or partnership; or
2. A statement on the partnership's letterhead listing the taxing jurisdiction, the name of the tax, the taxpayer's share of the income taxed by the other jurisdiction, and the taxpayer's share of the tax paid.

**Note:** If the other jurisdiction imposes more than one tax on the business entity, a copy of each tax return or statement from the partnership, for each tax imposed, must be kept.

## Income Not Eligible for a Credit

A credit is *not* allowed for any tax imposed by another jurisdiction on partnership income that is allocated to New Jersey.

## Income From New York

New Jersey residents who work in New York or earn other taxable income there are often taxed on an amount less than their actual New York source income as a result of the deductions allowed by New York. When calculating a credit for taxes paid to New York, only the income *actually taxed* by New York should be reflected in the calculation. Because of New York's method of calculating a nonresident taxpayer's tax, it is not possible to identify one particular line on the New York tax return that represents the income subject to tax in New York. Under no circumstances is the "worldwide income" column to be used in the credit calculation. (See ***Income Sourced to Another Jurisdiction v. "Worldwide Income"*** on page 5.)

Follow the New York State Nonresident Return (Form IT-203) instructions carefully to ensure that the correct items and amounts of income are included in the New York State Amount column. If the New York IT-203 is completed correctly, the income (or loss) reported in the New York State Amount column will only include income earned from sources in that state and properly taxable to that state.

Items such as interest earned from a New York bank account or dividends paid by a New York corporation are not taxable in New York unless such income is from property employed in a trade, business, profession, or occupation carried on in that state.

The New York City Unincorporated Business Tax (UBT) and the New York Metropolitan Commuter Transportation Mobility Tax (MCTMT) are income taxes and are imposed on the same income as the individual proprietor's business or the individual partner's distributive share of the partnership's business income. The income taxed under the New York City UBT and the MCTMT that also is taxed by New Jersey can be included in the credit calculation. (See **example 12**.)

# Income From Pennsylvania

As a result of the Reciprocal Personal Income Tax Agreement between the Commonwealth of Pennsylvania and the State of New Jersey, *wages, salaries, and other compensation* paid to New Jersey residents employed in Pennsylvania are not subject to Pennsylvania income tax. Thus, a New Jersey resident may not claim a credit for taxes paid to Pennsylvania on employee compensation because the earnings are not subject to tax in Pennsylvania.

When Pennsylvania tax is withheld from a New Jersey resident's wages in error, a Pennsylvania nonresident return must be filed to receive a refund. To stop the withholding of Pennsylvania income tax, a New Jersey resident must complete a Pennsylvania Employee's Nonwithholding Application Certificate (Pennsylvania Form REV-419) and give it to their employer. This form can be obtained from the **Pennsylvania Department of Revenue**.

The Reciprocal Agreement covers employee compensation (wages, tips, fees, commissions, etc.) *only*. A New Jersey resident who is self-employed or who receives income other than wages (e.g., gain from sale of property) that is taxable in both states, may claim a credit for the taxes paid to Pennsylvania on that income. In no case will a credit be allowed for taxes paid in error to Pennsylvania on employee compensation. (See **example 20**.)

## Income From Pennsylvania Municipalities

The New Jersey/Pennsylvania Reciprocal Agreement does not apply to the income or wage tax imposed and collected by the City of Philadelphia or any other municipality in Pennsylvania. Therefore, income subject to both New Jersey income tax and the wage or income tax imposed by a Pennsylvania municipality may be included in the credit calculation.

### Wages From Philadelphia

To determine the proper amount of income to place on Line 1 of Schedule A, Form NJ-1040, a New Jersey resident earning wages in Philadelphia must divide the wage tax deducted (as reported in the "Local income tax" box on the W-2) by the Philadelphia nonresident tax rate as follows:

$$\frac{\text{Philadelphia Wage Tax Paid}}{\text{Philadelphia Wage Tax Rate}} = \text{Line 1, Schedule A}$$

The amount reported at Line 1 cannot be more than the amount of Philadelphia wages included at Line 14, Form NJ-1040. You must use the exact amount of Philadelphia wage tax reported on the W-2 when performing this calculation. Do not round the figure either up or down.

## Sole Proprietorship or Partnership Income From Philadelphia

A sole proprietor or partner in a partnership whose income is subject to tax by Pennsylvania, Philadelphia Business Income and Receipts Tax, and Net Profits Tax must consider the taxes paid (based on income) to all jurisdictions when calculating the credit. The Philadelphia Business Income and Receipts Tax imposes two taxes, one based on income and one based on gross receipts. Only the tax based on income qualifies for the credit.

## Changes Due to Audit by Other Jurisdictions

When an audit by another state or political subdivision changes the amount of previously reported tax paid, it will result in an adjustment to the credit claimed on the taxpayer's New Jersey return. The taxpayer is required to file an amended New Jersey return, Form NJ-1040X, for the year(s) affected by the audit and pay any amount due. The taxpayer may request a refund of any overpayment resulting from the change "regardless of any otherwise applicable statute of limitations." N.J.S.A. 54A:4-1(e).

## Estimated Tax Payments

Individuals and certain estates and trusts who expect their New Jersey income tax liability to be more than $400 after taking into account all their exemptions, deductions, New Jersey withholdings, and other credits, including the credit for taxes paid to other jurisdictions, for the tax year are required to make quarterly estimated tax payments. This requirement may affect taxpayers who do not have New Jersey income tax withheld from their wages and/or pension; those who do not have enough tax withheld; those who are self-employed; or those whose income is from sources such as interest, dividends, or capital gains, which are not covered by withholding tax. Use Form NJ-1040-ES to file estimated tax payments when due. For more information on estimated taxes, see Tax Topic Bulletin **GIT-8,** *Estimating Income Taxes.*

## Jurisdiction Code

New Jersey resident taxpayers who claim a credit for taxes paid to other jurisdiction(s) are required to enter at Line 41, Form NJ-1040, a two-digit code for the jurisdiction for which they are claiming a credit.

**Jurisdiction Codes (Line 41)**

| | Code | | Code |
|---|---|---|---|
| Alabama | 01 | Nebraska | 27 |
| Arizona | 03 | New Hampshire | 29 |
| Arkansas | 04 | New Mexico | 31 |
| California | 05 | New York | 32 |
| Colorado | 06 | North Carolina | 33 |
| Connecticut | 07 | North Dakota | 34 |
| Delaware | 08 | Ohio | 35 |
| Georgia | 10 | Oklahoma | 36 |
| Hawaii | 11 | Oregon | 37 |
| Idaho | 12 | Pennsylvania | 38 |
| Illinois | 13 | Rhode Island | 39 |
| Indiana | 14 | South Carolina | 40 |
| Iowa | 15 | Tennessee | 42 |
| Kansas | 16 | Utah | 44 |
| Kentucky | 17 | Vermont | 45 |
| Louisiana | 18 | Virginia | 46 |
| Maine | 19 | West Virginia | 48 |
| Maryland | 20 | Wisconsin | 49 |
| Massachusetts | 21 | Dist. of Columbia | 51 |
| Michigan | 22 | Philadelphia | 52 |
| Minnesota | 23 | Other | 53 |
| Mississippi | 24 | Multiple Jurisdictions | 99 |
| Missouri | 25 | | |
| Montana | 26 | | |

For more information, see the **NJ-1040 instructions**.

## Avoiding Mistakes

- Check your math.
- Enter the name of the taxing jurisdiction in the space provided on Line 1 of Schedule A.
- Complete and enclose a separate Schedule A for each taxing jurisdiction.
- Keep a completed copy of the tax return(s) filed with the other jurisdiction(s). For electronic filers, keep a copy of the Electronic Filing Income Tax return along with schedules, worksheets, etc.
- If no tax return is required by the taxing jurisdiction, keep the following as applicable:
  1. A W-2 form that indicates the name of the taxing jurisdiction and the amount of tax withheld.
  2. A statement from the business entity that filed a tax return based on income listing the taxpayer's share of the income taxed by the other jurisdiction, the name of the tax, and the taxpayer's share of the tax paid.

# List of Examples

1. Determining the denominator of the credit calculation fraction.

2. Determining the credit when the amount of tax paid to the other jurisdiction exceeds the proportional credit limitation amount.

3. Determining the credit when the amount of tax paid to the other jurisdiction is less than the proportional credit limitation amount.

4. Determining the credit when there is partnership income earned in two different jurisdictions outside New Jersey and a separate New Jersey partnership that has a loss. (Priority of tax rates)

5. Determining the numerator of the credit calculation fraction when the other jurisdiction uses income from all sources to determine the tax due.

6. Determining the numerator of the credit calculation fraction when an adjustment to income on the other jurisdiction's tax return reduces the amount of income subject to tax in the other jurisdiction.

7. Determining the numerator of the credit calculation fraction when a loss used on the New Jersey return is not used on the other jurisdiction's return. (Includes the property tax deduction/credit calculation on Worksheet J.)

8. Determining the numerator of the credit calculation fraction when there is a loss in the other jurisdiction that is not allowed in New Jersey.

9. Determining the numerator of the credit calculation fraction when a loss allowed on the New Jersey return is larger than the loss allowed on the other jurisdiction's return.

10. Determining the numerator of the credit calculation fraction when there is a larger loss utilized on the other jurisdiction's return than the loss on the New Jersey return.

11. Determining the numerator of the credit calculation fraction when certain adjustments (deductions) are not allowed by the other jurisdiction but are allowed by New Jersey.

12. Determining the credit for income taxed under the New York State income tax, New York City Unincorporated Business Tax (UBT), and New York Metropolitan Commuter Transportation Mobility Tax (MCTMT).

13. Determining the credit for a fiduciary with distributions.

14. Determining the credit for a fiduciary without distributions.

15. Determining the credit when S corporation income is reported on the other jurisdiction's return in separate categories.

16. Schedule C adjustments to income that also are taxable to New Jersey are included in the numerator of the credit calculation fraction.

17. Determining the numerator of the credit calculation fraction when New Jersey and the other jurisdiction tax partnership income differently.

18. Determining the credit when there is partnership income earned in New Jersey as well as in two different jurisdictions outside New Jersey.

19. Determining the credit for Philadelphia partnerships subject to the Philadelphia Business Income and Receipts Tax (BIRT), Philadelphia Net Profits Tax (NPT), and the Pennsylvania Income Tax.

20. Determining the credit for income, other than wages, earned in Pennsylvania. (Includes the property tax deduction/credit calculation on Worksheet J.)

21. Determining the numerator of the credit calculation fraction when a portion of partnership income is allocated to New Jersey.

22. Determining the numerator of the credit calculation fraction when a portion of S corporation income is allocated to New Jersey.

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***Example #1*** **– Determining the denominator of the credit calculation fraction.**

The denominator of the credit calculation fraction on Line 3, Schedule A is the amount from Line 2, Schedule A, which is taken directly from Line 28 of the New Jersey resident return (Form NJ-1040). This is the taxpayer's New Jersey gross income before personal exemptions and deductions. It includes the taxable portion of all pension or annuity payments, and/or IRA withdrawals, *after* any pension and/or other retirement income exclusions allowed by New Jersey have been subtracted.

**Income Subject to Tax by New Jersey**

| | Taxpayer A Without Pension | | Taxpayer B With Pension Less Exclusion(s) | |
|---|---|---|---|---|
| Wages | | 70,000 | | 0 |
| Interest | | 250 | | 4,000 |
| Dividends | | 400 | | 2,500 |
| Gains | | 0 | | 1,525 |
| Pension/Annuity/IRA | 0 | | 30,000 | |
| Pension Exclusion | 0 | | (15,000) | |
| Taxable Pension | | 0 | | 15,000 |
| S Corporation Income | | 21,000 | | 0 |
| Income Subject to Tax Before Exemptions and Deductions | | **91,650** | | **23,025** |

**NOTE:** Prior to Tax Year 2001 the denominator of the credit calculation fraction included the taxable portion of any pension/annuity/IRA income *before allowable exclusions*.

***Example #2*** **– Determining the credit when the amount of tax paid to the other jurisdiction exceeds the proportional credit limitation amount.**

Marty Abbott lives in New Jersey but works primarily in another state. His only income for the year consisted of $115,000 in wages, $105,000 of which was earned in, and taxed by, the other state. Marty's tax liability to the other state, $4,900, exceeds the proportional credit limitation amount from Line 8, Schedule A. Therefore, Marty's credit for taxes paid to the other jurisdiction is $4,689, the proportional credit limitation amount.

| | **Income Subject to Tax** | | |
|---|---|---|---|
| | New Jersey | Other Jurisdiction | Both |
| Wages | 115,000 | 105,000 | 105,000 |
| Income Subject to Tax Before Exemptions and Deductions | 115,000 | 105,000 | 105,000 |
| Less Exemptions | (1,000) | | |
| New Jersey Taxable Income (From Line 36, Form NJ-1040) | 114,000 | | |
| Tax | 5,136 | 4,900 | |
| **Numerator of the credit calculation** | | | **105,000** |

EXAMPLES

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## *Example #2 – continued*

Marty is not eligible for a property tax deduction/credit so he completes only Column B of New Jersey Schedule A as follows:

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | |
|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name State X ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | 1. | 105,000 |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | 2. | 115,000 |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) 1 105,000 / 2 115,000 | 3. | 91.3043% |

| | IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B. | | COLUMN A | | COLUMN B |
|---|---|---|---|---|---|
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | 4. | | 4. | 114,000 |
| 5. | Property Tax and Deduction — Enter in Box 5a the amount from Worksheet G, line 1. See instructions. 5a | | | | |
| | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | 5. | | 5. | - 0 - |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | 6. | | 6. | 114,000 |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | 7. | | 7. | 5,136 |
| 8. | Allowable Credit (Line 3 times Line 7) | 8. | | 8. | 4,689 |
| 9. | Credit for Taxes Paid to Other Jurisdiction — Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. 9a 4,900 | | | | |
| | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | 9. | | 9. | 4,689 |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

***Example #3*** **– Determining the credit when the amount of tax paid to the other jurisdiction is less than the proportional credit limitation amount.**

Alice Meyers lives in New Jersey but works primarily in another state. Her only income for the year consisted of $115,000 in wages, $105,000 of which was earned in, and taxed by, the other state. Alice's tax liability to the other state, $4,631, is less than the proportional credit limitation amount from Line 8, Schedule A. Since the credit for taxes paid to another jurisdiction is the lesser of the actual tax paid to the other jurisdiction or the proportional credit limitation amount, Alice's credit will be $4,631, the actual amount of tax paid to the other state on the income being taxed both by that state and by New Jersey.

| | **Income Subject to Tax** | | |
|---|---|---|---|
| | New Jersey | Other Jurisdiction | Both |
| Wages | 115,000 | 105,000 | 105,000 |
| Income Subject to Tax Before Exemptions and Deductions | 115,000 | 105,000 | 105,000 |
| Less Exemptions | (1,000) | | |
| New Jersey Taxable Income (From Line 36, Form NJ-1040) | 114,000 | | |
| Tax | 5,136 | 4,631 | |
| **Numerator of the credit calculation** | | | **105,000** |

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## *Example #3 – continued*

Alice is not eligible for a property tax deduction/credit so she completes only Column B of New Jersey Schedule A as follows:

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name State X ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | | | | | 1. | 105,000 | |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | | | | | 2. | 115,000 | |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) | 1 105,000 / 2 115,000 | | | | 3. | 91.3043% | |
| | **IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B.** | | | **COLUMN A** | | | **COLUMN B** | |
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | | | 4. | | 4. | 114,000 | |
| 5. | Property Tax and Deduction | Enter in Box 5a the amount from Worksheet G, line 1. See instructions. | 5a | | | | | |
| | | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | | 5. | | 5. | - 0 - | |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | | | 6. | | 6. | 114,000 | |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | | | 7. | | 7. | 5,136 | |
| 8. | Allowable Credit (Line 3 times Line 7) | | | 8. | | 8. | 4,689 | |
| 9. | Credit for Taxes Paid to Other Jurisdiction | Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. | 9a 4,631 | | | | | |
| | | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | | 9. | | 9. | 4,631 | |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

***Example #4*** **– Determining the credit when there is partnership income earned in two different jurisdictions outside New Jersey and a separate New Jersey partnership that has a loss. (Priority of tax rates)**

Jay Johnson, a full-year resident, is a partner in four partnerships. Partnerships ABC and XYZ conduct their business entirely outside New Jersey in two different states. Partnerships KLM and GSS are New Jersey partnerships. Jay's share of partnership income is $10,000 from ABC, $5,000 from XYZ, $7,000 from KLM, and a loss from GSS of $12,000. Although the other jurisdictions are taxing a total of $15,000 in partnership income, only the $10,000 net partnership income taxed by New Jersey (income after the offsetting loss from GSS) can be included in the numerator of the credit calculation fraction because the numerator is limited to income taxed by *both* New Jersey and the other jurisdiction.

| | | **Income Subject to Tax** | | |
|---|---|---|---|---|
| | | New Jersey | State 1 | State 2 |
| Wages | | 100,000 | | |
| Interest | | 200 | | |
| Partnership Income: | | | | |
| Partnership ABC | 10,000 | | 10,000 | |
| Partnership XYZ | 5,000 | | | 5,000 |
| Partnership KLM | 7,000 | | | |
| Partnership GSS | (12,000) | 10,000 | | |
| Income Subject to Tax Before Exemptions and Deductions | | 110,200 | 10,000 | 5,000 |
| Less Exemptions | | (1,000) | | |
| New Jersey Taxable Income (From Line 36, Form NJ-1040) | | 109,200 | | |
| Tax | | 4,830 | 650 | 150 |
| Effective Tax Rate (Tax Liability ÷ Taxable Income) | | | 6.50% | 3.00% |
| **Numerator of the credit calculation** | | | **10,000** | **0.00** |

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## *Example #4 – continued*

When calculating the credit for taxes paid to other jurisdictions, Jay will complete the calculation for the state with the highest tax rate first. In this example, the full amount allowable in the numerator is exhausted in the first calculation so there is no additional credit allowed for the taxes paid to the second state. Consequently, Jay needs to complete only one New Jersey Schedule A as follows:

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name State 1 ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | | | | 1. | 10,000 | |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | | | | 2. | 110,200 | |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) | 1 10,000 / 2 110,200 | | | 3. | 9.0744% | |
| | **IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B.** | | | **COLUMN A** | | **COLUMN B** | |
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | | | 4. | | 4. 109,200 | |
| 5. | Property Tax and Deduction | Enter in Box 5a the amount from Worksheet G, line 1. See instructions. | 5a | | | | |
| | | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | | 5. | | 5. - 0 - | |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | | | 6. | | 6. 109,200 | |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | | | 7. | | 7. 4,830 | |
| 8. | Allowable Credit (Line 3 times Line 7) | | | 8. | | 8. 438 | |
| 9. | Credit for Taxes Paid to Other Jurisdiction | Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. | 9a 650 | | | | |
| | | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | | 9. | | 9. 438 | |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

***Example #5* – Determining the numerator of the credit calculation fraction when the other jurisdiction uses income from all sources to determine the tax due.**

Tom and Betty Stone are New Jersey residents. Tom works in New York; his salary is $65,000. Betty teaches at a school in New Jersey; her salary is $35,000. They also have income from interest, dividends, and capital gains. Although only Tom's salary is subject to tax by New York, the Stones' New York tax liability is determined by first calculating the tax on the couple's total income from all sources (Federal Amount), as if they were New York residents, and then multiplying the resulting "base tax" by the proportion that total New York source income (Tom's salary) bears to total income from all sources. Determining the tax liability of a nonresident in this manner may result in an increase in the average *rate* at which the income derived from the other jurisdiction is taxed, but it does not affect the *amount* of income actually being taxed by the other jurisdiction.

| | **Income Subject to Tax** | | |
|---|---|---|---|
| | New Jersey | Federal Amount | New York |
| Wages | 100,000 | 100,000 | 65,000 |
| Interest | 100 | 100 | 0 |
| Dividends | 50 | 50 | 0 |
| Gains | 340 | 340 | 0 |
| Income Subject to Tax Before Exemptions and Deductions | 100,490 | 100,490 | 65,000 |
| Less Exemptions | (2,000) | | |
| New Jersey Taxable Income (From Line 36, Form NJ-1040) | 98,490 | | |
| Tax | 2,666 | | 3,900 |
| **Numerator of the credit calculation** | | | **65,000** |

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## *Example #5 – continued*

The Stones are not eligible for a property tax deduction/credit so they complete Schedule A, Form NJ-1040 as shown below to determine the amount of their credit for taxes paid to New York.

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | |
|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name New York State ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | 1. | 65,000 |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | 2. | 100,490 |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) 1 65,000 / 2 100,490 | 3. | 64.6831% |

| | IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B. | | COLUMN A | | COLUMN B |
|---|---|---|---|---|---|
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | 4. | | 4. | 98,490 |
| 5. | Property Tax and Deduction — Enter in Box 5a the amount from Worksheet G, line 1. See instructions. 5a | | | | |
| | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | 5. | | 5. | - 0 - |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | 6. | | 6. | 98,490 |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | 7. | | 7. | 2,666 |
| 8. | Allowable Credit (Line 3 times Line 7) | 8. | | 8. | 1,724 |
| 9. | Credit for Taxes Paid to Other Jurisdiction — Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. 9a 3,900 | | | | |
| | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | 9. | | 9. | 1,724 |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

***Example #6* – Determining the numerator of the credit calculation fraction when an adjustment to income on the other jurisdiction's tax return reduces the amount of income subject to tax in the other jurisdiction.**

Tom Tuttle, a New Jersey resident whose filing status is single, works in another state where he earned wages of $100,000. Tom also had income from a partnership of $35,000, $25,000 of which was earned in the other jurisdiction. Tom's partnership income taxable to New Jersey is $32,500 (after New Jersey modifications of $2,500). The other jurisdiction allows a $1,750 adjustment to total income for self-employment taxes paid. This adjustment reduces the numerator of the credit calculation fraction to $123,250.

| | | **Income Subject to Tax** | |
|---|---|---|---|
| | | New Jersey | Other Jurisdiction |
| Wages | | 100,000 | 100,000 |
| Interest | | 200 | |
| Partnership Income | 35,000 | | 25,000 |
| Less: New Jersey Modifications | (2,500) | 32,500 | |
| Self-Employment Tax | | | (1,750) |
| Income Subject to Tax Before Exemptions and Deductions | | 132,700 | 123,250 |
| Less Exemptions | | (1,000) | |
| New Jersey Taxable Income (From Line 36, Form NJ-1040) | | 131,700 | |
| Tax | | 6,263 | 8,630 |
| **Numerator of the credit calculation** | | | **123,250** |

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## *Example #6 – continued*

Tom is not eligible for a property tax deduction/credit. His Schedule A will look like this:

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name Name of Jurisdiction ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | | | | | 1. | 123,250 | |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | | | | | 2. | 132,700 | |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) | 1 123,250 / 2 132,700 | | | | 3. | 92.8787% | |
| | **IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B.** | | | **COLUMN A** | | | **COLUMN B** | |
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | | | 4. | | 4. | 131,700 | |
| 5. | Property Tax and Deduction | Enter in Box 5a the amount from Worksheet G, line 1. See instructions. | 5a | | | | | |
| | | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | | 5. | | 5. | - 0 - | |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | | | 6. | | 6. | 131,700 | |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | | | 7. | | 7. | 6,263 | |
| 8. | Allowable Credit (Line 3 times Line 7) | | | 8. | | 8. | 5,817 | |
| 9. | Credit for Taxes Paid to Other Jurisdiction | Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. | 9a 8,630 | | | | | |
| | | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | | 9. | | 9. | 5,817 | |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

***Example #7*** **– Determining the numerator of the credit calculation fraction when a loss used on the New Jersey return is not used on the other jurisdiction's return.**

John Smith is a 45-year-old New Jersey resident. His wages for the year, all of which were earned in this State, totaled $100,000. His interest income was $500. John sold land in another jurisdiction for a gain of $35,000. He also sold stock for a net loss of $7,000. John's total New Jersey Net Gains or Income From the Disposition of Property (Line 18, Form NJ-1040) is $28,000. The numerator of the credit calculation fraction is limited to income taxed by both jurisdictions, in this case $28,000.

John owns a home in New Jersey on which he paid $3,850 in property taxes. He did not receive a Homestead Benefit in 2016. John completes lines 1 and 2 of Worksheet G, both Columns A and B of Schedule A, and Worksheet J.

| | | **Income Subject to Tax** | | |
|---|---|---|---|---|
| | | New Jersey | Other Jurisdiction | Both |
| Wages | | 100,000 | | |
| Interest | | 500 | | |
| Net Gains or Income From Disposition of Property: | | | | |
| Sale of Land Outside NJ | 35,000 | | 35,000 | |
| Sale of Stock Holdings | (7,000) | 28,000 | | 28,000 |
| Income Subject to Tax Before Exemptions and Deductions | | 128,500 | 35,000 | 28,000 |
| Less Exemptions | | (1,000) | | |
| New Jersey Taxable Income (From Line 36, Form NJ-1040) | | 127,500 | | |
| Tax | | 5,996 | 1,150 | 920 |
| **Numerator of the credit calculation** | | | | **28,000** |

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## *Example #7 – continued*

John Smith will enter on line 1 his property taxes paid during 2016 on his qualified New Jersey residence (the amount from Line 37a, Form NJ-1040). He will complete only lines 1 and 2. He will then complete Schedule A and Worksheet J.

### Worksheet G – Property Tax Deduction/Credit

*Review the eligibility requirements in the instructions before completing Worksheet G. Part-year residents, see instructions.*

*Complete both columns of this worksheet to find out whether the deduction or the credit is better for you.*

1. **Property Tax.** Enter the property taxes from Line 37a, Form NJ-1040. Property tax reimbursement (Senior Freeze) applicants, do not enter the amount from Line 37a. (**See instructions.**) 1. 3,850

2. **Property Tax Deduction.** Is the amount on line 1 of this worksheet $10,000 or more ($5,000 or more if you and your spouse file separate returns but maintained the same principal residence)?

   ⬭ Yes. Enter $10,000 ($5,000 if you and your spouse file separate returns but maintained the same principal residence).

   ⬭ No. Enter the amount from line 1.

   Also enter the amount from this line on line 4, column A below. (See instructions.) 2. 3,850

**STOP — if you are claiming a credit for taxes paid to other jurisdictions. Complete only lines 1 and 2. Then complete Schedule A and Worksheet J. (See instructions.)**

| | | Column A | | Column B |
|---|---|---|---|---|
| 3. Taxable Income (From Line 36 of Form NJ-1040) | 3. | | 3. | |
| 4. Property Tax Deduction (From line 2 of this worksheet) | 4. | | 4. | – 0 – |
| 5. Taxable Income After Property Tax Deduction (Subtract line 4 from line 3) | 5. | | 5. | |
| 6. Tax you would pay on line 5 amount (Go to Tax Table or Tax Rate Schedules) | 6. | | 6. | |
| 7. Subtract line 6, column A from line 6, column B and enter the result here | | | 7. | |

8. **Is the line 7 amount $50 or more ($25 if you and your spouse file separate returns but maintained the same principal residence)?**

   ⬭ Yes. You receive a greater benefit by taking the property tax deduction. Make the following entries on Form NJ-1040.

| *Form NJ-1040* | *Enter amount from:* |
|---|---|
| Line 38 | Line 4, column A |
| Line 39 | Line 5, column A |
| Line 40 | Line 6, column A |
| Line 49 | Make no entry |

   ⬭ No. You receive a greater benefit from the property tax credit. (**Part-year residents,** see instructions before answering "No.") Make the following entries on Form NJ-1040.

| *Form NJ-1040* | *Enter amount from:* |
|---|---|
| Line 38 | Make no entry |
| Line 39 | Line 5, column B |
| Line 40 | Line 6, column B |
| Line 49 | $50 ($25 if you and your spouse file separate returns but maintained the same principal residence). **Part-year residents,** see instructions. |

**(Keep for your records)**

## *Example #7 – continued*

The amount on Line 1 is limited to the amount of income taxed by both New Jersey and the other jurisdiction ($28,000). The amount in Box 9a is the tax actually paid to the other jurisdiction on $28,000, which is calculated as follows: $1,150 × ($28,000 ÷ $35,000) = $920.

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name Name of Jurisdiction ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | | | | | 1. | 28,000 | |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | | | | | 2. | 128,500 | |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) | 1 28,000 / 2 128,500 | | | | 3. | 21.7899% | |
| | **IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B.** | | | | **COLUMN A** | | **COLUMN B** | |
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | | | 4. | 127,500 | 4. | 127,500 | |
| 5. | Property Tax and Deduction | Enter in Box 5a the amount from Worksheet G, line 1. See instructions. | 5a 3,850 | | | | | |
| | | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | | 5. | 3,850 | 5. | - 0 - | |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | | | 6. | 123,650 | 6. | 127,500 | |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | | | 7. | 5,750 | 7. | 5,996 | |
| 8. | Allowable Credit (Line 3 times Line 7) | | | 8. | 1,253 | 8. | 1,307 | |
| 9. | Credit for Taxes Paid to Other Jurisdiction | Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. | 9a 920 | | | | | |
| | | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | | 9. | 920 | 9. | 920 | |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

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## *Example #7 – continued*

John Smith receives a greater benefit from the property tax deduction. He enters the amounts from Lines 5, 6, and 7, Column A, Schedule A on Lines 38, 39, and 40, Form NJ-1040 as indicated in the instructions on Worksheet J. His credit for taxes paid to other jurisdictions for Line 41, Form NJ-1040 is $920, the amount on Line 2, Column A, Worksheet J. His property tax deduction on Line 38, Form NJ-1040 is $3,850.

**Worksheet J**
**Which Property Tax Benefit to Use**

| | COLUMN A | | COLUMN B | |
|---|---|---|---|---|
| 1. Tax. Enter amounts from Line 7, Schedule A, Columns A and B here | 1. 5,750 | | 1. 5,996 | |
| 2. Credit for Taxes Paid to Other Jurisdiction. Enter amounts from Line 9, Schedule A, Columns A and B here. If you completed more than one Schedule A, enter the total of all Line 9 amounts (Columns A and B) in the corresponding column | 2. 920 | | 2. 920 | |
| 3. Balance of Tax Due. Subtract line 2 from line 1 in each column | 3. 4,830 | | 3. 5,076 | |
| 4. Subtract line 3, column A from line 3, column B and enter result here | | | 4. 246 | |

**5. Is the line 4 amount $50 or more ($25 if you and your spouse file separate returns but maintained the same principal residence)?**

● Yes. You receive a greater benefit by taking the property tax deduction. Make the following entries on Form NJ-1040.

| *Form NJ-1040* | *Enter amount from:* |
|---|---|
| Line 38 | Line 5, Column A, Schedule A |
| Line 39 | Line 6, Column A, Schedule A |
| Line 40 | Line 7, Column A, Schedule A |
| Line 41 | Line 2, Column A, Worksheet J |
| Line 49 | Make no entry |

○ No. You receive a greater benefit from the property tax credit. (**Part-year residents,** see instructions before answering "No.") Make the following entries on Form NJ-1040.

| *Form NJ-1040* | *Enter amount from:* |
|---|---|
| Line 38 | Make no entry |
| Line 39 | Line 6, Column B, Schedule A |
| Line 40 | Line 7, Column B, Schedule A |
| Line 41 | Line 2, Column B, Worksheet J |
| Line 49 | $50 ($25 if you and your spouse file separate returns but maintained the same principal residence). **Part-year residents,** see instructions. |

**(Keep for your records)**

***Example #8*** **– Determining the numerator of the credit calculation fraction when there is a loss in the other jurisdiction that is not allowed in New Jersey.**

Mary Lorrey is a single New Jersey resident who earned wages of $115,000 in another state. Mary was also a partner in a partnership in the other state. The partnership had a loss for the year, Mary's share of which was $10,000. The other state allows Mary to apply her partnership loss against her wage income, thereby reducing the amount of income subject to tax by that state by the amount of the loss. In New Jersey, a loss in one category of income cannot be used to offset income (gains) in another category on Form NJ-1040. Also, a net loss cannot be reported as such on Form NJ-1040. The schedule below shows how Mary will determine the credit for taxes paid to the other jurisdiction.

| | **Income Subject to Tax** | |
|---|---|---|
| | New Jersey | Other Jurisdiction |
| Wages | 115,000 | 115,000 |
| Partnership Loss | 0 | (10,000) |
| Income Subject to Tax Before Exemptions and Deductions | 115,000 | 105,000 |
| Less Exemptions | (1,000) | |
| New Jersey Taxable Income (From Line 36, Form NJ-1040) | 114,000 | |
| Tax | 5,136 | 5,022 |
| **Numerator of the credit calculation** | | **105,000** |

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## *Example #8 – continued*

Mary's New Jersey Schedule A will be completed as follows:

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | |
|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name Name of Jurisdiction ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | 1. | 105,000 |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | 2. | 115,000 |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) 1 105,000 / 2 115,000 | 3. | 91.3043% |

| | IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B. | | COLUMN A | | COLUMN B |
|---|---|---|---|---|---|
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | 4. | | 4. | 114,000 |
| 5. | Property Tax and Deduction — Enter in Box 5a the amount from Worksheet G, line 1. See instructions. 5a | | | | |
| | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | 5. | | 5. | - 0 - |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | 6. | | 6. | 114,000 |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | 7. | | 7. | 5,136 |
| 8. | Allowable Credit (Line 3 times Line 7) | 8. | | 8. | 4,689 |
| 9. | Credit for Taxes Paid to Other Jurisdiction — Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. 9a 5,022 | | | | |
| | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | 9. | | 9. | 4,689 |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

***Example #9*** **– Determining the numerator of the credit calculation fraction when a loss allowed on the New Jersey return is larger than the loss allowed on the other jurisdiction's return.**

Alan and Marie Potts are married and live in New Jersey. Alan earns wages of $55,800 in another state and the couple also had income from interest ($3,800) and dividends ($3,450). During the year, Alan sold two properties. The sale of the first property, located in the state where Alan is employed, yielded a gain of $91,500, which must be reported on both the New Jersey resident return and the nonresident return of the other state. The sale of the second property, located in New Jersey, resulted in a $21,237 loss. The couple also incurred a $5,700 loss on a rental property they own in the other jurisdiction; The rental loss may be used to reduce the wage and gain income taxed by the other jurisdiction; however, it may not be used to offset income in other categories on the New Jersey return. Thus, the loss incurred on the sale of the New Jersey property may be used on the New Jersey return to reduce the gain realized from the sale of the property located in the other state. However, only the jointly taxed income can be used in the numerator of the credit calculation fraction.

| | | **Income Subject to Tax** | | |
|---|---|---|---|---|
| | | New Jersey | Other Jurisdiction | Both |
| Wages | | 55,800 | 55,800 | 55,800 |
| Interest | | 3,800 | | |
| Dividends | | 3,450 | | |
| Net Gains or Income From Disposition of Property: | | | | |
| Sale of Property Outside NJ | 91,500 | | 91,500 | |
| Sale of New Jersey Property | (21,237) | 70,263 | | 70,263 |
| Net Gains or Income From Rents, etc. | | 0 | (5,700) | |
| Income Subject to Tax Before Exemptions and Deductions | | 133,313 | 141,600 | 126,063 |
| Less Exemptions | | (2,000) | | |
| New Jersey Taxable Income (From Line 36, Form NJ-1040) | | 131,313 | | |
| Tax | | 4,480 | 5,500 | 4,897 |
| **Numerator of the credit calculation** | | | | **126,063** |

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## *Example #9 – continued*

The amount in Box 9a is the tax actually paid to the other jurisdiction on $126,063, which is calculated as follows: $5,500 × ($126,063 ÷ $141,600) = $4,897.

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name Name of Jurisdiction) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | | | | 1. | 126,063 | |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | | | | 2. | 133,313 | |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) | 1 126,063 / 2 133,313 | | | 3. | 94.5617% | |
| | **IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B.** | | | **COLUMN A** | | **COLUMN B** | |
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | | | 4. | | 4. 131,313 | |
| 5. | Property Tax and Deduction | Enter in Box 5a the amount from Worksheet G, line 1. See instructions. | 5a | | | | |
| | | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | | 5. | | 5. - 0 - | |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | | | 6. | | 6. 131,313 | |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | | | 7. | | 7. 4,480 | |
| 8. | Allowable Credit (Line 3 times Line 7) | | | 8. | | 8. 4,236 | |
| 9. | Credit for Taxes Paid to Other Jurisdiction | Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. | 9a 4,897 | | | | |
| | | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | | 9. | | 9. 4,236 | |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

***Example #10*** **– Determining the numerator of the credit calculation fraction when there is a larger loss utilized on the other jurisdiction's return than the loss on the New Jersey return.**

Assume the same facts as in **Example 9**, except that the rental loss was $30,000 instead of $5,700.

| | | Income Subject to Tax | | |
|---|---|---|---|---|
| | | New Jersey | Other Jurisdiction | Both |
| Wages | | 55,800 | 55,800 | 55,800 |
| Interest | | 3,800 | | |
| Dividends | | 3,450 | | |
| Net Gains or Income From Disposition of Property: | | | | |
| Sale of Property Outside NJ | 91,500 | | 91,500 | |
| Sale of New Jersey Property | (21,237) | 70,263 | | 70,263 |
| Net Gains or Income From Rents, etc. | | 0 | (30,000) | |
| Income Subject to Tax Before Exemptions and Deductions | | 133,313 | 117,300 | 126,063 |
| Less Exemptions | | (2,000) | | |
| New Jersey Taxable Income (From Line 36, Form NJ-1040) | | 131,313 | | |
| Tax | | 4,480 | 4,557 | 4,897 |
| **Numerator of the credit calculation** | | | **117,300** | |

EXAMPLES

## *Example #10 – continued*

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name Name of Jurisdiction ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | | | | 1. | 117,300 | |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | | | | 2. | 133,313 | |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) | 1 117,300 / 2 133,313 | | | 3. | 87.9884% | |
| | **IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B.** | | | **COLUMN A** | | **COLUMN B** | |
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | | 4. | | | 4. 131,313 | |
| 5. | Property Tax and Deduction | Enter in Box 5a the amount from Worksheet G, line 1. See instructions. 5a | | | | | |
| | | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | 5. | | | 5. - 0 - | |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | | 6. | | | 6. 131,313 | |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | | 7. | | | 7. 4,480 | |
| 8. | Allowable Credit (Line 3 times Line 7) | | 8. | | | 8. 3,942 | |
| 9. | Credit for Taxes Paid to Other Jurisdiction | Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. 9a 4,557 | | | | | |
| | | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | 9. | | | 9. 3,942 | |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

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***Example #11*** **– Determining the numerator of the credit calculation fraction when certain adjustments (deductions) are not allowed by the other jurisdiction but are allowed by New Jersey.**

Jerry Smith is a partner in New Jersey Partnership A. Jerry's share of partnership income is $50,000 for which he receives an NJK-1 with 50% allocated to New York and 50% allocated to New Jersey. Jerry's expenses include $2,000 in interest paid to finance the purchase of his partnership interest and $8,000 in other miscellaneous expenses for which he was not reimbursed by the partnership. His New York partnership income is $25,000 (50% of $50,000).

| | | **Income Subject to Tax** | | |
|---|---|---|---|---|
| | | New Jersey | New York State | Both |
| Partnership Income (Federal Schedule K-1 Items): | | | | |
| Ordinary Income | 50,000 | | | |
| Less New Jersey Expenses | (10,000) | 40,000 | 25,000 | 20,000* |
| Income Subject to Tax Before Exemptions and Deductions | | 40,000 | 25,000 | 20,000 |
| Less Exemptions | | (1,000) | | |
| New Jersey Taxable Income (From Line 36, Form NJ-1040) | | 39,000 | | |
| Tax | | 683 | 1,600 | 1,280 |
| **Numerator of the credit calculation** | | | | **20,000** |

* The income allocated to New York must be reduced by 50% of the $10,000 of expenses that are allowed by New Jersey, but are not allowed by New York ($25,000 – $5,000 = $20,000).

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## *Example #11 – continued*

The tax on New York taxable income of $25,000 is $1,600. The amount in Box 9a is the tax paid to New York on $20,000, which is calculated as follows: $1,600 × ($20,000 ÷ $25,000) = $1,280.

Jerry's New Jersey Schedule A will be completed as follows:

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name New York State ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | | | | 1. | 20,000 | |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | | | | 2. | 40,000 | |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) | 1 20,000 / 2 40,000 | | | 3. | 50% | |
| | **IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B.** | | | **COLUMN A** | | **COLUMN B** | |
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | | 4. | | | 4. 39,000 | |
| 5. | Property Tax and Deduction | Enter in Box 5a the amount from Worksheet G, line 1. See instructions. 5a | | | | | |
| | | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | 5. | | | 5. - 0 - | |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | | 6. | | | 6. 39,000 | |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | | 7. | | | 7. 683 | |
| 8. | Allowable Credit (Line 3 times Line 7) | | 8. | | | 8. 342 | |
| 9. | Credit for Taxes Paid to Other Jurisdiction | Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. 9a 1,280 | | | | | |
| | | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | 9. | | | 9. 342 | |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

***Example #12*** **– Determining the credit for income taxed under the New York State income tax, New York City Unincorporated Business Tax (UBT), and the New York Metropolitan Commuter Transportation Mobility Tax (MCTMT).**

Joe and Sally Smith are full-year New Jersey residents. The couple are married and filed a joint return on which they reported total income for the year of $450,000. The income consisted of Sally's wages, earned in New Jersey ($115,000), interest ($25,000), dividends ($10,000), and Joe's net profits from the business he owns in New York City ($300,000). New York State imposed $15,000 in tax based on taxable income of $175,000. In addition, $4,000 in New York City Unincorporated Business Tax (UBT) was imposed on $100,000, and $425 in New York Metropolitan Commuter Transportation Mobility Tax (MCTMT) was imposed on $125,000.

The Smiths must complete three separate Schedule As: one for the $100,000 of income taxed under the New York State income tax, the UBT, and the MCTMT; one for the $25,000 "excess income" subject only to the New York State income tax and the MCTMT; and one for the $50,000 "excess income" subject only to the New York State income tax. The results of the three separate credit calculations are then added to determine the total credit for taxes paid to other jurisdictions.

| | | **Income Subject to Tax** | | |
|---|---|---|---|---|
| | New Jersey | New York State | UBT | MCTMT |
| Wages | 115,000 | | | |
| Interest | 25,000 | | | |
| Dividends | 10,000 | | | |
| Net Profits From Business | 300,000 | 175,000 | 100,000 | 125,000 |
| Income Subject to Tax Before Exemptions and Deductions | 450,000 | 175,000 | 100,000 | 125,000 |
| Less Exemptions | (2,000) | | | |
| New Jersey Taxable Income (From Line 36, Form NJ-1040) | 448,000 | | | |
| Tax | 24,495 | 15,000 | 4,000 | 425 |
| **Numerator of the credit calculation** | | **(a) 100,000** | **(b) 25,000** | **(c) 50,000** |

(a) Schedule A for income taxed by New York State, UBT, and MCTMT
(b) Schedule A for "excess income" taxed by New York State and MCTMT
(c) Schedule A for "excess income" taxed by New York State

EXAMPLES

## *Example #12 – continued*

**(a) Credit for taxes paid on the income taxed under the New York State income tax, the UBT, and the MCTMT.**

The Smiths enter $100,000 on Line 1 of the first Schedule A. This is the amount of income taxed under the New York State income tax, the UBT, and the MCTMT. The entry on Line 9 of this schedule is the lesser of the amount on Line 8 or the amount in Box 9a (the total tax actually paid on the $100,000 of jointly taxed income). The total tax actually paid on this $100,000 is $12,911 ($8,571 in New York State income tax, $4,000 in UBT, and $340 in MCTMT). The amount of New York State income tax paid on $100,000 is calculated as follows: $15,000 × ($100,000 ÷ $175,000) = $8,571. The amount of MCTMT paid on $100,000 is calculated as follows: $425 × ($100,000 ÷ $125,000) = $340.

EXAMPLES

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name NY State, UBT & MCTMT ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | | | | 1. | 100,000 | |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | | | | 2. | 450,000 | |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) | 1 100,000 / 2 450,000 | | | 3. | 22.2222% | |
| | **IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B.** | | **COLUMN A** | | **COLUMN B** | | |
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | | 4. | | 4. | 448,000 | |
| 5. | Property Tax and Deduction | Enter in Box 5a the amount from Worksheet G, line 1. See instructions. 5a | | | | | |
| | | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | 5. | | 5. | - 0 - | |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | | 6. | | 6. | 448,000 | |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | | 7. | | 7. | 24,495 | |
| 8. | Allowable Credit (Line 3 times Line 7) | | 8. | | 8. | 5,443 | |
| 9. | Credit for Taxes Paid to Other Jurisdiction | Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. 9a 12,911 | | | | | |
| | | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | 9. | | 9. | 5,443 | |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

## *Example #12 – continued*

**(b) Credit for taxes paid on the "excess income" taxed under only the New York State income tax and the MCTMT.**

Income can only be reported once on Schedule A. The Smiths enter $25,000 on Line 1 of the second Schedule A. This is the income subject only to the New York State income tax and the MCTMT. The entry on Line 9 of this schedule will be the lesser of the amount on Line 8 or the amount in Box 9a (the New York State income tax and the MCTMT actually paid on $25,000). The total tax actually paid on this $25,000 is $2,228 ($2,143 in New York State income tax and $85 in MCTMT). The amount of New York State income tax paid on $25,000 is calculated as follows: $15,000 × ($25,000 ÷ $175,000) = $2,143. The amount of MCTMT paid on $25,000 is calculated as follows: $425 × ($25,000 ÷ $125,000) = $85.

EXAMPLES

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name NY State & MCTMT ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | | | | 1. | 25,000 | |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | | | | 2. | 450,000 | |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) | 1 25,000 / 2 450,000 | | | 3. | 5.5556% | |
| | **IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B.** | | | **COLUMN A** | | **COLUMN B** | |
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | | 4. | | | 4. 448,000 | |
| 5. | Property Tax and Deduction | Enter in Box 5a the amount from Worksheet G, line 1. See instructions. 5a | | | | | |
| | | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | 5. | | | 5. - 0 - | |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | | 6. | | | 6. 448,000 | |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | | 7. | | | 7. 24,495 | |
| 8. | Allowable Credit (Line 3 times Line 7) | | 8. | | | 8. 1,361 | |
| 9. | Credit for Taxes Paid to Other Jurisdiction | Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. 9a 2,228 | | | | | |
| | | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | 9. | | | 9. 1,361 | |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

EXAMPLES

## *Example #12 – continued*

**(c) Credit for taxes paid on the "excess income" taxed under only New York State income tax.**

Income can only be reported once on Schedule A. The Smiths enter $50,000 on Line 1 of the third Schedule A. This is the income subject only to the New York State income tax. The entry on Line 9 of this schedule will be the lesser of the amount on Line 8 or the amount in Box 9a (the New York State income tax actually paid on $50,000). The amount of New York State income tax paid on $50,000 is calculated as follows: $15,000 × ($50,000 ÷ $175,000) = $4,286.

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name New York State) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | | | | | 1. | 50,000 | |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | | | | | 2. | 450,000 | |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) | 1 50,000 / 2 450,000 | | | | 3. | 11.1111% | |
| | **IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B.** | | | **COLUMN A** | | | **COLUMN B** | |
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | | | 4. | | 4. | 448,000 | |
| 5. | Property Tax and Deduction | Enter in Box 5a the amount from Worksheet G, line 1. See instructions. | 5a | | | | | |
| | | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | | 5. | | 5. | - 0 - | |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | | | 6. | | 6. | 448,000 | |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | | | 7. | | 7. | 24,495 | |
| 8. | Allowable Credit (Line 3 times Line 7) | | | 8. | | 8. | 2,722 | |
| 9. | Credit for Taxes Paid to Other Jurisdiction | Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. | 9a 4,286 | | | | | |
| | | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | | 9. | | 9. | 2,722 | |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

The total credit for income taxes paid to other jurisdictions reported on Line 41, Form NJ-1040, is $9,526 ($5,443 from Line 9, Column B of the first Schedule A, plus $1,361 from Line 9, Column B of the second Schedule A, plus $2,722 from Line 9, Column B of the third Schedule A).

***Example #13*** **– Determining the credit for a fiduciary with distributions.**

A fiduciary return filed for the estate of Charles Hart reports that the estate earned $4,000 in interest income and $25,000 on the gain realized from the disposition of property. The gain from the disposition of property also was taxed by another jurisdiction. However, the estate distributed $12,000, which reduced the jointly taxed income to $13,000.

| | **Income Subject to Tax** | | |
|---|---|---|---|
| | New Jersey | Other Jurisdiction | Both |
| Interest | 4,000 | | |
| Net Gains or Income From Disposition of Property | 25,000 | 25,000 | 25,000 |
| Distributions | (12,000) | (12,000) | (12,000) |
| Income Subject to Tax Before Exemptions and Deductions | 17,000 | 13,000 | 13,000 |
| Less Exemptions | (1,000) | | |
| New Jersey Taxable Income (From Line 22, Form NJ-1041) | 16,000 | | |
| Tax | 224 | 435 | |
| **Numerator of the credit calculation** | | | **13,000** |

EXAMPLES

Schedule C of the New Jersey fiduciary return (Form NJ-1041) was completed as follows:

**Schedule C** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** A copy of other state or political subdivision tax return must be retained with your records.

| | | | |
|---|---|---|---|
| 45. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name State X) ..... *(Do not combine the same income taxed by more than one jurisdiction.) Amount on Line 45 cannot exceed amount on Line 46.* | 45 | 13,000 |
| 46. | Income Subject to Tax by New Jersey. (From Page 1, Line 16) ..... | 46 | 17,000 |
| 47. | Maximum Allowable Credit (45) 13,000 × 224 = ..... (Divide Line 46 into Line 45) (46) 17,000 (New Jersey Tax, Line 26, Page 2) | 47 | 171 |
| 48. | Income tax paid to other jurisdiction ..... | 48 | 435 |
| 49. | Credit Allowed. (Enter lesser of Line 47 or Line 48 here and on Page 2, Line 27) ..... | 49 | 171 |

EXAMPLES

***Example #14* – Determining the credit for a fiduciary without distributions.**

A fiduciary return filed for the estate of Barbara Ziegler reports that the estate earned $4,000 in interest income and $25,000 on a gain realized from the disposition of property. The gain from the disposition of property also was taxed by another jurisdiction. There were no distributions made by the estate. A credit for taxes paid to the other jurisdiction is claimed on the $25,000 of jointly taxed income.

| | Income Subject to Tax | | |
|---|---|---|---|
| | New Jersey | Other Jurisdiction | Both |
| Interest | 4,000 | | |
| Net Gains or Income From Disposition of Property | 25,000 | 25,000 | 25,000 |
| Income Subject to Tax Before Exemptions and Deductions | 29,000 | 25,000 | 25,000 |
| Less Exemptions | (1,000) | | |
| New Jersey Taxable Income (From Line 22, Form NJ-1041) | 28,000 | | |
| Tax | 420 | 837 | |
| **Numerator of the credit calculation** | | | **25,000** |

Schedule C of the New Jersey Fiduciary Return (Form NJ-1041) was completed as follows:

**Schedule C** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** A copy of other state or political subdivision tax return must be retained with your records.

| | | | |
|---|---|---|---|
| 45. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name State Y) ..... *(Do not combine the same income taxed by more than one jurisdiction.) Amount on Line 45 cannot exceed amount on Line 46.* | 45 | 25,000 |
| 46. | Income Subject to Tax by New Jersey. (From Page 1, Line 16) ..... | 46 | 29,000 |
| 47. | Maximum Allowable Credit (45) 25,000 × 420 = ..... (Divide Line 46 into Line 45) (46) 29,000 (New Jersey Tax, Line 26, Page 2) | 47 | 362 |
| 48. | Income tax paid to other jurisdiction ..... | 48 | 837 |
| 49. | Credit Allowed. (Enter lesser of Line 47 or Line 48 here and on Page 2, Line 27) ..... | 49 | 362 |

***Example #15*** **– Determining the credit when S corporation income is reported on the other jurisdiction's return in separate categories.**

Abe Avery is a shareholder in a Federal S corporation that does business outside New Jersey. The S corporation has ordinary income of $35,000 and interest income of $2,500. In addition, Mr. Avery has wages of $100,000 and personal interest of $200, all earned in New Jersey. Even though the other jurisdiction requires that the S corporation income be reported in separate categories and New Jersey requires that the income be netted into one category, all of the S corporation income is taxed by both jurisdictions and is, therefore, included in the numerator.

| | | **Income Subject to Tax** | | |
|---|---|---|---|---|
| | | New Jersey | Other Jurisdiction | Both |
| Wages | | 100,000 | | |
| Interest: | | | | |
| Personal Interest | | 200 | | |
| S Corporation Interest | | | 2,500 | 2,500 |
| S Corporation Income: | | | | |
| Ordinary | 35,000 | | 35,000 | 35,000 |
| Interest | 2,500 | 37,500 | | |
| Income Subject to Tax Before Exemptions and Deductions | | 137,700 | 37,500 | 37,500 |
| Less Exemptions | | (1,000) | | |
| New Jersey Taxable Income (From Line 36, Form NJ-1040) | | 136,700 | | |
| Tax | | 6,582 | 2,625 | |
| **Numerator of the credit calculation** | | | | **37,500** |

EXAMPLES

## *Example #15 – continued*

Mr. Avery's New Jersey Schedule A was completed as follows:

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name Name of Jurisdiction) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | | | | | 1. | 37,500 | |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | | | | | 2. | 137,700 | |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) | 1 37,500 / 2 137,700 | | | | 3. | 27.2331% | |
| | **IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B.** | | | **COLUMN A** | | | **COLUMN B** | |
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | | | 4. | | 4. | 136,700 | |
| 5. | Property Tax and Deduction | Enter in Box 5a the amount from Worksheet G, line 1. See instructions. | 5a | | | | | |
| | | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | | 5. | | 5. | - 0 - | |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | | | 6. | | 6. | 136,700 | |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | | | 7. | | 7. | 6,582 | |
| 8. | Allowable Credit (Line 3 times Line 7) | | | 8. | | 8. | 1,792 | |
| 9. | Credit for Taxes Paid to Other Jurisdiction | Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. | 9a 2,625 | | | | | |
| | | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | | 9. | | 9. | 1,792 | |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

EXAMPLES

***Example #16* – Schedule C adjustments to income that also are taxable to New Jersey are included in the numerator of the credit calculation fraction.**

Sam Baker works in another jurisdiction where he earned wages of $100,000. He also has a business in the other jurisdiction. For New Jersey tax purposes, the business had a net profit of $36,000 after adding back $1,000 deducted on the Federal return for taxes based on income. Of the total business income, $25,000 was derived from the other jurisdiction. When Sam completed the other jurisdiction's nonresident return, he was required to add back the $1,000 in taxes based on income. Therefore, the $1,000 is correctly included in the numerator of the credit calculation fraction.

| | | **Income Subject to Tax** | | |
|---|---|---|---|---|
| | | New Jersey | Other Jurisdiction | Both |
| Wages | | 100,000 | 100,000 | 100,000 |
| Interest | | 200 | | |
| Net Profits From Business | 35,000 | | 25,000 | 25,000 |
| Taxes Based on Income | 1,000 | 36,000 | 1,000 | 1,000 |
| Income Subject to Tax Before Exemptions and Deductions | | 136,200 | 126,000 | 126,000 |
| Less Exemptions | | (1,000) | | |
| New Jersey Taxable Income (From Line 36, Form NJ-1040) | | 135,200 | | |
| Tax | | 6,486 | 8,820 | |
| **Numerator of the credit calculation** | | | | **126,000** |

EXAMPLES

EXAMPLES

## *Example #16 – continued*

Mr. Baker's New Jersey Schedule A was completed as follows:

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name Name of Jurisdiction ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | | | | 1. | 126,000 | |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | | | | 2. | 136,200 | |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) | 1 126,000 / 2 136,200 | | | 3. | 92.5110% | |
| | **IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B.** | | | **COLUMN A** | | **COLUMN B** | |
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | | 4. | | | 4. 135,200 | |
| 5. | Property Tax and Deduction | Enter in Box 5a the amount from Worksheet G, line 1. See instructions. 5a | | | | | |
| | | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | 5. | | | 5. - 0 - | |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | | 6. | | | 6. 135,200 | |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | | 7. | | | 7. 6,486 | |
| 8. | Allowable Credit (Line 3 times Line 7) | | 8. | | | 8. 6,000 | |
| 9. | Credit for Taxes Paid to Other Jurisdiction | Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. 9a 8,820 | | | | | |
| | | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | 9. | | | 9. 6,000 | |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

***Example #17*** **– Determining the numerator of the credit calculation fraction when New Jersey and the other jurisdiction tax partnership income differently.**

Bill Jones is a partner in New York Partnership ABC. Bill's share of the partnership's income consisted of ordinary income of $34,000, ordinary interest of $1,000, interest from New York obligations of $7,500 and interest from New Jersey obligations of $5,000. The numerator of the credit calculation is limited to income that also is included in the denominator (income subject to tax by New Jersey). Since New Jersey allowed the deduction for expenses related to exempt interest in determining partnership ordinary income, and interest from New Jersey obligations is not taxed by New Jersey, these amounts cannot be included in the numerator of the credit calculation fraction.

| | | **Income Subject to Tax** | | |
|---|---|---|---|---|
| | | New Jersey | New York | Both |
| Interest Income: | | | | |
| From Personal Savings | | 200 | | |
| From Partnership ABC | | | 1,000 | 1,000 |
| Partnership Income (Federal Schedule K-1 items): | | | | |
| Ordinary Income | 34,000 | | 34,000 | 34,000 |
| Interest | 1,000 | | | |
| Interest From New York Obligations | 7,500 | 42,500 | | |
| New York Additions: | | | | |
| Expenses Related to Exempt Income | | | 500 | |
| Interest From Non-New York (NJ) Obligations | | | 5,000 | |
| Income Subject to Tax Before Exemptions and Deductions | | 42,700 | 40,500 | 35,000 |
| Less Exemptions | | (1,000) | | |
| New Jersey Taxable Income (From Line 36, Form NJ-1040) | | 41,700 | | |
| Tax | | 813 | 2,600 | 2,247 |
| **Numerator of the credit calculation** | | | | **35,000** |

EXAMPLES

EXAMPLES

## *Example #17 – continued*

The tax paid to New York on taxable income of $40,500 is $2,600. The amount in Box 9a is the tax paid to New York on $35,000, which is calculated as follows: $2,600 × ($35,000 ÷ $40,500) = $2,247.

Bill's New Jersey Schedule A was completed as follows:

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name New York ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | | | | 1. | 35,000 | |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | | | | 2. | 42,700 | |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) | 1 35,000 / 2 42,700 | | | 3. | 81.9672% | |
| | **IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B.** | | | **COLUMN A** | | **COLUMN B** | |
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | | 4. | | | 4. 41,700 | |
| 5. | Property Tax and Deduction | Enter in Box 5a the amount from Worksheet G, line 1. See instructions. 5a | | | | | |
| | | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | 5. | | | 5. - 0 - | |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | | 6. | | | 6. 41,700 | |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | | 7. | | | 7. 813 | |
| 8. | Allowable Credit (Line 3 times Line 7) | | 8. | | | 8. 666 | |
| 9. | Credit for Taxes Paid to Other Jurisdiction | Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. 9a 2,247 | | | | | |
| | | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | 9. | | | 9. 666 | |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

***Example #18*** **– Determining the credit when there is partnership income earned in New Jersey as well as in two different jurisdictions outside New Jersey.**

Aaron Adams, a full-year resident of New Jersey who works in this State, is a partner in three separate partnerships: ABC, XYZ, and KLM. Partnerships ABC and XYZ conduct their business entirely outside New Jersey in two different states. KLM is a New Jersey partnership. Aaron's share of partnership income from ABC is $10,000, from XYZ, $5,000, and from KLM, $7,000. His total partnership income for New Jersey tax purposes is $22,000. A separate Schedule A must be completed for each jurisdiction to determine the credit for taxes paid to that jurisdiction. The credit allowed in each case is the lesser of the proportional credit limitation amount or the actual tax paid to that state. The total credit for taxes paid to other jurisdictions is the sum of the two separate allowable credits.

| | | **Income Subject to Tax** | | |
|---|---|---|---|---|
| | | New Jersey | State 1 | State 2 |
| Wages | | 100,000 | | |
| Interest | | 200 | | |
| Partnership Income: | | | | |
| Partnership ABC | 10,000 | | 10,000 | |
| Partnership XYZ | 5,000 | | | 5,000 |
| Partnership KLM | 7,000 | 22,000 | | |
| Income Subject to Tax Before Exemptions and Deductions | | 122,200 | 10,000 | 5,000 |
| Less Exemptions | | (1,000) | | |
| New Jersey Taxable Income (From Line 36, Form NJ-1040) | | 121,200 | | |
| Tax | | 5,594 | 650 | 150 |
| **Numerator of the credit calculation** | | | **(a) 10,000** | **(b) 5,000** |

(a) Schedule A income taxed by State 1
(b) Schedule A income taxed by State 2

EXAMPLES

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## *Example #18 – continued*

### (a) Credit for taxes paid on the income derived from State 1.

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | |
|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name State 1 ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | 1. | 10,000 |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | 2. | 122,200 |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) 1 10,000 / 2 122,200 | 3. | 8.1833% |

| | IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B. | COLUMN A | COLUMN B |
|---|---|---|---|
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | 4. | 4. 121,200 |
| 5. | Property Tax and Deduction — Enter in Box 5a the amount from Worksheet G, line 1. See instructions. 5a | | |
| | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | 5. | 5. - 0 - |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | 6. | 6. 121,200 |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | 7. | 7. 5,594 |
| 8. | Allowable Credit (Line 3 times Line 7) | 8. | 8. 458 |
| 9. | Credit for Taxes Paid to Other Jurisdiction — Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. 9a 650 | | |
| | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | 9. | 9. 458 |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

## *Example #18 – continued*

**(b) Credit for taxes paid on the income derived from State 2.**

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name State 2 ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | | | | 1. | 5,000 | |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | | | | 2. | 122,200 | |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) | 1 5,000 / 2 122,200 | | | 3. | 4.0917% | |
| | **IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B.** | | | **COLUMN A** | | **COLUMN B** | |
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | | | 4. | | 4. 121,200 | |
| 5. | Property Tax and Deduction | Enter in Box 5a the amount from Worksheet G, line 1. See instructions. | 5a | | | | |
| | | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | | 5. | | 5. - 0 - | |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | | | 6. | | 6. 121,200 | |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | | | 7. | | 7. 5,594 | |
| 8. | Allowable Credit (Line 3 times Line 7) | | | 8. | | 8. 229 | |
| 9. | Credit for Taxes Paid to Other Jurisdiction | Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. | 9a 150 | | | | |
| | | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | | 9. | | 9. 150 | |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

The total credit for income taxes paid to other jurisdictions reported on Line 41, Form NJ-1040, is $608 ($458 from Line 9, Column B of the Schedule A for State 1, plus $150 from Line 9, Column B of the Schedule A for State 2.)

EXAMPLES

***Example #19* – Determining the credit for Philadelphia partnerships subject to the Philadelphia Business Income and Receipts Tax (BIRT), Philadelphia Net Profits Tax (NPT), and the Pennsylvania income tax.**

Jane Smith, a full-year resident, has wages of $45,000, interest income of $1,000, and dividend income of $4,000. In addition, Jane is a partner in a Philadelphia partnership. Her partnership income is subject to tax by the Commonwealth of Pennsylvania, and also by the City of Philadelphia: Business Income and Receipts Tax (BIRT) and Net Profits Tax (NPT). A New Jersey resident is entitled to credit for taxes paid to another jurisdiction provided the tax is imposed on income. The NPT is a tax on income and allows a credit for 60% of the BIRT paid. The BIRT imposes two taxes: one based on income and one based on gross receipts. Only taxes paid based on income qualify for the credit calculation. The income allowed for the credit calculation is limited to the income actually taxed by Philadelphia after all adjustments, including the Statutory Net Income Deduction and Loss Carry Forward Deduction. Taxes paid based on gross receipts do not qualify for the credit for taxes paid to other jurisdictions. You must consider the taxes paid (based on income) to all jurisdictions when calculating the credit. Jane Smith must complete three Schedule As: one for the $200,000 of income taxed under the Pennsylvania income tax, the BIRT, and the NPT; one for the $25,000 "excess income" subject only to the BIRT and NPT; and one for the $35,000 "excess income" subject only to the NPT. The results of the credit calculations are then added to determine the total credit for taxes paid to other jurisdictions.

| | | **Income Subject to Tax** | | |
|---|---|---|---|---|
| | New Jersey | PA Income | BIRT | NPT |
| Wages | 45,000 | | | |
| Interest | 1,000 | | | |
| Dividends | 4,000 | | | |
| Partnership ABC | 450,000 | 200,000 | 225,000 | 260,000 |
| Income Subject to Tax Before Exemptions and Deductions | 500,000 | 200,000 | 225,000 | 260,000 |
| Less Exemptions | (1,000) | | | |
| New Jersey Taxable Income (From Line 36, Form NJ-1040) | 499,000 | | | |
| Tax Liability | 29,660 | 6,140 | 14,513 | 9,055 |
| Less BIRT Credit ($14,513× 60%) | | | | (8,708) |
| Tax | 29,660 | 6,140 | 14,513 | 347 |
| Effective Tax Rate (Tax Liability ÷ Taxable Income) | | 3.07% | 6.45% | 0.13% |
| **Numerator of the credit calculation** | | **(a) 200,000** | **(b) 25,000** | **(c) 35,000** |

(a) Schedule A for income taxed by PA, Phila. BIRT & NPT
(b) Schedule A for "excess income" taxed by Phila. BIRT & NPT
(c) Schedule A for "excess income" taxed by Phila. NPT

## *Example #19 – continued*

**(a) Credit for taxes paid on the income taxed under the Pennsylvania income tax, the BIRT, and the NPT.**

Jane Smith enters $200,000 on Line 1 of the first Schedule A. This is the amount of income taxed under the Pennsylvania income tax, the BIRT, and the NPT. The entry on Line 9 of this schedule is the lesser of the amount on Line 8 or the amount in Box 9a (the total tax actually paid under the three taxes on the $200,000 of jointly taxed income). The total tax actually paid on $200,000 is $19,307 ($6,140 in Pennsylvania income tax plus $12,900 in BIRT plus $267 in NPT). The amount of BIRT paid on $200,000 is calculated as follows: $14,513 × ($200,000 ÷ $225,000) = $12,900. The amount of NPT paid on $200,000 is calculated as follows: $347 × ($200,000 ÷ $260,000) = $267.

EXAMPLES

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | |
|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name PA, Phila. BIRT & NPT ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | 1. | 200,000 |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | 2. | 500,000 |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) 1 200,000 / 2 500,000 | 3. | 40.0000% |

| | IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B. | COLUMN A | COLUMN B |
|---|---|---|---|
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | 4. | 4. 499,000 |
| 5. | Property Tax and Deduction — Enter in Box 5a the amount from Worksheet G, line 1. See instructions. 5a | | |
| | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | 5. | 5. - 0 - |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | 6. | 6. 499,000 |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | 7. | 7. 29,660 |
| 8. | Allowable Credit (Line 3 times Line 7) | 8. | 8. 11,864 |
| 9. | Credit for Taxes Paid to Other Jurisdiction — Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. 9a 19,307 | | |
| | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | 9. | 9. 11,864 |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

EXAMPLES

## *Example #19 – continued*

**(b) Credit for taxes paid on the "excess income" taxed under only BIRT and NPT.**

Income can only be reported once on Schedule A. Jane Smith enters $25,000 on Line 1 of the second Schedule A. This is the income subject only to the BIRT and NPT. The entry on Line 9 of this schedule will be the lesser of the amount on Line 8 or the amount in Box 9a (the BIRT & NPT actually paid on $25,000). The total tax actually paid on this $25,000 is $1,646 ($1,613 in BIRT plus $33 in NPT). The amount of BIRT paid on $25,000 is calculated as follows: $14,513 × ($25,000 ÷ $225,000) = $1,613. The amount of NPT paid on $25,000 is calculated as follows: $347 × ($25,000 ÷ $260,000) = $33.

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | |
|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name Phila. BIRT & NPT ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | 1. | 25,000 |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | 2. | 500,000 |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) 1 25,000 / 2 500,000 | 3. | 5.0000% |

| | IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B. | | COLUMN A | | COLUMN B |
|---|---|---|---|---|---|
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | 4. | | 4. | 499,000 |
| 5. | Property Tax and Deduction — Enter in Box 5a the amount from Worksheet G, line 1. See instructions. 5a | | | | |
| | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | 5. | | 5. | - 0 - |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | 6. | | 6. | 499,000 |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | 7. | | 7. | 29,660 |
| 8. | Allowable Credit (Line 3 times Line 7) | 8. | | 8. | 1,483 |
| 9. | Credit for Taxes Paid to Other Jurisdiction — Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. 9a 1,646 | | | | |
| | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | 9. | | 9. | 1,483 |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

## *Example #19 – continued*

**(c) Credit for taxes paid on the "excess income" taxed under only NPT.**

Income can only be reported once on Schedule A. Jane Smith enters $35,000 on Line 1 of the third Schedule A. This is the income subject only to the NPT. The entry on Line 9 of this schedule will be the lesser of the amount on Line 8 or the amount in Box 9a (the NPT actually paid on $35,000). The amount of NPT paid on $35,000 is calculated as follows: $347 × ($35,000 ÷ $260,000) = $47.

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name Phila. NPT ) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | | | | 1. | 35,000 | |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | | | | 2. | 500,000 | |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) | 1 35,000 / 2 500,000 | | | 3. | 7.0000% | |
| | **IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B.** | | | **COLUMN A** | | **COLUMN B** | |
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | | 4. | | | 4. 499,000 | |
| 5. | Property Tax and Deduction | Enter in Box 5a the amount from Worksheet G, line 1. See instructions. 5a | | | | | |
| | | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | 5. | | | 5. - 0 - | |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | | 6. | | | 6. 499,000 | |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | | 7. | | | 7. 29,660 | |
| 8. | Allowable Credit (Line 3 times Line 7) | | 8. | | | 8. 2,076 | |
| 9. | Credit for Taxes Paid to Other Jurisdiction | Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. 9a 47 | | | | | |
| | | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | 9. | | | 9. 47 | |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

EXAMPLES

The total credit for income taxes paid to other jurisdictions reported on Line 41, Form NJ-1040, is $13,394 ($11,864 from Line 9, Column B of the first Schedule A, plus $1,483 from Line 9, Column B of the second Schedule A, plus $47 from Line 9, Column B of the third Schedule A).

***Example #20* – Determining the credit for income, other than wages, earned in Pennsylvania.**

Molly Thatcher is a 66-year-old New Jersey resident who earned $50,000 in wages from her Pennsylvania employer. Molly also is a member of a Pennsylvania partnership. Her share of the partnership's income for the tax year is $30,000. Molly paid $1,200 a month in rent for her apartment in New Jersey and is therefore eligible for a property tax deduction or credit.

Molly's partnership income is subject to tax by both New Jersey and Pennsylvania; therefore, a credit may be claimed on her New Jersey resident return for any income tax paid to Pennsylvania on this income. However, under the provisions of the New Jersey/Pennsylvania Reciprocal Personal Income Tax Agreement, Molly's wages are not subject to tax in Pennsylvania and may not be included in the numerator of the credit calculation fraction.

| | **Income Subject to Tax** | | |
|---|---|---|---|
| | New Jersey | Pennsylvania | Both |
| Wages | 50,000 | | |
| Partnership Income (PA) | 30,000 | 30,000 | 30,000 |
| Income Subject to Tax Before Exemptions and Deductions | 80,000 | 30,000 | 30,000 |
| Less Exemptions | (2,000) | | |
| New Jersey Taxable Income (From Line 36, Form NJ-1040) | 78,000 | | |
| Tax | 2,844 | 840 | |
| **Numerator of the credit calculation** | | | **30,000** |

EXAMPLES

## *Example #20 – continued*

Molly Thatcher paid $14,400 in rent during 2016 on her qualified New Jersey residence. She will enter 18% of her rent on line 1 (the amount from Line 37a, Form NJ-1040). She will complete only lines 1 and 2. She will then complete Schedule A and Worksheet J.

### Worksheet G – Property Tax Deduction/Credit

*Review the eligibility requirements in the instructions before completing Worksheet G. Part-year residents, see instructions.*

*Complete both columns of this worksheet to find out whether the deduction or the credit is better for you.*

1. **Property Tax.** Enter the property taxes from Line 37a, Form NJ-1040. Property tax reimbursement (Senior Freeze) applicants, do not enter the amount from Line 37a. (**See instructions.**) 1. 2,592

2. **Property Tax Deduction.** Is the amount on line 1 of this worksheet $10,000 or more ($5,000 or more if you and your spouse file separate returns but maintained the same principal residence)?

   ⬭ Yes. Enter $10,000 ($5,000 if you and your spouse file separate returns but maintained the same principal residence).

   ⬭ No. Enter the amount from line 1.

   Also enter the amount from this line on line 4, column A below. (See instructions.) 2. 2,592

**STOP — if you are claiming a credit for taxes paid to other jurisdictions. Complete only lines 1 and 2. Then complete Schedule A and Worksheet J. (See instructions.)**

| | | Column A | | Column B |
|---|---|---|---|---|
| 3. Taxable Income (From Line 36 of Form NJ-1040) | 3. | | 3. | |
| 4. Property Tax Deduction (From line 2 of this worksheet) | 4. | | 4. | – 0 – |
| 5. Taxable Income After Property Tax Deduction (Subtract line 4 from line 3) | 5. | | 5. | |
| 6. Tax you would pay on line 5 amount (Go to Tax Table or Tax Rate Schedules) | 6. | | 6. | |
| 7. Subtract line 6, column A from line 6, column B and enter the result here | | | 7. | |

8. **Is the line 7 amount $50 or more ($25 if you and your spouse file separate returns but maintained the same principal residence)?**

   ⬭ Yes. You receive a greater benefit by taking the property tax deduction. Make the following entries on Form NJ-1040.

| *Form NJ-1040* | *Enter amount from:* |
|---|---|
| Line 38 | Line 4, column A |
| Line 39 | Line 5, column A |
| Line 40 | Line 6, column A |
| Line 49 | Make no entry |

   ⬭ No. You receive a greater benefit from the property tax credit. (**Part-year residents,** see instructions before answering "No.") Make the following entries on Form NJ-1040.

| *Form NJ-1040* | *Enter amount from:* |
|---|---|
| Line 38 | Make no entry |
| Line 39 | Line 5, column B |
| Line 40 | Line 6, column B |
| Line 49 | $50 ($25 if you and your spouse file separate returns but maintained the same principal residence). **Part-year residents,** see instructions. |

**(Keep for your records)**

EXAMPLES

EXAMPLES

## *Example #20 – continued*

Molly Thatcher completes her Schedule A and Worksheet J as follows.

**Schedule A** **CREDIT FOR INCOME OR WAGE TAXES PAID TO OTHER JURISDICTION** If you are claiming a credit for income taxes paid to more than one jurisdiction, a separate Schedule A must be enclosed for each. See instructions.

**A COPY OF OTHER STATE OR POLITICAL SUBDIVISION TAX RETURN MUST BE RETAINED WITH YOUR RECORDS**

| | | | |
|---|---|---|---|
| 1. | Income properly taxed by **both** New Jersey and other jurisdiction during tax year. See instructions. (Indicate jurisdiction name Pennsylvania) (DO NOT combine the same income taxed by more than one jurisdiction) (The amount on Line 1 cannot exceed the amount shown on Line 2) | 1. | 30,000 |
| 2. | Income subject to tax by New Jersey (From Line 28, Form NJ-1040) | 2. | 80,000 |
| 3. | Maximum Allowable Credit Percentage (Divide Line 2 into Line 1) 1 30,000 / 2 80,000 | 3. | 37.5000% |

| | IF YOU ARE NOT ELIGIBLE FOR A PROPERTY TAX BENEFIT ONLY COMPLETE COLUMN B. | | COLUMN A | | COLUMN B |
|---|---|---|---|---|---|
| 4. | Taxable Income (after Exemptions and Deductions) from Line 36, Form NJ-1040 | 4. | 78,000 | 4. | 78,000 |
| 5. | Property Tax and Deduction — Enter in Box 5a the amount from Worksheet G, line 1. See instructions. 5a 2,592 | | | | |
| | Property tax deduction. Enter the amount from Worksheet G, line 2. See instructions. | 5. | 2,592 | 5. | - 0 - |
| 6. | New Jersey Taxable Income (Line 4 minus Line 5) | 6. | 75,408 | 6. | 78,000 |
| 7. | Tax on Line 6 amount (From Tax Table or Tax Rate Schedules) | 7. | 2,678 | 7. | 2,844 |
| 8. | Allowable Credit (Line 3 times Line 7) | 8. | 1,004 | 8. | 1,067 |
| 9. | Credit for Taxes Paid to Other Jurisdiction — Enter in Box 9a the income or wage tax paid to other jurisdiction during tax year on income shown on Line 1. See instructions. 9a 840 | | | | |
| | Credit allowed. (Enter lesser of Line 8 or Box 9a). **(The credit may not exceed your New Jersey tax on Line 40).** | 9. | 840 | 9. | 840 |

- If you are not eligible for a property tax benefit, enter the amount from Line 9, Column B, on Line 41, Form NJ-1040. Make no entry on Lines 38 or 49, Form NJ-1040.
- If you are eligible for a property tax benefit, you must complete Worksheet J to determine whether you receive a greater benefit by claiming a property tax deduction or taking the property tax credit.

***Example #20*** – *continued*

Molly receives a greater benefit from the property tax deduction. She enters the amounts from Lines 5, 6, and 7, Column A, Schedule A on Lines 38, 39, and 40, Form NJ-1040 as indicated in the instructions on Worksheet J. Her credit for taxes paid to other jurisdictions for Line 41, Form NJ-1040 is $840, the amount on Line 2, Column A, Worksheet J. Her property tax deduction on Line 38, Form NJ-1040 is $2,592. Molly's Worksheet J looks like this:

**Worksheet J**
**Which Property Tax Benefit to Use**

| | COLUMN A | | COLUMN B | |
|---|---|---|---|---|
| 1. Tax. Enter amounts from Line 7, Schedule A, Columns A and B here | 1. 2,678 | | 1. 2,844 | |
| 2. Credit for Taxes Paid to Other Jurisdiction. Enter amounts from Line 9, Schedule A, Columns A and B here. If you completed more than one Schedule A, enter the total of all Line 9 amounts (Columns A and B) in the corresponding column | 2. 840 | | 2. 840 | |
| 3. Balance of Tax Due. Subtract line 2 from line 1 in each column | 3. 1,838 | | 3. 2,004 | |
| 4. Subtract line 3, column A from line 3, column B and enter result here | | | 4. 166 | |

**5. Is the line 4 amount $50 or more ($25 if you and your spouse file separate returns but maintained the same principal residence)?**

● Yes. You receive a greater benefit by taking the property tax deduction. Make the following entries on Form NJ-1040.

| *Form NJ-1040* | *Enter amount from:* |
|---|---|
| Line 38 | Line 5, Column A, Schedule A |
| Line 39 | Line 6, Column A, Schedule A |
| Line 40 | Line 7, Column A, Schedule A |
| Line 41 | Line 2, Column A, Worksheet J |
| Line 49 | Make no entry |

○ No. You receive a greater benefit from the property tax credit. (**Part-year residents,** see instructions before answering "No.") Make the following entries on Form NJ-1040.

| *Form NJ-1040* | *Enter amount from:* |
|---|---|
| Line 38 | Make no entry |
| Line 39 | Line 6, Column B, Schedule A |
| Line 40 | Line 7, Column B, Schedule A |
| Line 41 | Line 2, Column B, Worksheet J |
| Line 49 | $50 ($25 if you and your spouse file separate returns but maintained the same principal residence). **Part-year residents,** see instructions. |

**(Keep for your records)**

EXAMPLES

***Example #21* – Determining the numerator of the credit calculation fraction when a portion of partnership income is allocated to New Jersey.**

Joe Smith is a New Jersey resident and a partner in XYZ Company. The distributive share of partnership income on Joe's Schedule NJK-1 is $100,000, of which $50,000 was taxed by State A. The partnership allocates 75% to New Jersey and 25% to State A. Since 75% of the income is allocated to New Jersey, only $25,000 can be used to calculate a credit for taxes paid to other jurisdictions, even though $50,000 was taxed by State A, as shown below:

**Total Income × Percent Allocated to New Jersey = Amount *not* eligible for credit**

$100,000 × .75 = $75,000

**Total Income – Amount Allocated to New Jersey = Amount eligible for credit from State A**

$100,000 - $75,000 = $25,000 (Enter this amount on Line 1, Schedule A)

**Note:** When calculating the credit for income taxed by more than one jurisdiction and the actual tax paid to the other jurisdiction is less than the allowable credit, **only** take credit for taxes paid on the actual amount of income taxed by the other jurisdiction.

If the amount of income taxed by the other jurisdiction is less than the amount earned there, you can only use the amount actually taxed to calculate the credit.

***Example #22* – Determining the numerator of the credit calculation fraction when a portion of S corporation income is allocated to New Jersey.**

Joe Smith is a New Jersey resident and a shareholder in an S corporation. The net pro rata share of S corporation income on Joe's Schedule NJ-K-1 is $100,000, of which $50,000 was taxed by State A. The S corporation allocates 75% to New Jersey and 25% to State A. Since 75% of the income is allocated to New Jersey, only $25,000 can be used to calculate a credit for taxes paid to other jurisdictions, even though $50,000 was taxed by State A, as shown below:

**Total Income × Percent Allocated to New Jersey = Amount *not* eligible for credit**

$100,000 × .75 = $75,000

**Total Income – Amount Allocated to New Jersey = Amount eligible for credit from State A**

$100,000 - $75,000 = $25,000 (Enter this amount on Line 1, Schedule A)

**Note:** When calculating the credit for income taxed by more than one jurisdiction and the actual tax paid to the other jurisdiction is less than the allowable credit, **only** take credit for taxes paid on the actual amount of income taxed by the other jurisdiction.

If the amount of income taxed by the other jurisdiction is less than the amount earned there, you can only use the amount actually taxed to calculate the credit.

# For More Information

## Online

- Division of Taxation website: **www.njtaxation.org**
- Email general State tax questions: **nj.taxation@treas.nj.gov**
  Do not include confidential information such as Social Security or Federal tax identification numbers, liability or payment amounts, dates of birth, or bank account numbers in your email.
- Subscribe to *NJ Tax E-News,* the Division of Taxation's online information service, at: **www.state.nj.us/treasury/taxation/listservice.shtml**

## By Phone

- Call the Division of Taxation's Customer Service Center at **609-292-6400.**
- Text Telephone Service (TTY/TDD) for Hearing-Impaired Users: **1-800-286-6613** (toll-free within NJ, NY, PA, DE, and MD) or **609-984-7300**. These numbers are accessible *only* from TTY devices. Submit a text message on any New Jersey tax matter and receive a reply through NJ Relay Services (711).

## In Person

Visit a New Jersey Division of Taxation regional office. For the address of the regional office nearest you call the Automated Tax Information System at 1-800-323-4400 or visit: **www.state.nj.us/treasury/taxation/ot1.shtml**

## In Writing

New Jersey Division of Taxation
Technical Information Unit
PO Box 281
Trenton, NJ 08695-0281

# Forms and Publications

- Visit the Division of Taxation's website:
  Forms — **www.state.nj.us/treasury/taxation/forms.shtml**
  Publications — **www.state.nj.us/treasury/taxation/pubs.shtml**
- Call the Forms Request System at **1-800-323-4400** (within NJ, NY, PA, DE, and MD) or **609-826-4400** (Touch-tone phones only) to have printed forms or publications mailed to you.
  **Note:** Due to budgetary constraints, supplies are limited and only certain forms and publications can be ordered through this System.