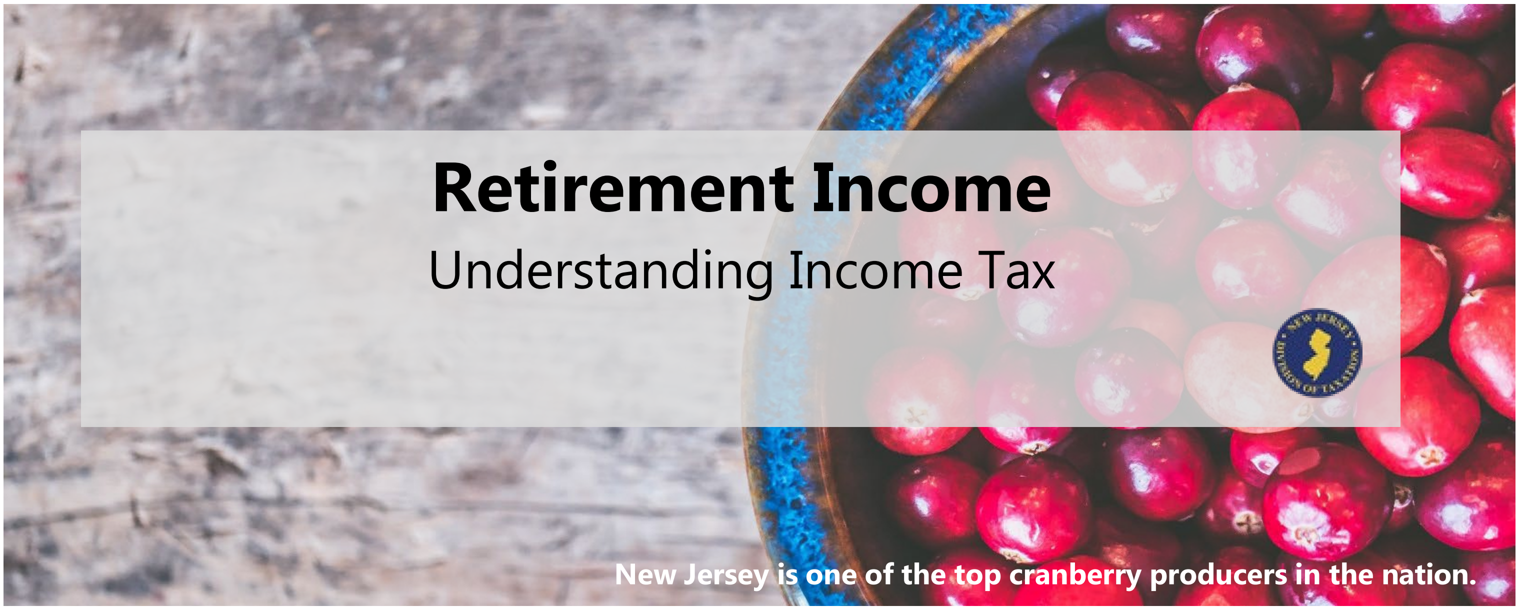
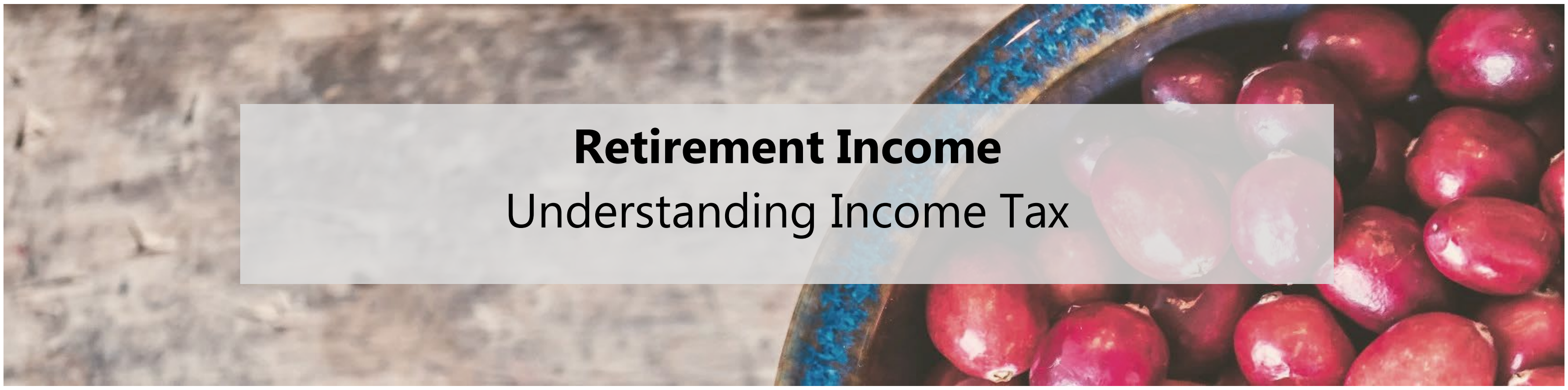


Retirement Income

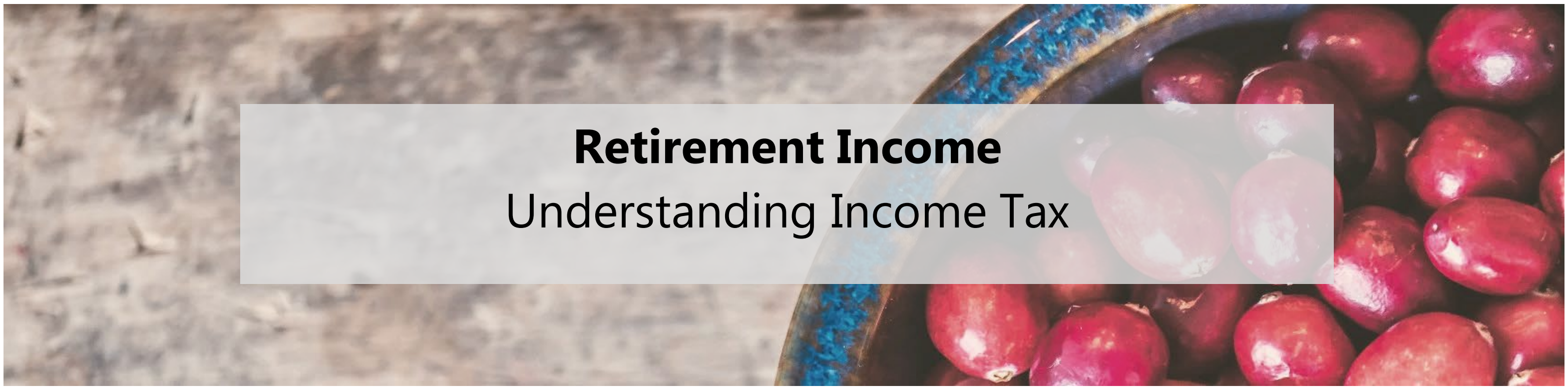
Understanding Income Tax

GIT-1 & 2

January 2025



Retirement Income
Understanding Income Tax



Coronavirus-Related Distribution

New Jersey follows federal guidelines and timeframes for qualified rollovers. We will recognize a CRD as a tax-free rollover when the repayment of the CRD qualifies as a tax-free rollover for federal tax purposes. For federal details on Individual Retirement Arrangements (IRA), see **Publication 590-B**, and Pensions and Annuities, see **Publication 575**.

Reporting Distributions

The Division is flexible in reporting Coronavirus-Related Distributions. You can report income over three years or in one year (the year of distribution). In either case, you must use State reporting calculations to determine the New Jersey taxable and excludable amounts, since many retirement plans include previously taxed contributions.

Keep Your Records

Keep records of your reporting history since you will need this information to calculate retirement income on your return after you begin receiving regular distributions.

Distribution Repaid Timely

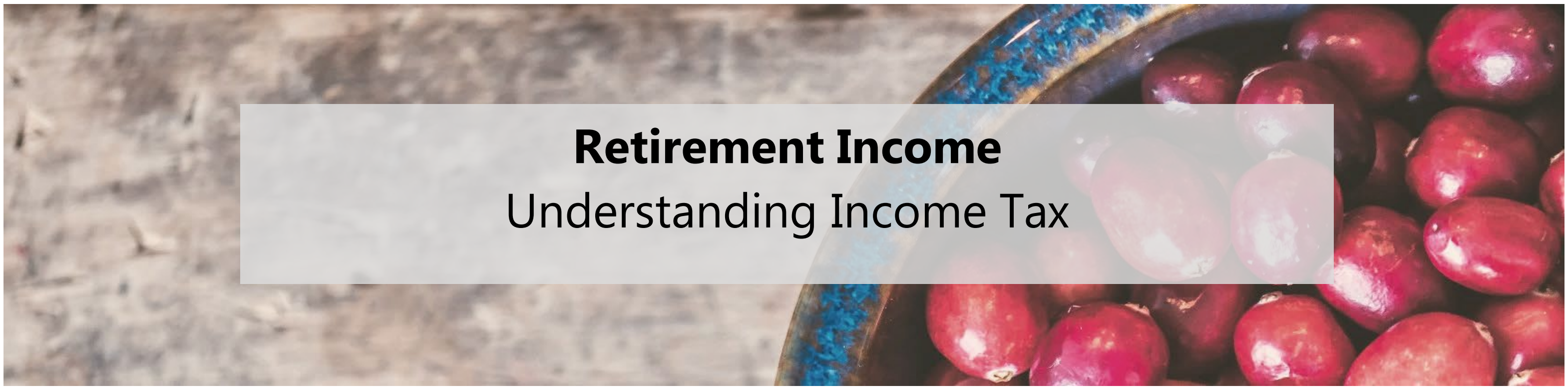
You can claim a refund for income taxes paid on a CRD distribution when it was repaid on a timely basis, and if you are qualified to do so for federal purposes. File an amended return(s) to exclude the CRD income you originally reported. For Tax Year 2020, you should also include revised federal Form 8915-E. For Tax Year 2021 and later, you will no longer use Form 8915-E. Instead, you must use Form 8915-F.

Common Retirement Plans Discussed in this Guide

- **Pensions and Annuities**
- **Individual Retirement Accounts (IRAs): Traditional or Roth**
- **Section 401(k) Plans**
- **Section 457 Plans**
- **Section 403(b) Plans**

Calculating Taxable and Excludable Amounts: Pensions and Annuities

Generally, your pension and annuity income, whether from a noncontributory or contributory plan, is taxable and must be reported on your New Jersey Income Tax return. In some cases, the taxable amount of pension or annuity you show on your New Jersey return may differ from the taxable amount on your federal return.



Retirement Income
Understanding Income Tax

Keogh plans and State, local government, teachers', and federal pensions are all treated the same as private sector employee pensions and annuities. You must report any "early retirement benefits" and any pension payments on Schedule NJK-1, Partnership Return **Form NJ-1065**, as taxable income.

Noncontributory Plans

Noncontributory plans do not require employees to make contributions toward their retirement. Payments you receive from such a plan are fully taxable because you never paid tax on any of the funds in the plan. You will report on your return the total amount of pension or annuity income shown on your Form 1099-R.

Contributory Plans

Contributory plans require employees to make contributions. In most cases, your pension contributions are made through payroll deductions and are included in your total income.

The total value of your pension or annuity consists of:

- Your contributions;
- Your employer's contributions, if any; and
- Earnings.

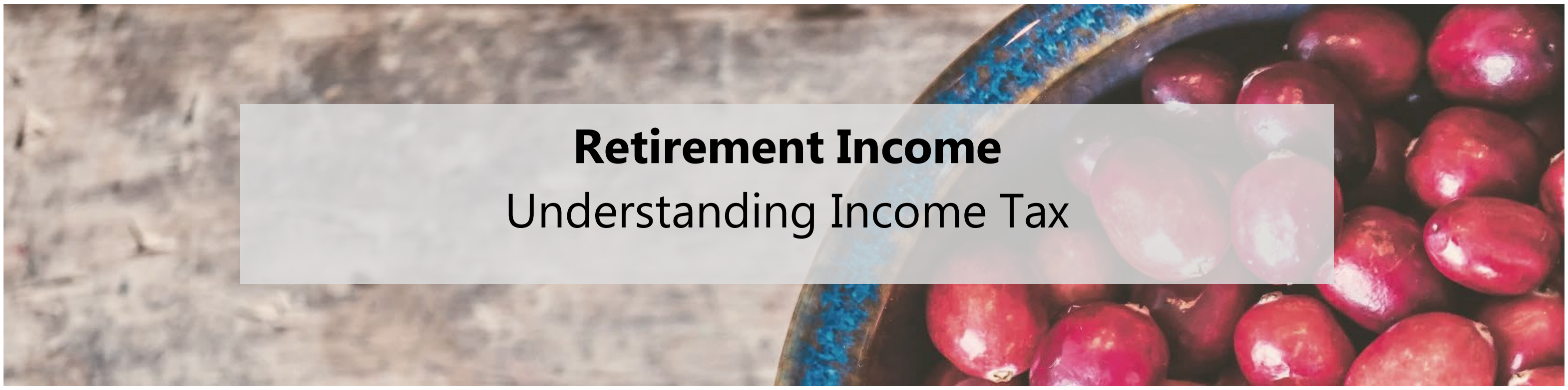
Generally, your personal contributions to your pension or annuity are taxed by the State while you are still working. Because those contributions were taxed once, New Jersey will not tax them again. Therefore, you may exclude from income the part of a pension or annuity payment that represents contributions that already have been taxed.

However, any amount you receive that exceeds your previously taxed contributions must be reported as taxable income.

You must determine the taxable and excludable portions of payments you receive from a pension or annuity to which you have made contributions.

Three-Year Rule Method or the General Rule Method

There are two methods taxpayers can use to calculate pension income: the Three-Year Rule and the General Rule. (See explanations below.) To determine which one to choose, complete **Worksheet A**. If you do not use the correct method to determine taxable and excludable portions of your pension or annuity, you may owe additional tax, penalty, and interest. If your retirement account is a 401(k) Plan, review the information about **Section 401(k) Plans** before continuing.



Worksheet A
Which Pension Method to Use

1. Amount of pension you will receive during the first three years (36 months) from the date of the first payment... 1. _______________
2. Your contributions to the plan.. 2. _______________
3. Subtract line 2 from line 1 .... 3.
   (a) If line 3 is "0" or more, *and* both you and your employer contributed to the plan, you can use the **Three-Year Rule Method.**
   (b) If line 3 is less than "0," or your employer did not contribute to the plan, you must use the **General Rule Method.**

(Keep for your records)

Three-Year Rule Method

Under this method, you may exclude from taxable income all pension and annuity payments you receive until they equal the amount you contributed to the plan while you were working. Your recovery period – the time it takes to recover your contributions to the plan – begins on the date of your first pension payment and can last up to three years (36 months).

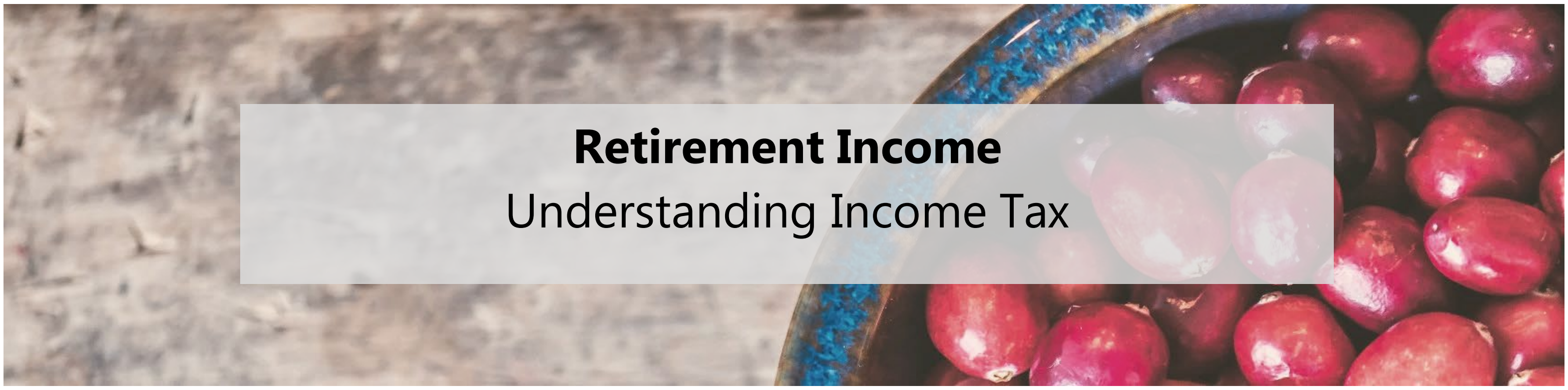
Use the Three-Year Rule Method to determine your New Jersey taxable and excludable pension income if:

1. You will receive an amount equal to or greater than your pension and annuity contributions within 36 months of the date you receive your first payment; **and**
2. Your employer contributed to the plan.

Once you receive the amount you contributed to the pension or annuity, all future payments you receive are fully taxable. (See **example**.)

General Rule Method

Under this method, part of your pension or annuity payment is excluded from taxes, and part of it is taxable. (The excludable portion of that year's distribution represents your contributions.) Use Worksheet B to determine the taxable and excludable portions of your pension or annuity payment.



You must use the General Rule Method to determine your New Jersey taxable pension income when:

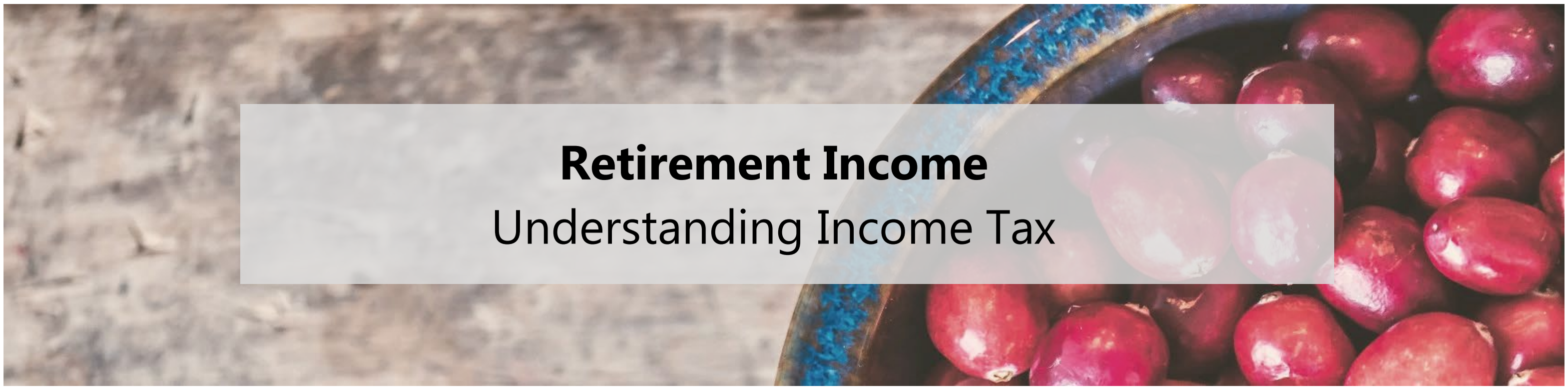
1. You will not recover all of your personal contributions within 36 months of the date you receive your first payment from the plan; **or**
2. Your employer did not contribute to the plan.

Worksheet B
General Rule Method

1. Your previously taxed contributions to the plan .... 1.__________________
2. Expected return on contract* .... 2.__________________
3. Percentage excludable (Divide line 1 by line 2) .... 3.__________________%
4. Amount received this year... 4.__________________
5. Amount excludable (Multiply line 4 by line 3.
   Enter here and on Line 20b, Form NJ-1040).. 5.__________________
6. Taxable amount (Subtract line 5 from line 4.
   Enter here and on Line 20a, Form NJ-1040)... 6.__________________

*****The expected return on the contract is the amount a plan participant is likely to receive over many years. If life expectancy is a factor under your plan, you must use federal actuarial tables to calculate the expected return. The federal actuarial tables are contained in Internal Revenue Service Publication 939, *General Rule for Pensions and Annuities*. Contact the **IRS** for this publication. If life expectancy is not a factor under your plan, the expected return is found by totaling the amounts to be received.

(Keep for your records)



<u>Example</u>

A New Jersey resident just retired and is receiving an annual pension of $7,000. They contributed $20,000 to their pension, and their employer also contributed. They can use the Three-Year Rule Method to calculate the taxable amount of their pension income because they will receive $21,000 within 36 months of the date of the first payment, which exceeds their $20,000 contribution to the plan.

Worksheet A
Which Pension Method to Use

1. Amount of pension you will receive during the first three years (36 months) from the date of the first payment	1.	21,000
2. Your contributions to the plan	2.	20,000
3. Subtract line 2 from line 1	3.	1,000

(a) If line 3 is "0" or more, *and* both you and your employer contributed to the plan, you can use the **Three-Year Rule Method.**
(b) If line 3 is less than "0," or your employer did not contribute to the plan, you must use the **General Rule Method.**

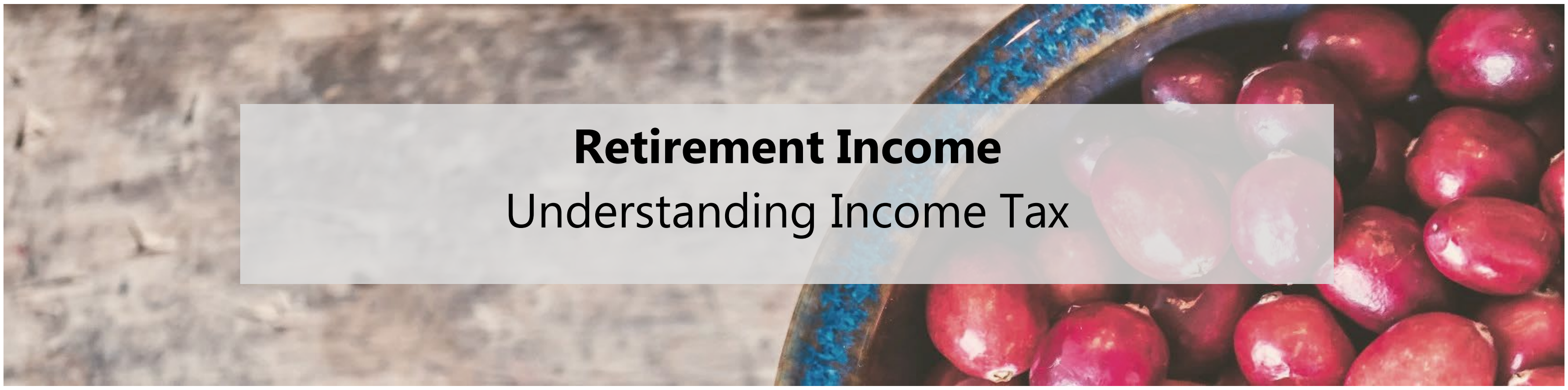
(Keep for your records)

Using the Three-Year Rule Method, the taxpayer will exclude pension payments from the New Jersey income they report. Their future pension payments become fully taxable. They will report their pension as follows:

Recovery Period	Taxable Pension	Excludable Pension
Year 1	$ 0	$7,000
Year 2	0	7,000
Year 3	1,000	6,000
Year 4 and after	7,000	0

If the taxpayer were a nonresident, they would not report the excludable portion of their pension payment on Form NJ-1040NR column A – only the taxable portion.

If their contributions to the pension plan were $20,000 and their annual pension amount were $4,000, they would use the General Rule Method because they would not recover all of their contributions within 36 months after the first payment. Using **<u>Worksheet B</u>**, they would calculate the percentage of pension payment they can exclude from New Jersey income each year.



Contributions Prior to Residence

Any contributions you made to a pension or annuity before you moved to New Jersey are treated, for tax purposes, the same as if you had lived in New Jersey when you contributed to the pension. Contributions to plans other than 401(k) Plans are considered to have been previously taxed.

Lump Sum Distributions

When you receive a lump-sum distribution of the entire balance from a qualified employee pension, annuity, profit-sharing, or other plan, the amount that exceeds your previously taxed contributions to the plan must be included as income in the year you receive them. New Jersey has no provisions for income averaging of lump-sum distributions.

Voluntary Withholdings From a Pension

If you wish to have taxes withheld from your pension payments, you must submit a fully completed **NJ-W-4P** to your employer, or the financial services firm that processes the payments, indicating what amount you want to be withheld. You must have a minimum of $10 withheld, although there is no maximum. Your employer, or the financial services firm, will issue you a 1099-R at the end of the year for your records. The 1099-R indicates whether taxes were taken out.

IRA Contributions

An IRA is a personal savings plan in which you set aside money for retirement. The portion of your IRA withdrawal that is taxable for New Jersey purposes may differ from the federal amount. The New Jersey Gross Income Tax Act **does not** contain provisions similar to the Internal Revenue Code that allow an individual to deduct contributions to an IRA.

Traditional IRA

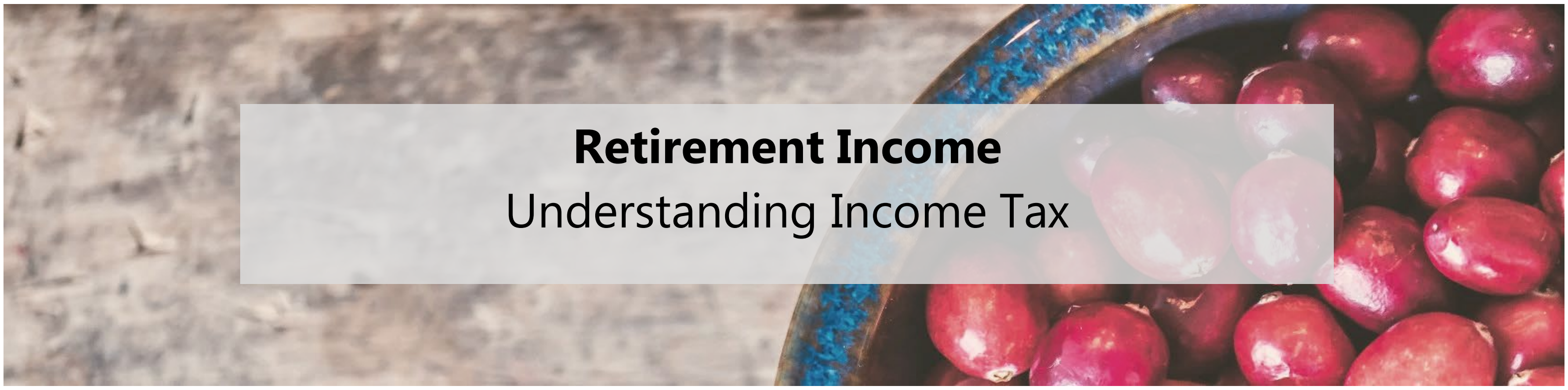
Your contributions to an IRA are subject to New Jersey Income Tax in the year they are made.

Roth IRA

Your contributions to a Roth IRA are subject to New Jersey Income Tax in the year they are made.

Rollovers

If you qualify to convert an existing IRA to a Roth IRA for federal tax purposes, you also qualify for New Jersey tax purposes, even if your New Jersey taxable income is more than the federal limitations. You can withdraw all or part of the assets from a traditional IRA and reinvest them in a Roth IRA. In most cases, your contributions to a traditional IRA were previously taxed by New Jersey. Only the earnings are taxable to New Jersey in the year you roll over the funds.



Any amount you roll over from a traditional IRA to a Roth IRA that was not previously taxed by New Jersey – such as a rollover distribution to an IRA from an employer's 401(k) Plan – must be included in your New Jersey income in the year that you withdraw the funds from the traditional IRA. This includes a rollover distribution from an employer's 401(k) Plan to an IRA. However, a direct rollover from a 401(k) to a traditional IRA is not taxable.

You also may roll over a lump sum distribution from a pension plan to an existing IRA without paying taxes for the year of the rollover as long as the plan transfers funds directly to your IRA trustee or you qualify to do so for federal purposes.

Contributions Prior to Residence

Any contributions you made to an IRA or a Roth IRA before you moved to New Jersey are treated the same way as if you had been living in New Jersey when you made the contributions.

IRA Withdrawals

Traditional IRA

Your IRA consists of your contributions, earnings, and, if applicable, certain amounts rolled over from pension plans. In general, the State taxed your contributions when you made them, so they are not taxed by New Jersey when withdrawn.

Interest, dividends, and other earnings credited to an IRA are taxable when withdrawn. Funds that you received as a result of a tax-free pension rollover to an IRA also become taxable for the year in which you withdraw them.

Exception

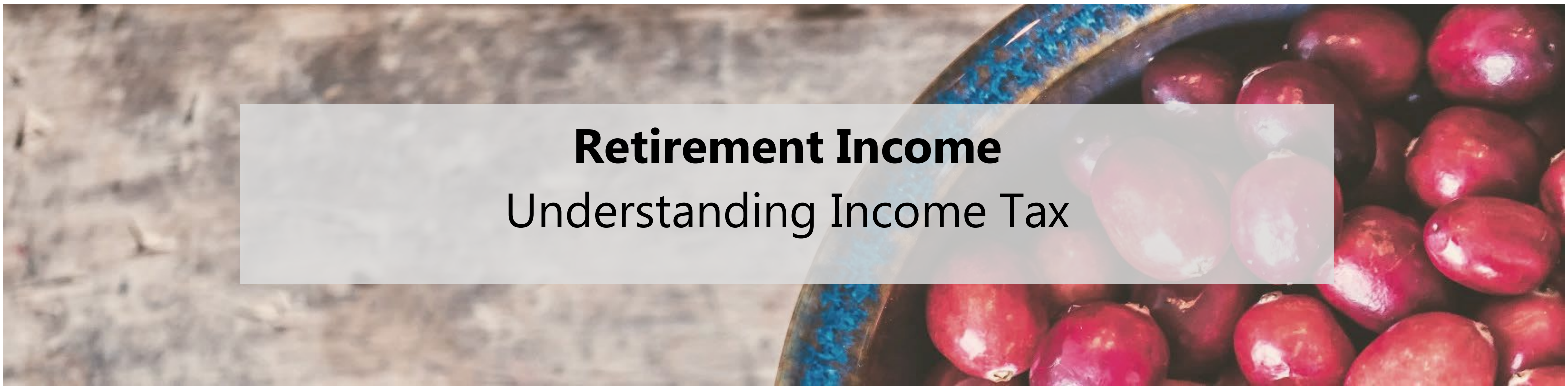
There is an exception to the taxability of an IRA withdrawal when the IRA funds are invested in **exempt obligations**. The State's Gross Income Tax Act specifically excludes from income:

- Interest received from obligations of the State of New Jersey or any of New Jersey's political subdivisions (such as counties or municipalities); and
- Interest received from direct federal debt obligations.

IRA distributions that include interest from exempt obligations that you own directly in the IRA plan are exempt from New Jersey Income Tax.

If the IRA is part of a New Jersey "Qualified Investment Fund," the exempt portion of the IRA distribution is the portion that represents interest or gains from the qualified exempt obligations held by the fund. However, the portion of a distribution that comes from taxable investments held by the fund is taxable.

If the IRA is part of a mutual fund that is not a Qualified Investment Fund, the distributions paid by the mutual fund are exempt only if they are derived from interest on federal debt obligations.



Retirement Income
Understanding Income Tax

Roth IRA

Qualified Distributions. You do not have to include a qualified distribution from a Roth IRA in your New Jersey income in the year you received it, whether it is a periodic distribution or a lump-sum distribution. A qualified distribution means a payment distributed after a five-year waiting period. That period begins with the first tax year you made a contribution to your Roth IRA. Other requirements for a qualified distribution include payments made:

- On or after the date the individual reaches age 59½; or
- To a beneficiary (or the individual's estate) after the individual's death; or
- Because the individual became disabled; or
- As a qualified first-time home buyer distribution as defined by the Internal Revenue Code.

Nonqualified Distributions. Your distribution becomes nonqualified if it is not made under one of the four circumstances above, or if it is made within five years of your first Roth IRA contribution. A distribution that is considered nonqualified for federal income tax purposes is also considered nonqualified for New Jersey Income Tax purposes.

A distribution of an allowable *rollover* contribution from a non-Roth IRA also is not a qualified distribution if it is made within the five-year period described above. (Income earned on the amount rolled over also is not a qualified distribution under those circumstances.) Under the five-year rule, if you established a Roth IRA in 2020, you will not be able to receive a qualified distribution before 2025.

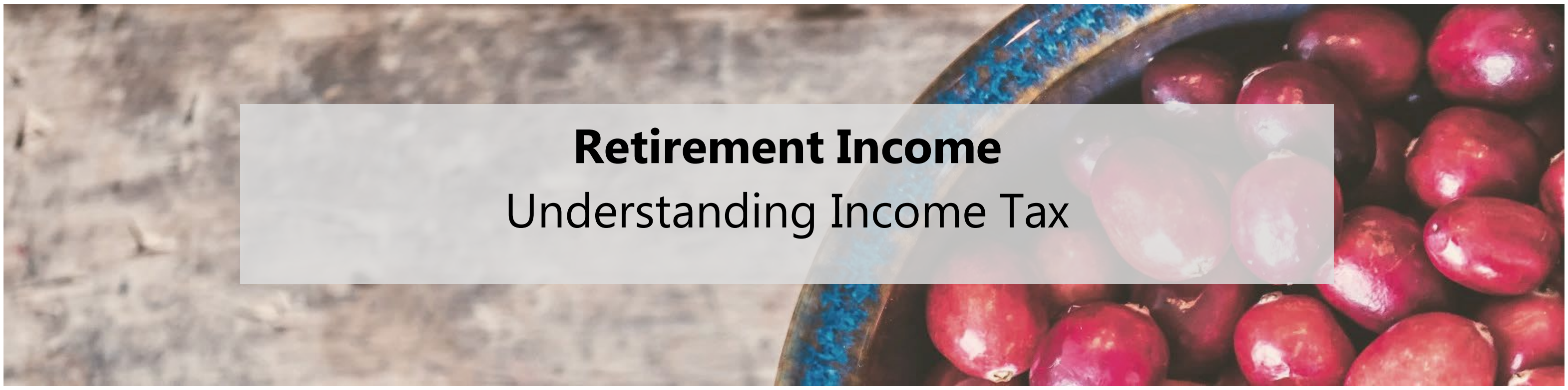
Rollovers

If you receive a lump-sum distribution from a traditional IRA or lump-sum nonqualified distribution from a Roth IRA, the amount you receive that exceeds your previously taxed contributions is fully taxable. You must include the distribution as income for the tax year you receive it. New Jersey has no provisions for income averaging of lump-sum distributions.

Do not report on your State return a lump-sum distribution you roll over to a traditional IRA, or other eligible plan if the rollover qualifies for deferral under federal income tax law. The amount rolled over (minus previously taxed amounts) is taxable later when it is withdrawn.

A distribution from a traditional rollover IRA that is fully taxable for federal income tax purposes **may be treated differently** for New Jersey purposes if contributions remaining in the IRA were subject to New Jersey Income Tax when you made those contributions.

If you convert a traditional IRA to a Roth IRA, you must include as income any amount from the existing IRA that would be taxable if withdrawn.



Retirement Income Loan

A pension loan from a retirement plan is a loan that is not reportable as income.

Coverdell Education Savings Account (ESA)

A Coverdell education savings account (ESA), formerly known as an education IRA, is not a retirement account. It is a trust or custodial account created only for the purpose of paying qualified higher education expenses of the designated beneficiary of the account. New Jersey's treatment of Coverdell ESAs differs from the federal government. Contributions to Coverdell ESAs are subject to New Jersey Income Tax in the year they are made.

When you make a withdrawal from a Coverdell ESA, the amount contributed is not taxable. Earnings credited to a Coverdell ESA are subject to New Jersey tax when withdrawn. Distributed earnings from a Coverdell ESA are reported on line 16a, Form NJ-1040 or line 16, column A, Form NJ-1040NR. *Do not* include the earnings portion of a distribution from a Coverdell ESA on line 20a, Form NJ-1040 or line 22, column A, Form NJ-1040NR.

Periodic Distributions

If you make qualified withdrawals from a traditional IRA or nonqualified withdrawals from a Roth IRA over a period of years, you must report the portion of the annual distribution that represents interest and accumulated gains as taxable income each year a withdrawal is made. (This includes amounts rolled over and not previously taxed.) The amount subject to tax is based on the ratio that the taxable portion of the account bears to the total amount in the account.

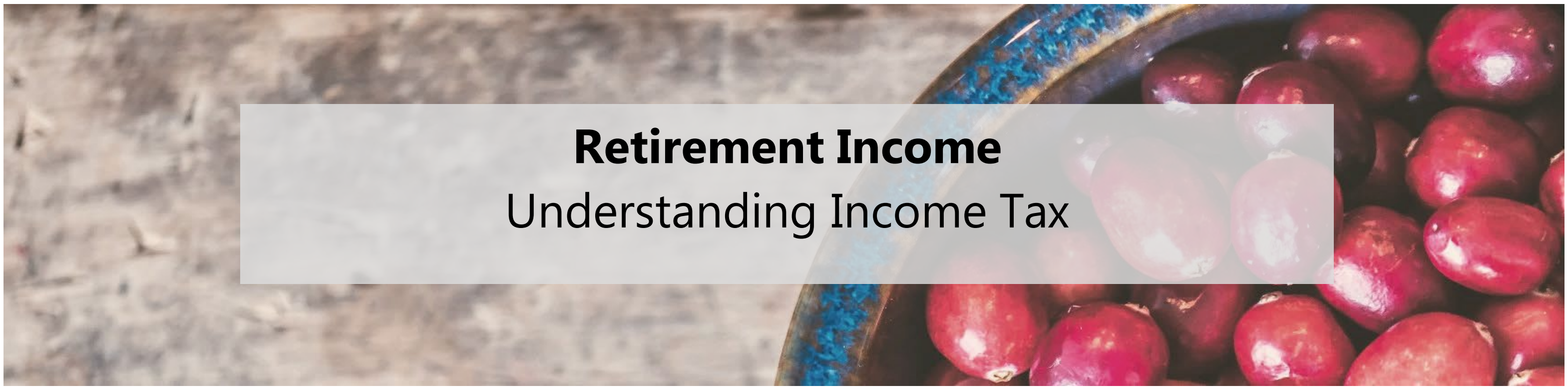
Use the following formula to determine the taxable amount of a distribution from a traditional IRA or a *nonqualified* distribution from a Roth IRA:

$$\frac{\text{Taxable Portion}}{\text{Total Value}} \times \text{Distribution} = \text{Taxable Amount}$$

Total Value means the value of the IRA on December 31 of the tax year (including contributions made for the tax year from January 1 through April 15 of the following year), plus total IRA distributions during the tax year.

Taxable Portion means the Total Value minus previously taxed contributions.

In the first year you make a withdrawal, *contributions* means the total amount you contributed to the IRA from the time the account was opened through the end of the tax year in which you made the first withdrawal. (It does not include amounts rolled over and not previously taxed.)



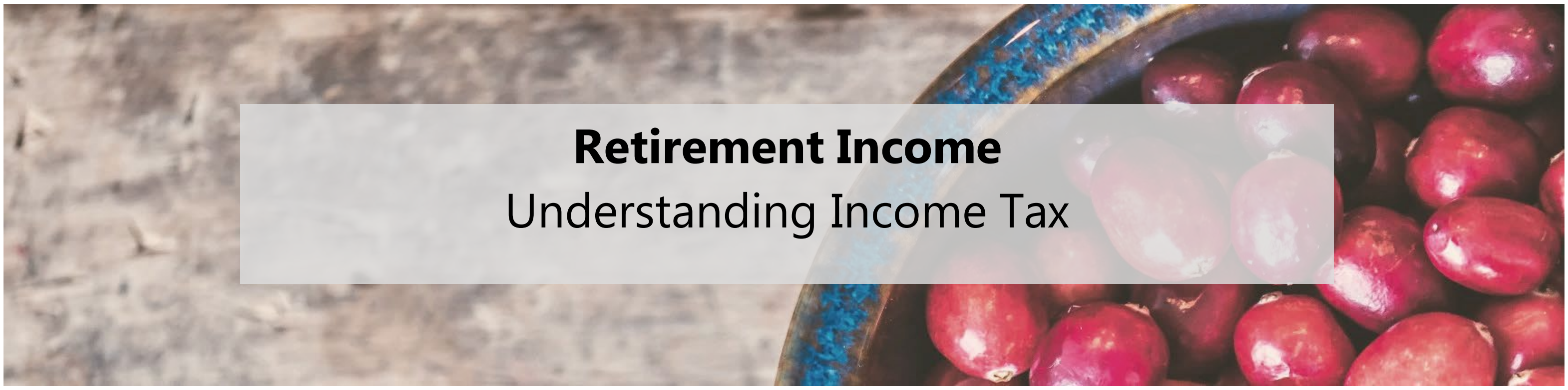
After the first year, the formula for calculating the portion of a distribution that is taxable remains the same. However, the base for each item changes to take into account the fact that both taxable and excludable amounts have been withdrawn from the account. See **example**.

If you are a New Jersey resident, you will calculate the excludable amount by subtracting the portion of your distribution that is taxable from the total distribution. Then enter that number on line 20b, Form NJ-1040.

IRA Worksheet

Use the New Jersey IRA Worksheet to calculate the taxable and excludable portions of a withdrawal from a traditional IRA or nonqualified withdrawal from a Roth IRA. If you make withdrawals from several IRAs in the same year, you can use a separate worksheet for each IRA, or you can combine all IRAs on one worksheet. Report the total taxable amount, and the excludable amount if you are a resident, on your tax return.

You can use the IRA Worksheets that appear in the New Jersey Income Tax return resident or nonresident instruction booklets. *Do not* file the IRA Worksheet with your New Jersey Income Tax return. Keep it for your records.



Worksheet C
IRA Withdrawals

Part I – Calculating Taxable and Excludable Amounts

1. **Value of IRA on 12/31/24.** Include contributions made for the tax year from 1/1/25 – 4/15/25 .... 1. ________
2. **Total distributions from IRA during the tax year.** Do not include tax-free rollovers .... 2. ________
3. **Total Value of IRA.** Add lines 1 and 2 .... 3. ________

Unrecovered Contributions:
Complete **either** line 4a or 4b. Then continue with line 5.

4a. **First year of withdrawal from IRA:** Enter the total of IRA contributions that were previously taxed .... 4a. ________
4b. **After first year of withdrawal from IRA:** Complete Part II. Enter amount of unrecovered contributions from line 15 .... 4b. ________
5. **Accumulated earnings in IRA on 12/31/24.** Subtract either line 4a or 4b from line 3 .... 5. ________
6. Divide line 5 by line 3. (Enter the result as a decimal.) .... 6. ________
7. **Taxable portion of this year's withdrawal.** Multiply line 2 by decimal amount on line 6. Enter here and on line 20a, Form NJ-1040 .... 7. ________
8. **Excludable portion of this year's withdrawal.** Subtract line 7 from line 2. Enter here and on line 20b, Form NJ-1040 .... 8. ________

Part II – Unrecovered Contributions (For Second and Later Years)
See Part III if you **did not** complete Worksheet C in prior years.

9. **Last year's unrecovered contributions.** From line 4 of last year's Worksheet C .... 9. ________
10. **Amount withdrawn last year.** From line 2 of last year's Worksheet C .... 10. ________
11. **Taxable portion of last year's withdrawal.** From line 7 of last year's Worksheet C .... 11. ________
12. **Contributions recovered last year.** Subtract line 11 from line 10 .... 12. ________
13. **This year's unrecovered contributions.** Subtract line 12 from line 9 .... 13. ________
14. **Contributions to IRA during current tax year**. Do not include tax-free rollovers .... 14. ________
15. **Total unrecovered contributions.** Add lines 13 and 14. Enter here and **on line 4b** .... 15. ________

Part III – Unrecovered Contributions (For Second and Later Years)
Complete this section **only** if you **did not** complete Worksheet C in prior years.
Calculate the amount of unrecovered contributions as follows:

16. Total amount of **withdrawals** made from the IRA in previous years .... 16. ________
17. Total of previous year withdrawal(s) already reported as income on prior New Jersey tax returns .... 17. ________
18. Contributions already recovered. Subtract line 17 from line 16 .... 18. ________
19. **Unrecovered contributions.** Subtract line 18 from the total amount of contributions made to the IRA. Enter here and **on line 4b** .... 19. ________

(Keep for your records)

Other Retirement Plans

Section 401(k) Plans

If you made contributions:

1. **On or after January 1, 1984,** your contributions to your 401(k) Plan were not included as income when they were made, unless the contributions exceeded the federal elective deferral limit. As a result, you must report all distributions on your New Jersey Income Tax return because they are fully taxable;

2. **Before January 1, 1984,** your contributions to your 401(k) Plan were included in your income when they were made. If you made contributions to a 401(k) Plan before January 1, 1984, or you made contributions beyond the federal limit, use IRA Worksheet C to calculate the taxable and excludable portions of your distribution.

Section 457 Plans

If you participated in an eligible deferred compensation plan of a state or local government or tax-exempt organization – Section 457 of the IRS code – your contributions to the plan were included in your New Jersey income when they were made. (The New Jersey State Employees Deferred Compensation Plan is an example of a 457 Plan.) When you retire, you will only be taxed on amounts you receive in excess of those contributions. For tax years:

1. **Ending before January 1, 2002,** distributions of deferred pay were treated as wages and reported on the wages line of the New Jersey Income Tax return. Taxpayers used the "State wages" figure from the W-2 form they received from the Section 457 Plan, which in most cases was different from the "federal wages" amount;

2. **Beginning on or after January 1, 2002,** the federal reporting document for Section 457 Plan distributions for State and local government employees changed from federal Form W-2 to Form 1099-R. Distributions from a Section 457 Plan of amounts exceeding previously taxed contributions are treated as pension payments. You should report them on line 20a, Form NJ-1040 (or line 22, column A, Form NJ-1040NR).

If you are a nongovernmental employee, continue to report your distributions from federal Form W-2. Use the State wages figure from the W-2 you receive on the wages line of Form NJ-1040 or on the wages line in column A, Form NJ-1040NR. If your distributions are reported on Form 1099-R, use IRA Worksheet C to calculate the taxable and excludable portions of your distribution.

If you are a nonresident and your distributions are reported on Form W-2, they are not subject to New Jersey Income Tax. Do not report them on the wages line in column B, Form NJ-1040NR. They do not have to be reported if:

- The income was part of a series of substantially equal periodic payments (not less frequently than annually); or
- Made for the life or life expectancy of the recipient (or the joint lives or joint life expectancies of the recipient and the designated beneficiary of the recipient); or
- For a period of not less than 10 years; or
- The payment was received from a retirement benefit plan after termination of employment.

Section 403(b) Plans

If you participated in a 403(b) plan, your contributions to the plan were included in your New Jersey income when you made them. When you retire, you will only be taxed on amounts you receive exceeding those contributions. Use IRA Worksheet C to calculate the taxable and excludable portions of your distribution.

Post-retirement Contributions. If your employer makes a contribution to your 403(b) Plan after you retire, the contribution is taxable for New Jersey Income Tax purposes and must be reported as wages on your New Jersey Income Tax return in the year(s) that the contribution is made. You must take such post-retirement contributions, which have already been taxed by New Jersey, into account when determining your taxable and excludable distributions from the 403(b) Plan. (See **Calculating Taxable and Excludable Amounts**.)

Reporting Taxable and Excludable Retirement Income

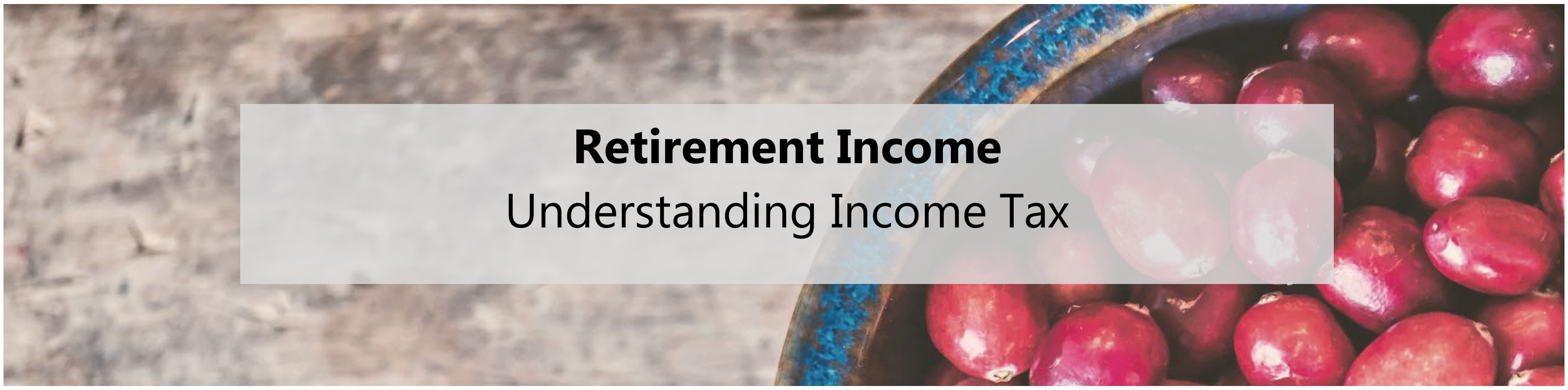
Pensions, Annuities, Traditional IRAs, 401(k), etc.

Taxable. You must report the taxable portion of a pension or annuity payment or the taxable portion of a withdrawal from a traditional IRA, Section 401(k), Section 457, and/or Section 403(b) Plan on line 20a, Form NJ-1040 or line 22, column A, Form NJ-1040NR.

Excludable. If you are a New Jersey resident, you must also report the excludable portion of a pension or annuity payment or the excludable portion of a withdrawal from a traditional IRA, Section 401(k), Section 457, and/or Section 403(b) on line 20b of Form NJ-1040. However, Form NJ-1040NR does not have a line for reporting these excludable amounts. The excludable portion of a distribution is the amount that represents your previously taxed contributions to the plan.

Example

A New Jersey resident started to make withdrawals from a traditional IRA in 2023. They withdrew $1,000 in 2023 and another $1,000 in 2024. The Worksheet C that follows shows how they calculated the taxable portion and the excludable portion of the withdrawals for their 2023 and 2024 New Jersey Income Tax returns.



Example, continued

Worksheet C – IRA Withdrawals

Part I – Calculating Taxable and Excludable Amounts

1.	**Value of IRA on 12/31/23.** Include contributions made for the tax year from 1/1/24 – 4/15/24	1.	9,210
2.	**Total distributions from IRA during the tax year.** Do not include tax-free rollovers	2.	1,000
3.	**Total Value of IRA.** Add lines 1 and 2	3.	10,210

Unrecovered Contributions:
Complete **either** line 4a or 4b. Then continue with line 5.

4a.	**First year of withdrawal from IRA:** Enter the total of IRA contributions that were previously taxed.	4a.	7,000
4b.	**After first year of withdrawal from IRA:** Complete Part II. Enter amount of unrecovered contributions from line 15	4b.	
5.	**Accumulated earnings in IRA on 12/31/23.** Subtract either line 4a or 4b from line 3	5.	3,210
6.	Divide line 5 by line 3. (Enter the result as a decimal.)	6.	.314
7.	**Taxable portion of this year's withdrawal.** Multiply line 2 by decimal amount on line 6. Enter here and on Line 20a, Form NJ-1040.	7.	314
8.	**Excludable portion of this year's withdrawal.** Subtract line 7 from line 2. Enter here and on Line 20b, Form NJ-1040	8.	686

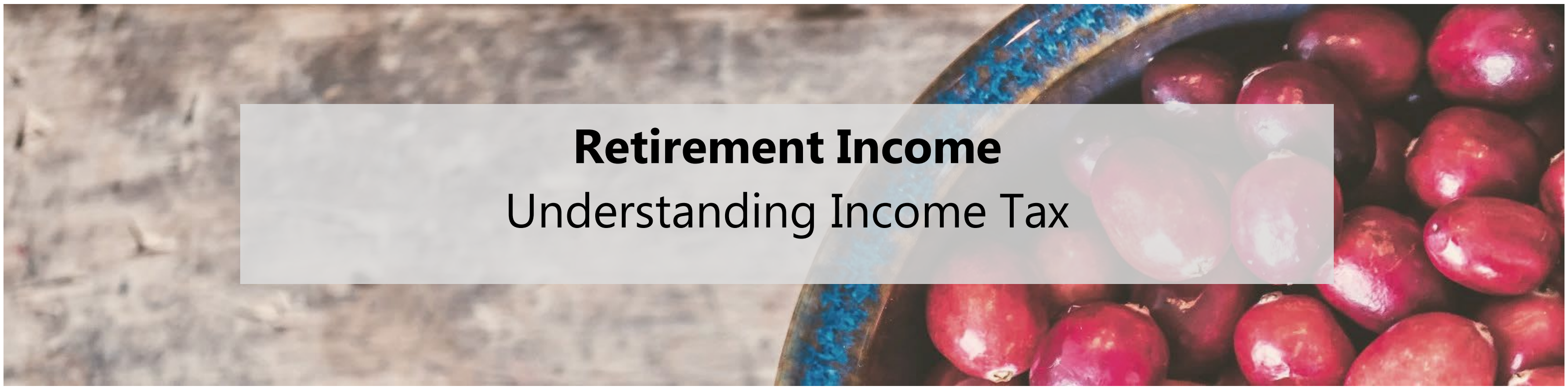
Part II – Unrecovered Contributions (For Second and Later Years)
See Part III if you **did not** complete Worksheet C in prior years.

9.	**Last year's unrecovered contributions.** From line 4 of last year's Worksheet C	9.	
10.	**Amount withdrawn last year.** From line 2 of last year's Worksheet C	10.	
11.	**Taxable portion of last year's withdrawal.** From line 7 of last year's Worksheet C	11.	
12.	**Contributions recovered last year.** Subtract line 11 from line 10.	12.	
13.	**This year's unrecovered contributions.** Subtract line 12 from line 9	13.	
14.	**Contributions to IRA during current tax year.** Do not include tax-free rollovers	14.	
15.	**Total unrecovered contributions.** Add lines 13 and 14. Enter here and **on line 4b**	15.	

Part III – Unrecovered Contributions (For Second and Later Years)
Complete this section **only** if you **did not** complete Worksheet C in prior years.
Calculate the amount of unrecovered contributions as follows:

16.	Total amount of **withdrawals** made from the IRA in previous years	16.	
17.	Total of previous year withdrawal(s) already reported as income on prior New Jersey tax returns	17.	
18.	Contributions already recovered. Subtract line 17 from line 16.	18.	
19.	**Unrecovered contributions.** Subtract line 18 from the total amount of contributions made to the IRA. Enter here and **on line 4b.**	19.	

(Keep for your records)



Worksheet C – IRA Withdrawals

Part I – Calculating Taxable and Excludable Amounts

1.	**Value of IRA on 12/31/24.** Include contributions made for the tax year from 1/1/25 – 4/15/25	1.	8,622
2.	**Total distributions from IRA during the tax year.** Do not include tax-free rollovers	2.	1,000
3.	**Total Value of IRA.** Add lines 1 and 2	3.	9,622

Unrecovered Contributions:
Complete **either** line 4a or 4b. Then continue with line 5.

4a.	**First year of withdrawal from IRA:** Enter the total of IRA contributions that were previously taxed.	4a.	
4b.	**After first year of withdrawal from IRA:** Complete Part II. Enter amount of unrecovered contributions from line 15	4b.	6,314
5.	**Accumulated earnings in IRA on 12/31/24.** Subtract either line 4a or 4b from line 3	5.	3,308
6.	Divide line 5 by line 3. (Enter the result as a decimal.)	6.	.344
7.	**Taxable portion of this year's withdrawal.** Multiply line 2 by decimal amount on line 6. Enter here and on Line 20a, Form NJ-1040.	7.	344
8.	**Excludable portion of this year's withdrawal.** Subtract line 7 from line 2. Enter here and on Line 20b, Form NJ-1040	8.	656

Part II – Unrecovered Contributions (For Second and Later Years)
See Part III if you **did not** complete Worksheet C in prior years.

9.	**Last year's unrecovered contributions.** From line 4 of last year's Worksheet C	9.	7,000
10.	**Amount withdrawn last year.** From line 2 of last year's Worksheet C	10.	1,000
11.	**Taxable portion of last year's withdrawal.** From line 7 of last year's Worksheet C	11.	314
12.	**Contributions recovered last year.** Subtract line 11 from line 10.	12.	686
13.	**This year's unrecovered contributions.** Subtract line 12 from line 9	13.	6,314
14.	**Contributions to IRA during current tax year.** Do not include tax-free rollovers	14.	
15.	**Total unrecovered contributions.** Add lines 13 and 14. Enter here and **on line 4b**	15.	6,314

Part III – Unrecovered Contributions (For Second and Later Years)
Complete this section **only** if you **did not** complete Worksheet C in prior years.
Calculate the amount of unrecovered contributions as follows:

16.	Total amount of **withdrawals** made from the IRA in previous years	16.	
17.	Total of previous year withdrawal(s) already reported as income on prior New Jersey tax returns	17.	
18.	Contributions already recovered. Subtract line 17 from line 16	18.	
19.	**Unrecovered contributions.** Subtract line 18 from the total amount of contributions made to the IRA. Enter here and **on line 4b.**	19.	

(Keep for your records)

Roth IRAs

Qualified Distribution. If you receive a qualified distribution from a Roth IRA, do not report any portion of the distribution on your return. Do not report the amount that represents your previously taxed contributions or the funds that represent earnings and amounts rolled over that were not previously taxed.

Nonqualified Distribution. If you receive a nonqualified distribution from a Roth IRA, part of the withdrawal is taxable, and part is excludable. You must report the taxable portion of the withdrawal on line 20a, Form NJ-1040 or line 22, column A, Form NJ-1040NR. Residents must also report the excludable portion on line 20b, Form NJ-1040.

If you convert a traditional IRA to a Roth IRA, any amount from the existing IRA that would be taxable if withdrawn must be included in your income on line 20a, Form NJ-1040 or line 22, column A, Form NJ-1040NR. Residents must also report the excludable portion of the converted IRA on line 20b, Form NJ-1040.

Income Exclusions

New Jersey tax law provides the following retirement income exclusions to enable you to reduce your taxable income: pension exclusion and the other retirement income exclusion, which includes the unclaimed pension exclusion and the special exclusion. Both residents and nonresidents can take advantage of the retirement income exclusions if they meet the qualifications.

Pension Exclusion

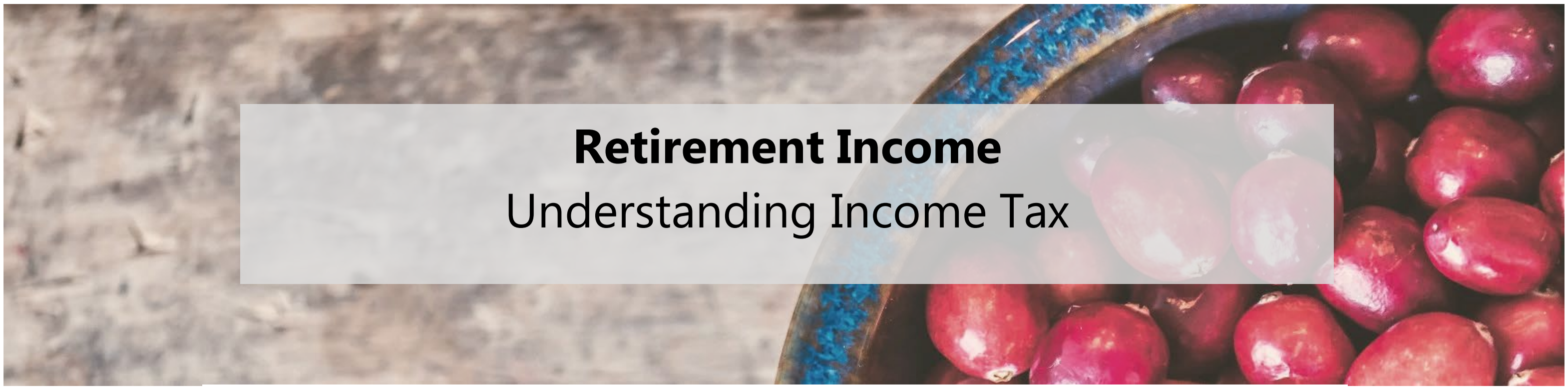
If you qualify, you can exclude all or part of the income you received during the year from taxable pensions, annuities, and IRA withdrawals.

You qualify for the New Jersey pension exclusion if:

1. You (and/or your spouse, if filing jointly) were 62 or older or disabled as defined by Social Security guidelines on December 31; **and**
2. Your total income for the entire year was $150,000 or less.

If you qualify, you can claim the lesser of:

1. Your actual taxable pension income; **or**
2. The maximum pension exclusion amount for your filing status based on your total income. See the charts below to determine your maximum pension exclusion based upon your total income and filing status.



Retirement Income
Understanding Income Tax

Total Income of $100,000 or Less

If your total income is $100,000 or less, you can exclude reported taxable pension, annuity, and IRA withdrawals up to the maximum amount for your filing status listed below.

Total Income	Married/CU Couple, Filing Joint Return	Married/CU Partner, Filing Separate Return	Single, or Head of Household, or Qualifying Widow(er)/Surviving CU Partner
$1-$100,000	$100,000	$50,000	$75,000

Total Income of $100,001 - $150,000

If your total income is $100,001, but not more than $150,000, you can exclude a **percentage** of your reported taxable pension, annuity, and IRA withdrawals.

Use the chart below to determine your exclusion amount. Multiply your taxable pension found on Line 20a of the 2024 NJ-1040, by the percentage listed next to your 2024 filing status.

Total Income	% of Taxable Pension	Filing Status
$100,001 - $125,000	50 %	Married filing jointly
	25 %	Married filing separately
	37.5 %	Single/head of household/qualifying widow(er)
$125,001 - $150,000	25 %	Married filing jointly
	12.5 %	Married filing separately
	18.75 %	Single/head of household/qualifying widow(er)
$150,001 or more	Not eligible for a pension exclusion	

If you are a part-year resident, you must prorate the pension exclusion amount by the number of months you spent as a New Jersey resident. (See **Part-Year Residents**.)

You may still qualify for **other exclusions** if you (and/or your spouse) were 62 or older on December 31 and you did not use the maximum pension exclusion amount for your filing status, or you did not use the pension exclusion because you reported no taxable pension, annuity, or IRA withdrawal income on line 20a, Form NJ-1040 or line 22, column A, Form NJ-1040NR.

Example

Two taxpayers are both 63 years old and file a joint return. Their combined total income is $66,000 for the tax year. Their combined taxable pension income totals:

Actual Taxable Pension Income	$62,000
Applicable Pension Exclusion	$62,000

Example

A taxpayer is 59 years old. They are single and not disabled. Their total income for the tax year is $45,000. They receive a taxable pension of $7,000, and $303 of their IRA withdrawal is taxable.

Actual Taxable Pension Income	$ 7,303
Applicable Pension Exclusion	$ 0

The taxpayer is not eligible to claim the pension exclusion because they are under age 62 and not disabled.

Example

Two taxpayers file a joint return, and both qualify for the pension exclusion. They have combined total income of $85,000 for the tax year. One spouse receives an annual taxable pension of $81,500, and the other receives a $2,500 pension. The second spouse reports $0 as taxable income this year because they are using the Three-Year Rule Method and still recovering the contributions they made to the pension plan.

Actual Taxable Pension Income	$81,500
Applicable Pension Exclusion	$81,500

Example

Two taxpayers are both age 67 and file a joint return. They have combined total income of $150,450 for the tax year, including taxable pension income of $109,000.

Actual Taxable Pension Income	$109,000
Applicable Pension Exclusion	$ 0

The taxpayers are not eligible for a pension exclusion this year because their combined total income for the entire year is more than $150,000.

Only One Spouse Qualifies for Exclusion

When you and your spouse file a joint return with a combined total income of $150,000 or less, and only one of you is 62 or older or disabled, you can still claim the maximum pension exclusion amount. However, you can only exclude the pension, annuity, or IRA withdrawal of the spouse who is 62 or older or disabled.

Example

Two taxpayers file a joint return for the tax year. Their combined total income is $74,500. One is 63 and receives a taxable pension of $40,500. The other is 60 years old, not disabled, and receives a taxable pension of $28,000.

Actual Taxable Pension Income	$68,500
Applicable Pension Exclusion	$40,500

The taxpayers can only claim a pension exclusion of $40,500, the full amount of pension received by the taxpayer who is 63. They cannot claim a pension exclusion for the $28,000 in taxable pension received by the taxpayer who is under 62 and not disabled, because that taxpayer does not qualify.

Example

A couple files a joint return. Their combined total income for the tax year is $127,000. Spouse #1 is 64 and receives taxable pension income of $10,000. Spouse #2 is 61, not disabled, and receives taxable pension income of $8,000.

Actual Total Taxable Pension Income	$18,000
Income Qualified for Pension Exclusion	$10,000
Applicable Pension Exclusion	$2,500

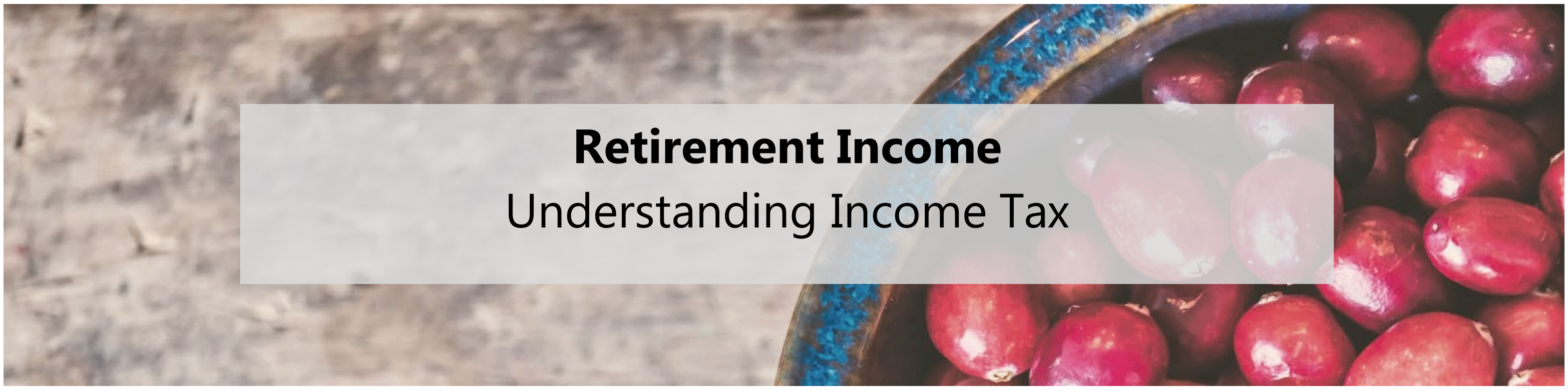
The taxpayers can use only $2,500 of their pension exclusion because only $10,000 of their combined $18,000 taxable pension income belongs to the spouse who is age 64. The balance of their pension income belongs to spouse #2 ($8,000), which they cannot exclude because they are under age 62 and not disabled. Because their *combined total income is between $125,001 and $150,000, they qualify to exclude 25% of the taxable pension from the qualifying taxpayer. However, they may be able to use the balance of the pension exclusion to exclude additional income. (See the instructions for the other retirement income exclusion below.)*

Other Retirement Income Exclusion: Unclaimed Pension Exclusion and Special Exclusion

If you (and/or your spouse filing jointly) are 62 or older as of the last day of the tax year, you may be able to exclude other types of income (wages, interest, dividends, etc.) from your total income. There are two parts to the other retirement income exclusion (ORIE):

- The **unclaimed pension exclusion**; and
- A **special exclusion** for taxpayers who cannot receive Social Security or Railroad Retirement benefits.

Both parts have different eligibility requirements and are claimed at the line on your return labeled Other Retirement Income Exclusion (ORIE). You can find this on line 28b, Form NJ-1040 or line 28b, column A and column B, Form NJ-1040NR. If you qualify, you may be able to claim both parts of the ORIE in addition to the pension exclusion. To calculate your total eligible ORIE amount, complete Worksheet D (full-year residents), Worksheet E (part-year residents), or the Other Retirement Income Exclusion Worksheet (non-residents).



Unclaimed Pension Exclusion

If you and/or your spouse did not claim the maximum pension exclusion amount, you may be able to use the unclaimed pension exclusion to exclude other types of income (wages, interest, dividends, etc.) on your return. You may have claimed less than the maximum pension exclusion amount because your actual taxable pension income was less than the maximum pension exclusion amount for your filing status, or because you did not report any taxable pension, annuity, or IRA withdrawal income on your return.

To qualify for the Unclaimed Pension Exclusion, you must satisfy all of the following conditions:

1. You (and/or your spouse if filing jointly) must be 62 or older by the last day of the tax year; **and**
2. Your total income on line 27, Form NJ-1040 (or line 27, column A, Form NJ-1040NR) for the entire year must be $150,000 or less; **and**
3. Your earned income (combined if filing jointly) from wages, net profits from business, distributive share of partnership income, and net pro rata share of S corporation income must be $3,000 or less; **and**
4. You did not use the maximum pension exclusion amount.

The actual amount of the unclaimed pension exclusion differs from taxpayer to taxpayer, since it is the difference between the amount of pension exclusion you claimed on line 28a, Form NJ-1040 (line 28a, column A, Form NJ-1040NR) and the maximum pension exclusion amount for your filing status.

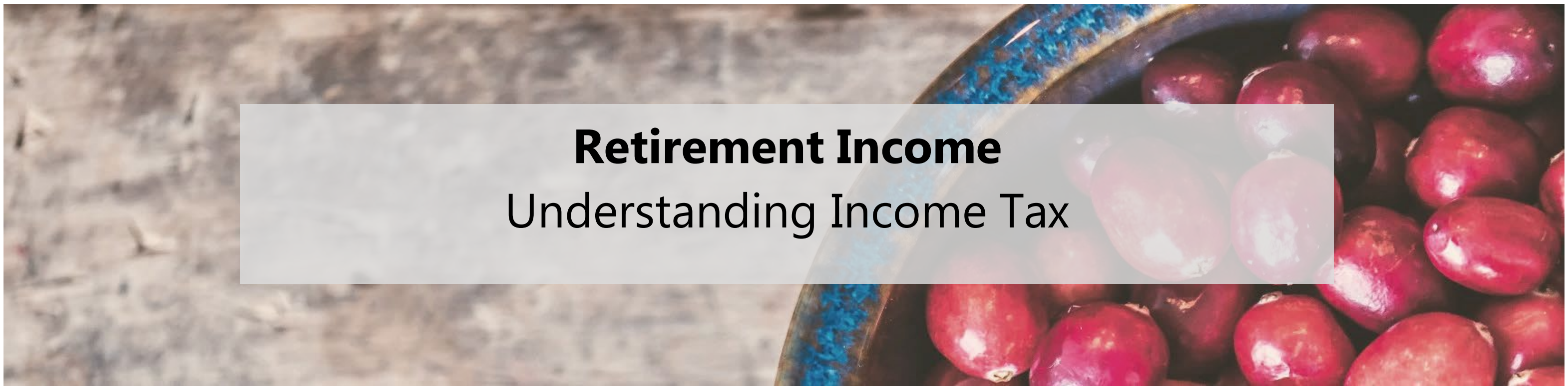
If you did not use the pension exclusion because you reported no taxable pension income on your return, you can still take advantage of the unclaimed pension exclusion if you meet the qualifications.

Example

A taxpayer is 69 years old and single. Their total income for the tax year was $92,000. They received a $3,000 taxable pension and claimed $3,000 as pension exclusion. Their income from wages, net profits from business, distributive share of partnership income, and net pro rata share of S corporation income totals $2,308.

Maximum Pension Exclusion	$75,000
Less: Pension Exclusion claimed	$ 3,000
Unused Pension Exclusion	$72,000
ORIE – Unclaimed Pension Exclusion	$72,000

The taxpayer qualifies for the unclaimed pension exclusion.



<u>Example</u>

A taxpayer is over age 62 and their filing status is head of household. Their total income was $83,000 for the tax year. Their received a pension but reported $0 as taxable pension income this year because they are using the Three-Year Rule Method and are still recovering their pension contributions. Their income from wages, net profits from business, distributive share of partnership income, and net pro rata share of S corporation income totals $2,675.

Maximum Pension Exclusion	$75,000
Less: Pension Exclusion claimed	$ 0
Unused Pension Exclusion	$75,000
ORIE – Unclaimed Pension Exclusion	$75,000

The taxpayer qualifies for the unclaimed pension exclusion.

<u>Example</u>

Two taxpayers are both 63 years old and file a joint return. Their combined total income was $85,000 for the tax year. They do not have any pension income. The couple's joint income from wages, net profits from business, distributive share of partnership income, and net pro rata share of S corporation income totals $1,872.

Maximum Pension Exclusion	$100,000
Less: Pension Exclusion claimed	$ 0
Unused Pension Exclusion	$100,000
ORIE – Unclaimed Pension Exclusion	$85,000

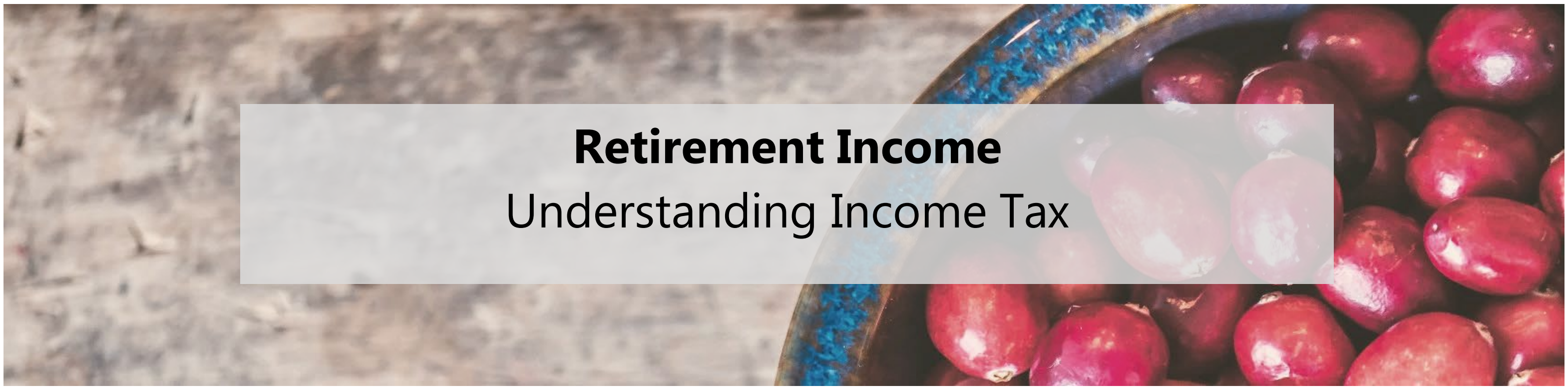
They qualify for the unclaimed pension exclusion.

<u>Example</u>

A taxpayer is 67 years old, and their filing status is married/CU partner, filing separate return. Their total income for the tax year was $58,000. They received $50,000 in taxable pension income and claimed $50,000 as pension exclusion.

Maximum Pension Exclusion	$50,000
Less: Pension Exclusion claimed	$50,000
Unused Pension Exclusion	$ 0
ORIE – Unclaimed Pension Exclusion	$ 0

The taxpayer does not qualify for the unclaimed pension exclusion because they have already claimed the maximum pension exclusion amount.



<u>Example</u>

A couple files a joint return for the tax year. Both are over age 62. Their combined total income was $114,000. One spouse has a taxable pension of $6,200, and they also earned $1,500 in net profits from their business. The other spouse had wages of $2,306 from their part-time job.

Maximum Pension Exclusion	$ 3,100
Pension Exclusion claimed	$ 3,100
Maximum Exclusion	$57,000
Less: Pension Exclusion claimed	$ 3,100
Unclaimed Maximum Exclusion	$53,900
ORIE – Unclaimed Exclusion	$ 0

The taxpayers are eligible to claim 50% of their taxable pension as the maximum pension exclusion, as their income is over $100,000, but less than $125,000. They cannot take advantage of the unclaimed maximum exclusion even though they did not use their maximum exclusion. That is because their joint income from wages, net profits from business, distributive share of partnership income, and net pro rata share of S corporation income was more than $3,000.

<u>Example</u>

Two taxpayers are both over age 65. They file a joint return on which they report combined total income of $153,200 for the tax year. Their taxable pension income was $57,000. They also had $22,200 in taxable interest income and $74,000 in taxable dividends.

The taxpayers are not eligible for the unclaimed pension exclusion (nor were they eligible for the pension exclusion) because their combined total income for the entire year was more than $150,000.

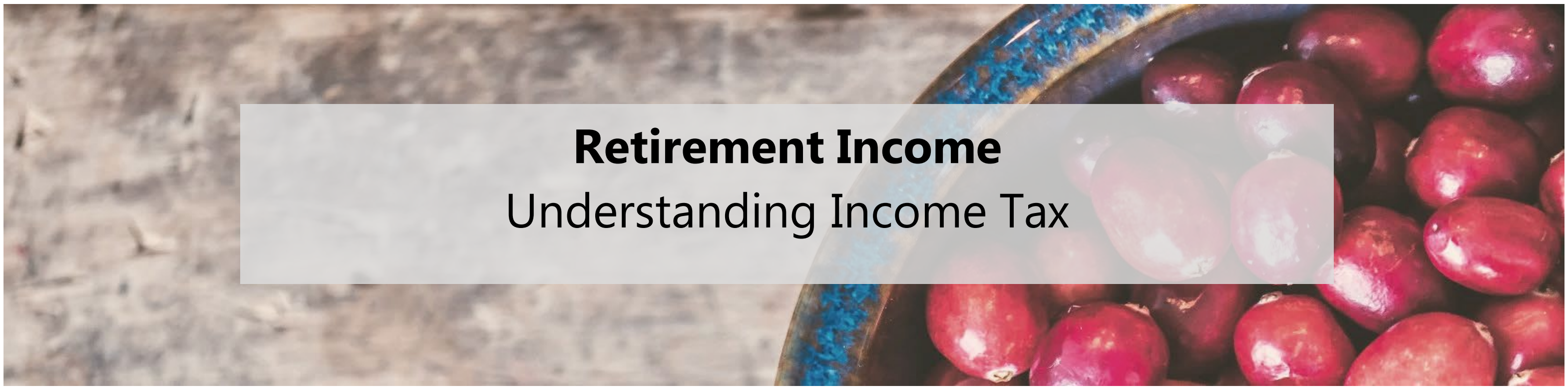
Only One Spouse Qualifies for Exclusion.

When you and your spouse file a joint return and only one of you is 62 or older, any pension exclusion that you did not claim can be used as the unclaimed pension exclusion provided that:

1. The joint total income for the entire year is $150,000 or less;
2. The joint earned income (total of: wages, net profits from business, distributive share of partnership income, and net pro rata share of S corporation income) is $3,000 or less; and
3. The exclusion is applied only to the income of the qualified (age 62 or older) spouse.

<u>Example</u>

A taxpayer (age 58) and their spouse (age 63) file a joint return for the tax year. They have a combined total income of $30,000. Spouse #1 receives a taxable pension of $18,000, and spouse #2 receives a taxable pension



of $6,000. Interest from their joint savings account totals $4,000. Spouse #1 has wages of $500, and spouse #2 has wages of $1,500.

Maximum Pension Exclusion	$ 100,000
Less: Pension Exclusion claimed	$ 6,000
Unused Pension Exclusion	$ 94,000
ORIE – Unclaimed Pension Exclusion	$ 3,500

In this example, only $3,500 of the $94,000 unused pension exclusion can be used as the unclaimed pension exclusion. That is because only $3,500 of their combined total income belongs to the spouse who is age 63 ($1,500 wages and $2,000 interest). The balance belongs to spouse #1 ($500 wages, $2,000 interest, and $18,000 pension). None of the income belonging to spouse #1 can be excluded because they are under age 62.

Special Exclusion

In addition to the pension exclusion and unclaimed exclusion, New Jersey provides a special exclusion for taxpayers who cannot receive Social Security or Railroad Retirement benefits. This benefit is not related to the pension exclusion and, if you qualify, you can claim it whether or not you use the pension exclusion and/or the unclaimed pension exclusion.

You qualify for this additional exclusion if:

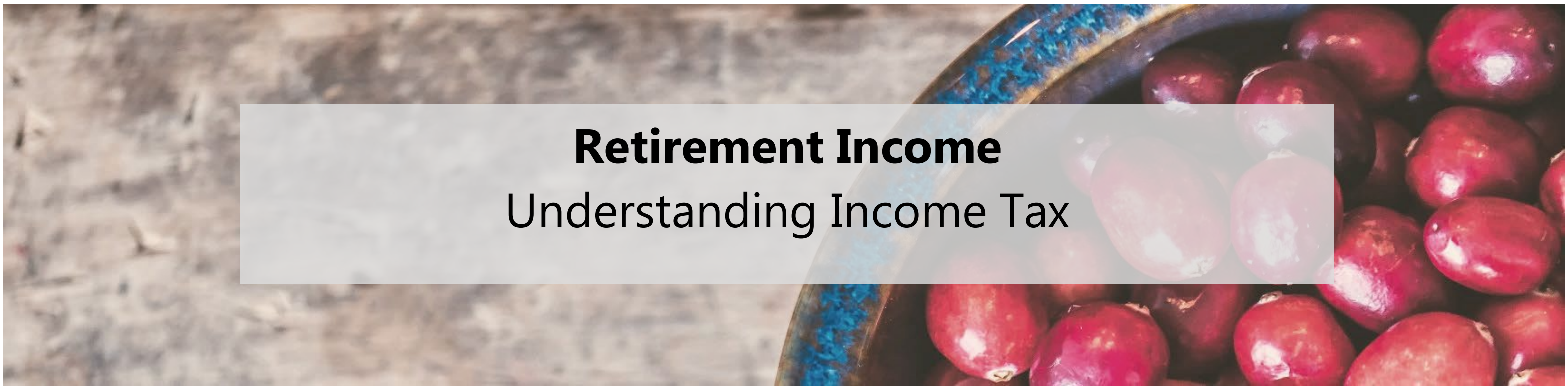
1. You (and/or your spouse, if filing jointly) were 62 or older on the last day of the tax year; **and**
2. You (and your spouse, if filing jointly) cannot receive Social Security or Railroad Retirement benefits, but would have been eligible for benefits had you fully participated in either program.

You must work a minimum of 40 quarters with Social Security coverage to be eligible to receive Social Security benefits. If you worked the required amount of time but contributed to Social Security for less than 40 quarters, you cannot receive Social Security benefits and may be eligible for the special exclusion. Since most people will receive Social Security or Railroad Retirement benefits, relatively few people are eligible for the special exclusion.

If you contributed to the Social Security or Railroad Retirement funds so that you would be eligible to receive Social Security or Railroad Retirement benefits, you are not eligible for the special exclusion, regardless of whether you are actually collecting any benefits. Also, if you file a joint return and one spouse is covered by either the Social Security or the Railroad Retirement program, neither spouse can claim the special exclusion.

If you are eligible for the special exclusion, you can use one of these amounts depending on your filing status:

$6,000	Married/CU couple, filing joint return; Head of household; Qualifying widow(er)/Surviving CU partner
$3,000	Single; Married/CU partner, filing separate return



The special exclusion is also claimed on the Other Retirement Income Exclusion line on the return (line 28b, Form NJ-1040 or line 28b, columns A and B, Form NJ-1040NR). You must add the special exclusion amount to any amount of unclaimed pension exclusion to arrive at the total for line 28b.

Example

Spouse #1 (age 65) and spouse #2 (age 62) are married and file a joint return. Their combined total income is $87,000. Their combined taxable pension income is $59,000, joint interest is $6,000, and they have gambling winnings of $20,000, and dividends of $2,000. They had no wages, business profits, partnership, or S corporation income. They are not covered by either the Social Security or Railroad Retirement program, but they would have been eligible if they had been enrolled in either plan.

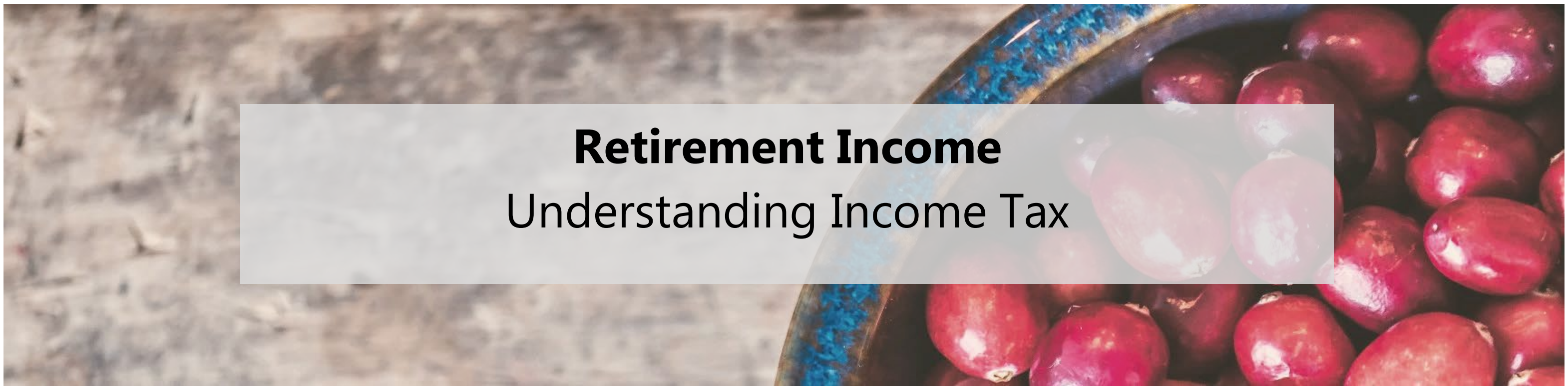
Maximum Pension Exclusion	$100,000
Less: Pension Exclusion claimed	$59,000
Unused Pension Exclusion	$41,000
ORIE – Unclaimed Pension Exclusion	$41,000
ORIE – Special Exclusion	$ 6,000
Total ORIE	$47,000

The couple is eligible to exclude the full amount of their taxable pension income of $59,000, as well as claim the unclaimed pension exclusion because their total earned income was less than $3,000. Since neither of them receive Social Security or Railroad Retirement Benefits, even though they would have been eligible had they enrolled in either plan, the Browns also are eligible for the $6,000 special exclusion. They will report that amount on the other retirement income exclusion line (line 28b, Form NJ-1040 or line 28b, columns A and B, Form NJ-1040NR).

Example

A married couple are both 83 years old and file a joint return. They report combined total income of $154,000. Their combined taxable pension and annuity income is $146,000, joint interest is $6,000, and dividends are $2,000. They are not covered by either the Social Security or Railroad Retirement program, but they would have been eligible if they had been enrolled in either plan.

Maximum Pension Exclusion	$ 0
Less: Pension Exclusion claimed	$ 0
Unused Pension Exclusion	$ 0
ORIE – Unclaimed Pension Exclusion	$ 0
ORIE – Special Exclusion	$ 6,000
Total ORIE	$ 6,000



They do not qualify for the pension exclusion or the unclaimed pension exclusion because their combined total income is more than $150,000. However, they are eligible for the $6,000 special exclusion and will report that amount on the other retirement income exclusion line (line 28b, Form NJ-1040 or line 28b, columns A and B, Form NJ-1040NR).

Example

A taxpayer is single and over age 65. They contributed to the Social Security program for over 30 years, but have chosen to delay receiving Social Security benefits until age 70.

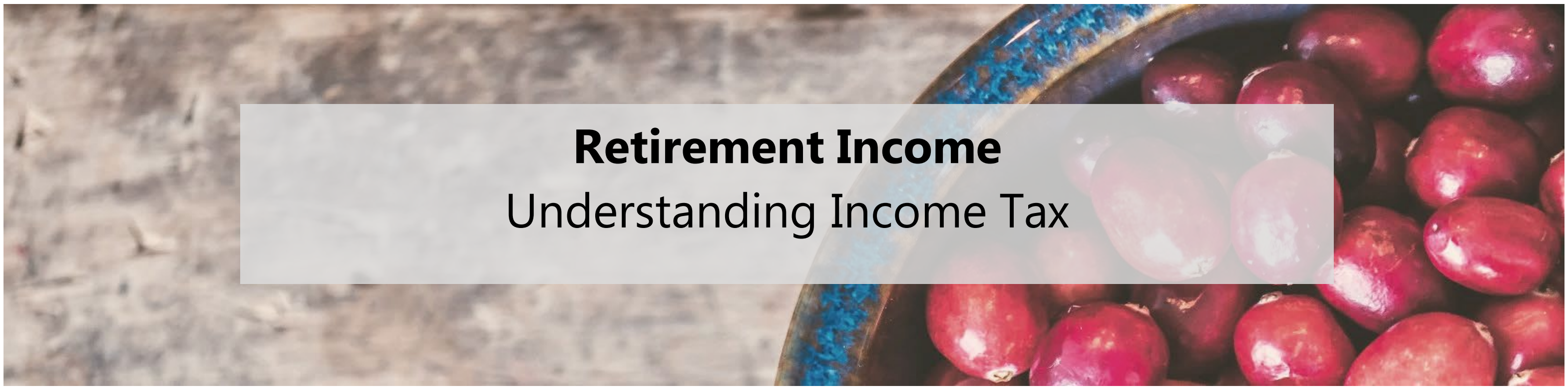
They do not qualify for the special exclusion because they contributed to the Social Security fund so that they would be eligible to receive Social Security, despite the fact that they are not actually collecting any benefits now.

Other Retirement Income Exclusion Worksheet

If you and/or your spouse are 62 or older on December 31, you can calculate the total exclusion amount you are eligible to claim. Go to the line on your tax return labeled Other Retirement Income Exclusion (line 28b, Form NJ-1040 or line 28b, columns A and B, Form NJ-1040NR), complete Worksheet D (full-year residents), Worksheet E (part-year residents), or the Other Retirement Income Exclusion Worksheet (nonresidents). Only complete the worksheet if you (or your spouse if you are filing a joint return) are 62 or older.

Part-Year Residents. If you were a New Jersey resident for only part of the year, do not complete Worksheet D, Other Retirement Income Exclusion. Instead, complete Worksheet E, Other Retirement Income Exclusion – Part-Year Residents to determine the total exclusion amount you are eligible to claim. You may be able to use the unclaimed pension exclusion if you and/or your spouse are 62 or older and your earned income for the entire year is $3,000 or less and you did not use your entire prorated pension exclusion. (See line 28b on Form NJ-1040 or NJ-1040NR.) You can only claim it if your total income (combined income if filing jointly) for the year is $150,000 or less before subtracting any pension exclusion.

If you (and your spouse if filing jointly) are eligible for the **special exclusion**, you can claim the additional exclusion amount whether or not you used all of your prorated pension exclusion. For more information, see **Part-Year Residents**.



<u>Example</u>

A taxpayer is single and 66 years old. They receive an annuity of $8,000, which is fully taxable, and claim $8,000 as pension exclusion. They cannot receive Social Security, but would have been eligible for benefits if the program had covered them. Their other income includes: $12,108 taxable interest, $2,981 dividends, $9,500 from the sale of stock, $14,000 net rental income, and $22,142 gambling winnings. The taxpayer completes Worksheet D as follows:

Worksheet D
Other Retirement Income Exclusion
Age Requirement: 62 or older
Part-year residents do not complete this worksheet. (See instructions on page 20.)

Is income on line 27, NJ-1040 **MORE than $150,000?**

- ○ Yes. You are not eligible to use any unclaimed portion of your maximum exclusion. Make no entry on line 28b unless you are eligible for the Special Exclusion (see below).
- ● No. Continue with line 1.

1. Enter the amount of your maximum exclusion using the chart below 1. $75,000
2. Enter the amount from line 28a, NJ-1040........ 2. $8,000
3. Subtract line 2 from line 1 .... 3. $67,000

Is the amount on line 3 **MORE than $0?**

- ● Yes. Continue with line 4.
- ○ No. You do not have any unused exclusion amount. Make no entry on line 28b unless you are eligible for the Special Exclusion (see below).

4. Enter the amount from line 15, NJ-1040 .... 4. ______
5. Enter the amount from line 18, NJ-1040 .... 5. ______
6. Enter the amount from line 21, NJ-1040 .... 6. ______
7. Enter the amount from line 22, NJ-1040 .... 7. ______
8. Add lines 4, 5, 6, and 7 .... 8. ______

Is the amount on line 8 **MORE than $3,000?**

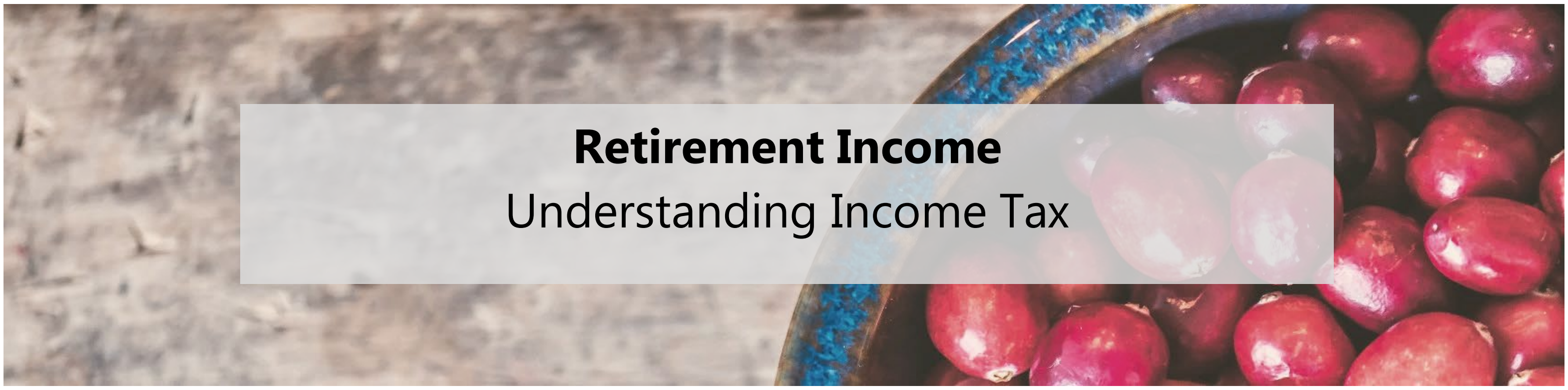
- ○ Yes. You are not eligible to use the unclaimed portion of your maximum exclusion. Make no entry on line 28b unless you are eligible for the Special Exclusion (see below).
- ● No. Continue with line 9.

9. Unclaimed Exclusion. Enter the amount from line 3. Also include this amount on line 28b, NJ-1040 .... 9. $67,000
Joint filers: If only one spouse is 62 or older, only the income of that spouse can be excluded.

Special Exclusion. If you (and your spouse if filing jointly) will **never** be able to receive Social Security or Railroad Retirement benefits because your employer did not participate in either program, you may qualify for this exclusion. See GIT-1 & 2, *Retirement Income,* before entering an amount on line 28b.

Maximum Exclusion

Filing Status:	**Income on line 27:** **$0 – $100,000**	**$100,001 – $125,000**	**$125,001 – $150,000**
Married/CU couple, filing joint return	$100,000	50% of line 27	25% of line 27
Single Head of household Qualifying widow(er)/surviving CU partner	$75,000	37.5% of line 27	18.75% of line 27
Married/CU partner, filing separate return	$50,000	25% of line 27	12.5% of line 27



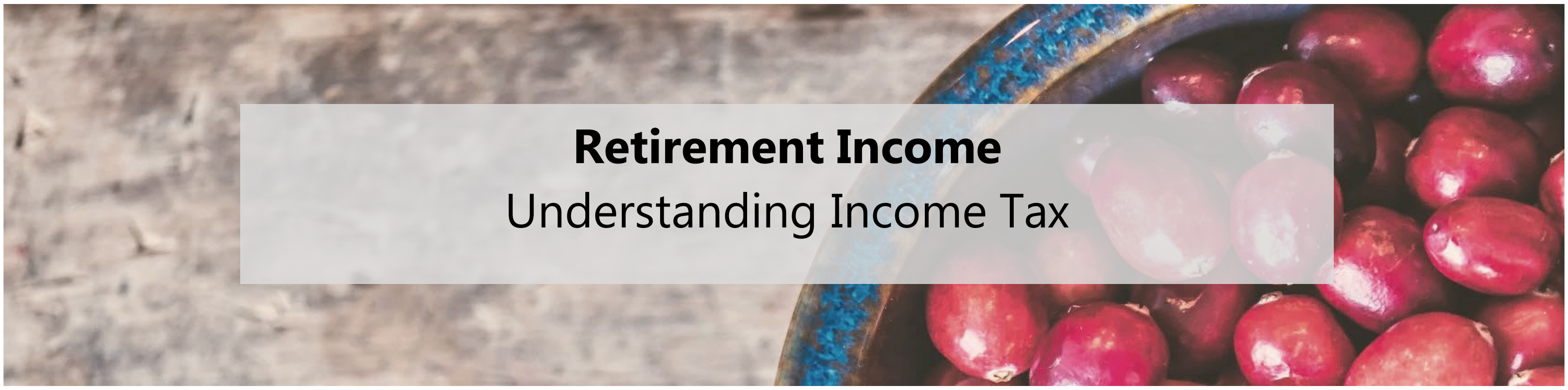
Retirement Income

Understanding Income Tax

The income section of the New Jersey resident return looks like this:

15.	Wages, salaries, tips, and other employee compensation (State wages from Box 16 of enclosed W-2(s)) (See instructions) .... 15.	
16a.	Taxable interest income (Enclose federal Schedule B if over $1,500) (See instructions) .... 16a.	12108 00
16b.	Tax-exempt interest income (Enclose schedule) (See instructions) Do not include on line 16a .... 16b.	
17.	Dividends .... 17.	2981 00
18.	Net profits from business (Schedule NJ-BUS-1, Part I, line 4) (Enclose federal Schedule C) .... 18.	
19.	Net gains or income from disposition of property (Schedule NJ-DOP, line 4) .... 19.	9500 00
20a.	Taxable pension, annuity, and IRA distributions/withdrawals (See instructions) .... 20a.	8000 00
20b.	Excludable pension, annuity, and IRA distributions/withdrawals (See instr) 20b.	
21.	Distributive Share of Partnership Income (Schedule NJ-BUS-1, Part II, line 4) (Enclose Schedule NJK-1 or federal Schedule K-1) .... 21.	
22.	Net pro rata share of S Corporation Income (Schedule NJ-BUS-1, Part III, line 4) (Enclose Schedule NJ-K-1 or federal Schedule K-1) .... 22.	
23.	Net gains or income from rents, royalties, patents, and copyrights (Schedule NJ-BUS-1, Part IV, line 4) .... 23.	14000 00
24.	Net gambling winnings (See instructions) .... 24.	22142 00
25.	Alimony and separate maintenance payments received .... 25.	
26.	Other (Enclose documents) (See instructions) .... 26.	
27.	Total Income (Add lines 15, 16a, 17 through 20a, and 21 through 26) .... 27.	68731 00
28a.	Pension/Retirement Exclusion (See instructions) .... 28a.	8000 00
28b.	Other Retirement Income Exclusion (See Worksheet D and instructions pages 20–21) .... 28b.	70000 00
28c.	Total Exclusion Amount (Add lines 28a and 28b) .... 28c.	78000 00
29.	**New Jersey Gross Income** (Subtract line 28c from line 27) (See instructions) .... 29.	

The taxpayer did not claim the maximum pension exclusion amount for their filing status ($75,000). They used only $8,000 as pension exclusion. However, they can use the unclaimed $67,000 other retirement income exclusion because their earned income (line 5 of worksheet) is less than $3,000. They also are eligible to claim the $3,000 special exclusion for a total other retirement income exclusion of $70,000.



<u>Example</u>

Two taxpayers are both over age 65. They are married and file a joint return. They are not covered by either the Social Security or Railroad Retirement program, but they would have been eligible for benefits if they had been enrolled in either plan. Their income consists of $8,200 taxable interest, $19,000 pension income ($11,000 taxable and $8,000 excludable using the General Rule Method), $1,500 partnership income, and a $145,000 net gain from the sale of their vacation home. They complete Worksheet D as follows:

Worksheet D
Other Retirement Income Exclusion
Age Requirement: 62 or older
Part-year residents do not complete this worksheet. (See instructions on page 20.)

Is income on line 27, NJ-1040 **MORE than $150,000?**

● Yes. You are not eligible to use any unclaimed portion of your maximum exclusion. Make no entry on line 28b unless you are eligible for the Special Exclusion (see below).

○ No. Continue with line 1.

1. Enter the amount of your maximum exclusion using the chart below .... 1. ________
2. Enter the amount from line 28a, NJ-1040........ 2. ________
3. Subtract line 2 from line 1 .... 3. ________

Is the amount on line 3 **MORE than $0?**

○ Yes. Continue with line 4.

○ No. You do not have any unused exclusion amount. Make no entry on line 28b unless you are eligible for the Special Exclusion (see below).

4. Enter the amount from line 15, NJ-1040 .... 4. ________
5. Enter the amount from line 18, NJ-1040 .... 5. ________
6. Enter the amount from line 21, NJ-1040 .... 6. ________
7. Enter the amount from line 22, NJ-1040 .... 7. ________
8. Add lines 4, 5, 6, and 7 .... 8. ________

Is the amount on line 8 **MORE than $3,000?**

○ Yes. You are not eligible to use the unclaimed portion of your maximum exclusion. Make no entry on line 28b unless you are eligible for the Special Exclusion (see below).

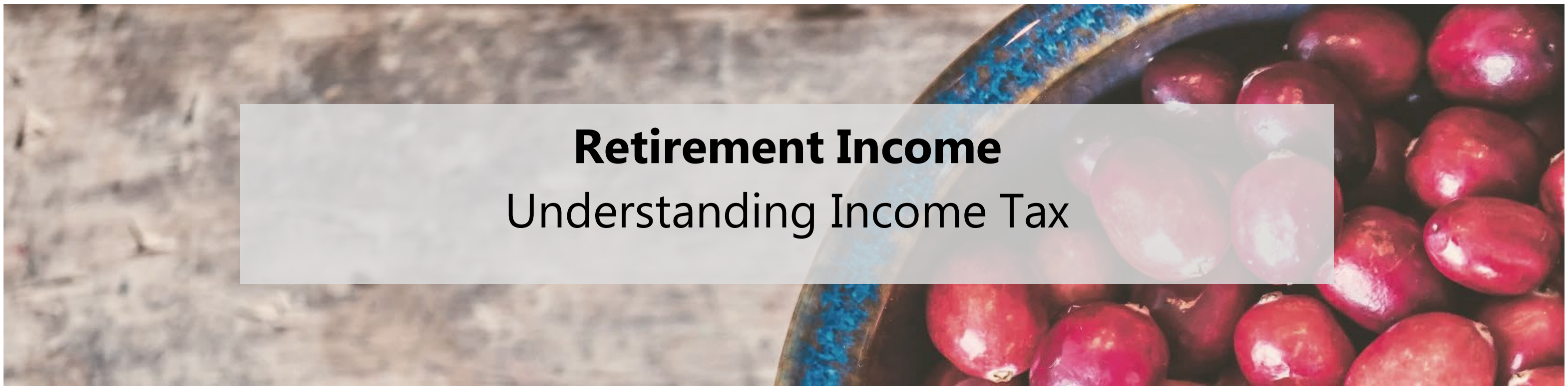
○ No. Continue with line 9.

9. Unclaimed Exclusion. Enter the amount from line 3. Also include this amount on line 28b, NJ-1040 .... 9. ________
Joint filers: If only one spouse is 62 or older, only the income of that spouse can be excluded.

Special Exclusion. If you (and your spouse if filing jointly) will **never** be able to receive Social Security or Railroad Retirement benefits because your employer did not participate in either program, you may qualify for this exclusion. See GIT-1 & 2, *Retirement Income*, before entering an amount on line 28b.

Maximum Exclusion

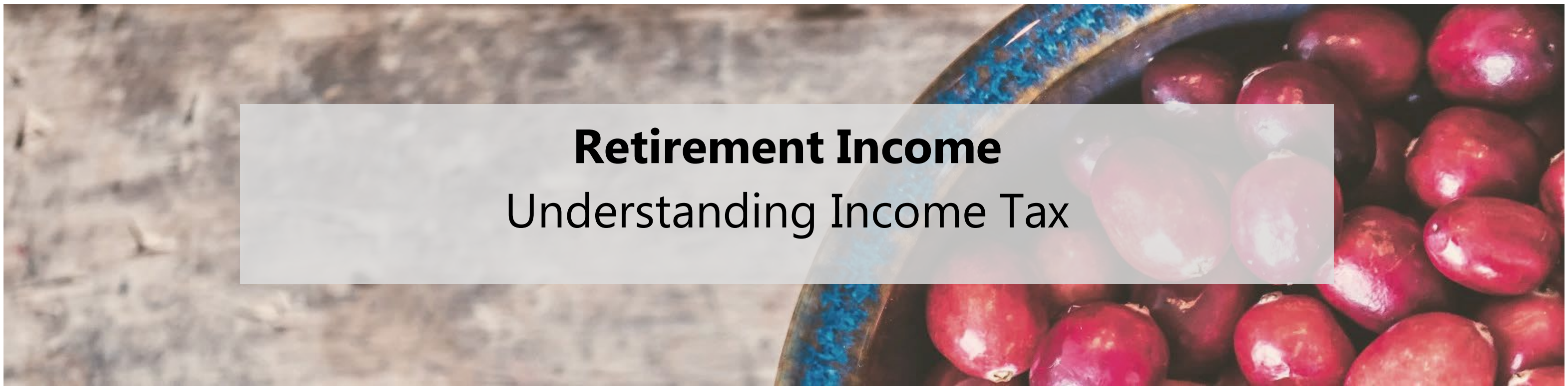
	Income on line 27:		
Filing Status:	**$0 – $100,000**	**$100,001 – $125,000**	**$125,001 – $150,000**
Married/CU couple, filing joint return	$100,000	50% of line 27	25% of line 27
Single Head of household Qualifying widow(er)/surviving CU partner	$75,000	37.5% of line 27	18.75% of line 27
Married/CU partner, filing separate return	$50,000	25% of line 27	12.5% of line 27



The couple cannot claim the unclaimed pension exclusion because their combined total income is more than $150,000. However, they are eligible to claim a special exclusion of the other retirement income exclusion. That is because even though they do not receive Social Security or Railroad Retirement benefits, they would have been eligible had their employers participated in either program. They can claim $6,000 since they are married, filing jointly.

They complete the income section of their New Jersey resident return like this:

15.	Wages, salaries, tips, and other employee compensation (State wages from Box 16 of enclosed W-2(s)) (See instructions) ... 15.	
16a.	Taxable interest income (Enclose federal Schedule B if over $1,500) (See instructions) ... 16a.	8,200.00
16b.	Tax-exempt interest income (Enclose Schedule) (See instructions) Do not include on line 16a ... 16b.	
17.	Dividends ... 17.	
18.	Net profits from business (Schedule NJ-BUS-1, Part I, line 4) (Enclose federal Schedule C) ... 18.	
19.	Net gains or income from disposition of property (Schedule NJ-DOP, line 4) ... 19.	145,000.00
20a.	Taxable pension, annuity, and IRA distributions/withdrawals (See instructions) ... 20a.	11,000.00
20b.	Excludable pension, annuity, and IRA distributions/withdrawals ... 20b.	8,000.00
21.	Distributive Share of Partnership Income (Schedule NJ-BUS-1, Part II, line 4) (Enclose Schedule NJK-1 or federal Schedule K-1) ... 21.	1,500.00
22.	Net pro rata share of S Corporation Income (Schedule NJ-BUS-1, Part III, line 4) (Enclose Schedule NJ-K-1 or federal Schedule K-1) ... 22.	
23.	Net gains or income from rents, royalties, patents, and copyrights (Schedule NJ-BUS-1, Part IV, line 4) ... 23.	
24.	Net gambling winnings (See instructions) ... 24.	
25.	Alimony and separate maintenance payments received ... 25.	
26.	Other (Enclose documents) (See instructions) ... 26.	
27.	Total Income (Add lines 15, 16a, 17 through 20a, and 21 through 26) ... 27.	165,700.00
28a.	Pension/Retirement Exclusion (See instructions) ... 28a.	
28b.	Other Retirement Income Exclusion (See Worksheet D and instructions pages 20–21) ... 28b.	6,000.00
28c.	Total Exclusion Amount (Add lines 28a and 28b) ... 28c.	6,000.00
29.	**New Jersey Gross Income** (Subtract line 28c from line 27) (See instructions) ... 29.	159,700.00



Example

Two taxpayers are both 70 years old and file a joint return. Their combined income consists of $19,806 in Social Security benefits, $26,039 of taxable interest, $5,000 of tax-exempt interest, $20,987 in taxable dividends, $5,600 in gambling winnings, $1,500 in partnership income, $1,000 in net pro rata share of S corporation income, and $28,607 of rental income. Neither spouse receives a pension. They complete Worksheet D as follows:

Worksheet D
Other Retirement Income Exclusion
Age Requirement: 62 or older
Part-year residents do not complete this worksheet. (See instructions on page 20.)

Is income on line 27, NJ-1040 **MORE than $150,000?**

○ Yes. You are not eligible to use any unclaimed portion of your maximum exclusion. Make no entry on line 28b unless you are eligible for the Special Exclusion (see below).
● No. Continue with line 1.

1. Enter the amount of your maximum exclusion using the chart below 1. $100,000
2. Enter the amount from line 28a, NJ-1040 .... 2. $0
3. Subtract line 2 from line 1 .... 3. $100,000

Is the amount on line 3 **MORE than $0?**

● Yes. Continue with line 4.
○ No. You do not have any unused exclusion amount. Make no entry on line 28b unless you are eligible for the Special Exclusion (see below).

4. Enter the amount from line 15, NJ-1040 .... 4. ______
5. Enter the amount from line 18, NJ-1040 .... 5. ______
6. Enter the amount from line 21, NJ-1040 .... 6. $1,500
7. Enter the amount from line 22, NJ-1040 .... 7. $1,000
8. Add lines 4, 5, 6, and 7 .... 8. $2,500

Is the amount on line 8 **MORE than $3,000?**

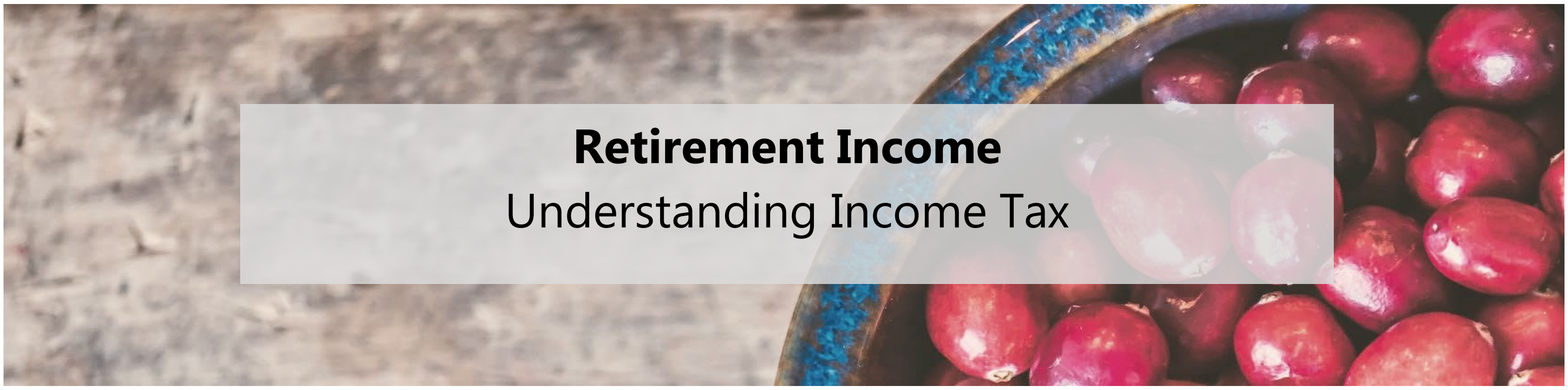
○ Yes. You are not eligible to use the unclaimed portion of your maximum exclusion. Make no entry on line 28b unless you are eligible for the Special Exclusion (see below).
● No. Continue with line 9.

9. Unclaimed Exclusion. Enter the amount from line 3. Also include this amount on line 28b, NJ-1040 .... 9. $100,000
Joint filers: If only one spouse is 62 or older, only the income of that spouse can be excluded.

Special Exclusion. If you (and your spouse if filing jointly) will **never** be able to receive Social Security or Railroad Retirement benefits because your employer did not participate in either program, you may qualify for this exclusion. See GIT-1 & 2, *Retirement Income,* before entering an amount on line 28b.

Maximum Exclusion

Filing Status:	Income on line 27: $0 – $100,000	$100,001 – $125,000	$125,001 – $150,000
Married/CU couple, filing joint return	$100,000	50% of line 27	25% of line 27
Single Head of household Qualifying widow(er)/surviving CU partner	$75,000	37.5% of line 27	18.75% of line 27
Married/CU partner, filing separate return	$50,000	25% of line 27	12.5% of line 27

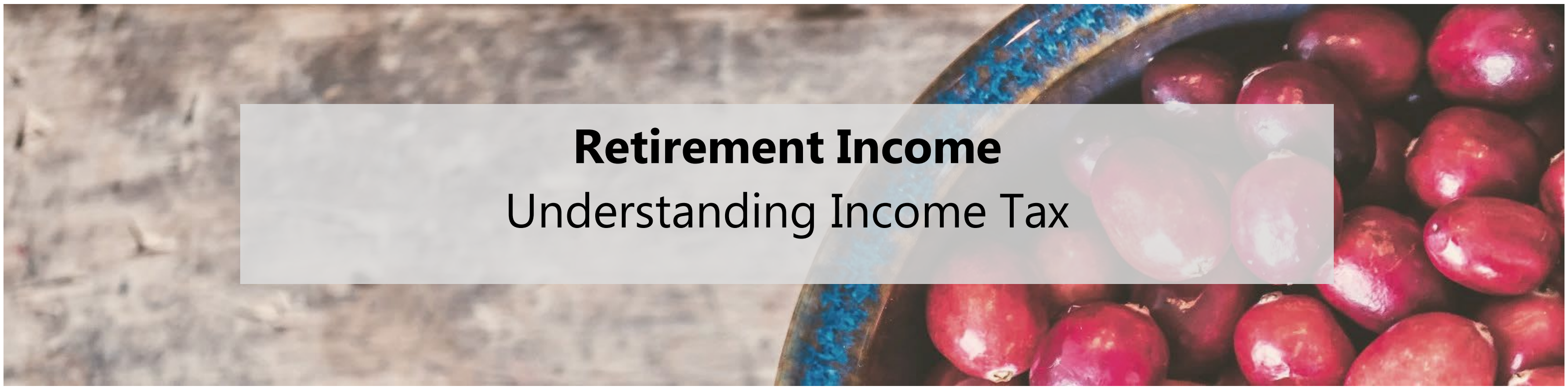


Retirement Income

Understanding Income Tax

Because they receive Social Security benefits, they are not eligible to claim the special exclusion. They complete the income section of their New Jersey resident return like this:

15.	Wages, salaries, tips, and other employee compensation (State wages from Box 16 of enclosed W-2(s)) (See instructions) .... 15.	
16a.	Taxable interest income (Enclose federal Schedule B if over $1,500) (See instructions) .... 16a.	26039.00
16b.	Tax-exempt interest income (Enclose schedule) (See instructions) Do not include on line 16a .... 16b.	5000.00
17.	Dividends .... 17.	20987.00
18.	Net profits from business (Schedule NJ-BUS-1, Part I, line 4) (Enclose federal Schedule C) .... 18.	
19.	Net gains or income from disposition of property (Schedule NJ-DOP, line 4) .... 19.	
20a.	Taxable pension, annuity, and IRA distributions/withdrawals (See instructions) .... 20a.	
20b.	Excludable pension, annuity, and IRA distributions/withdrawals (See instr) 20b.	
21.	Distributive Share of Partnership Income (Schedule NJ-BUS-1, Part II, line 4) (Enclose Schedule NJK-1 or federal Schedule K-1) .... 21.	1500.00
22.	Net pro rata share of S Corporation Income (Schedule NJ-BUS-1, Part III, line 4) (Enclose Schedule NJ-K-1 or federal Schedule K-1) .... 22.	1000.00
23.	Net gains or income from rents, royalties, patents, and copyrights (Schedule NJ-BUS-1, Part IV, line 4) .... 23.	28607.00
24.	Net gambling winnings (See instructions) .... 24.	5600.00
25.	Alimony and separate maintenance payments received .... 25.	
26.	Other (Enclose documents) (See instructions) .... 26.	
27.	Total Income (Add lines 15, 16a, 17 through 20a, and 21 through 26) .... 27.	83733.00
28a.	Pension/Retirement Exclusion (See instructions) .... 28a.	
28b.	Other Retirement Income Exclusion (See Worksheet D and instructions pages 20–21) .... 28b.	100000.00
28c.	Total Exclusion Amount (Add lines 28a and 28b) .... 28c.	100000.00
29.	**New Jersey Gross Income** (Subtract line 28c from line 27) (See instructions) .... 29.	



Example

Spouse #1 (age 66) and spouse #2 (age 63) live in Nyack, New York. They are married and file a joint return. Spouse #1 is retired and received Social Security benefits of $12,478 and taxable annuity income of $13,624. They also received $4,600 of taxable interest, $7,100 in dividends, and a $52,500 net gain from the sale of New Jersey real estate. Spouse#2 earned $2,836 of wages in New Jersey. They complete the Other Retirement Income Exclusion Worksheet as follows:

Worksheet D
Other Retirement Income Exclusion

Age Requirement: 62 or older

Part-year nonresidents do not complete this worksheet. (See instructions on page 22.)

Is income on line 27, column A, NJ-1040NR **MORE than $150,000?**

○ Yes. You are not eligible to use any unclaimed portion of your maximum exclusion Make no entry on line 28b, columns A and B unless you are eligible for the Special Exclusion (see below).

● No. Continue with line 1.

1. Enter the amount of your maximum exclusion using the chart below 1. $100,000
2. Enter the amount from line 28a, NJ-1040NR .... 2. $ 13,624
3. Subtract line 2 from line 1 .... 3. $ 86,376

Is the amount on line 3 **MORE than $0?**

● Yes. Continue with line 4.

○ No. You do not have any unused exclusion amount. Make no entry on line 28b, columns A and B unless you are eligible for the Special Exclusion (see below).

4. Enter the amount from line 15, col. A, NJ-1040NR .... 4. $ 2,836
5. Enter the amount from line 18, col. A, NJ-1040NR .... 5. ______
6. Enter the amount from line 23, col. A, NJ-1040NR .... 6. ______
7. Enter the amount from line 24, col. A, NJ-1040NR .... 7. ______
8. Add lines 4, 5, 6, and 7 .... 8. $ 2,836

Is the amount on line 8 MORE than $3,000?

○ Yes. You are not eligible to use the unclaimed portion of your maximum exclusion. Make no entry on line 28b, columns A and B unless you are eligible for the Special Exclusion (see below).

● No. Continue with line 9.

9. Unclaimed Pension Exclusion. Enter the amount from line 3. Also include this amount on line 28b, column A and column B, NJ-1040NR .... 9. $ 86,376

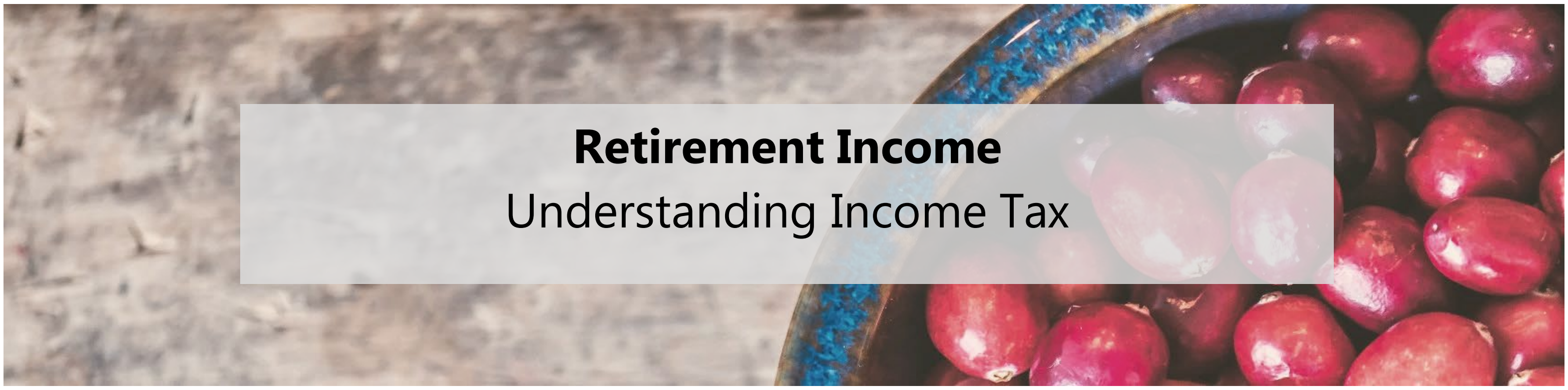
Joint filers: If only one spouse is 62 or older, only the income of that spouse can be excluded.

Special Exclusion. If you (and your spouse if filing jointly) will **never** be able to receive Social Security or Railroad Retirement benefits because your employer did not participate in either program, you may qualify for this exclusion. See GIT-1 & 2, *Retirement Income*, before entering an amount on line 28b.

Maximum Exclusion

	Income on line 27, column A:		
Filing Status:	**$0 – $100,000**	**$100,001 – $125,000**	**$125,001 – $150,000**
Married/CU couple, filing joint return	$100,000	50% of line 27, col. A	25% of line 27, col. A
Single Head of household Qualifying widow(er)/surviving CU partner	$75,000	37.5% of line 27, col. A	18.75% of line 27, col. A
Married/CU partner, filing separate return	$50,000	25% of line 27, col. A	12.5% of line 27, col. A

(Keep for your records)



The couple did not claim the maximum pension exclusion amount for their filing status ($100,000). They used only $13,624 as pension exclusion. However, they can use the unclaimed $86,376 other retirement income exclusion because their earned income (line 5 of worksheet) is less than $3,000.

They complete lines 15-29 on pages 1 & 2 and Part I on page 4 of their New Jersey nonresident return as follows:

Form NJ-1040NR (Pages 1 & 2)

Driver's License # (Voluntary) State		(Column A) Amount of Gross Income (Everywhere)		(Column B) Amount From New Jersey Sources
15. Wages, salaries, tips, and other employee compensation Check box if you completed lines 69 through 75 ☐	15.	2,836	15.	2,836
16. Interest	16.	4,600	16.	
17. Dividends	17.	7,100	17.	
18. Net profits from business (Schedule NJ-BUS-1, Part I, line 4)	18.		18.	
19. Net gains or income from disposition of property (From line 68)	19.	52,500	19.	52,500
20. Net gains or income from rents, royalties, patents, and copyrights (Schedule NJ-BUS-1, Part II, line 4)	20.		20.	
21. Net gambling winnings (See Instructions)	21.		21.	
22. Taxable pensions, annuities, and IRA distributions/withdrawals	22.	13,624	22	
23. Distributive Share of Partnership Income (Schedule NJ-BUS-1, Part III, line 4)	23.		23.	
24. Net pro rata share of S Corporation Income (Schedule NJ-BUS-1, Part IV, line 4)	24.		24.	
25. Alimony and separate maintenance payments received	25.		25	
26. Other – State Nature and Source ______	26.		26.	
27. **Total Income** (Add lines 15 through 26)	27.	80,660	27.	55,336
28a. Pension/Retirement Exclusion (See Instructions)	28a.	13,624		
28b. Other Retirement Income Exclusion (See Worksheet and Instructions)	28b.	86,376	28b.	86,376
28c. Total Exclusion Amount (Add line 28a and line 28b)	28c.	100,000	28c.	100,000
29. Gross Income (Subtract line 28c from line 27)	29.		29.	

(Page 4)

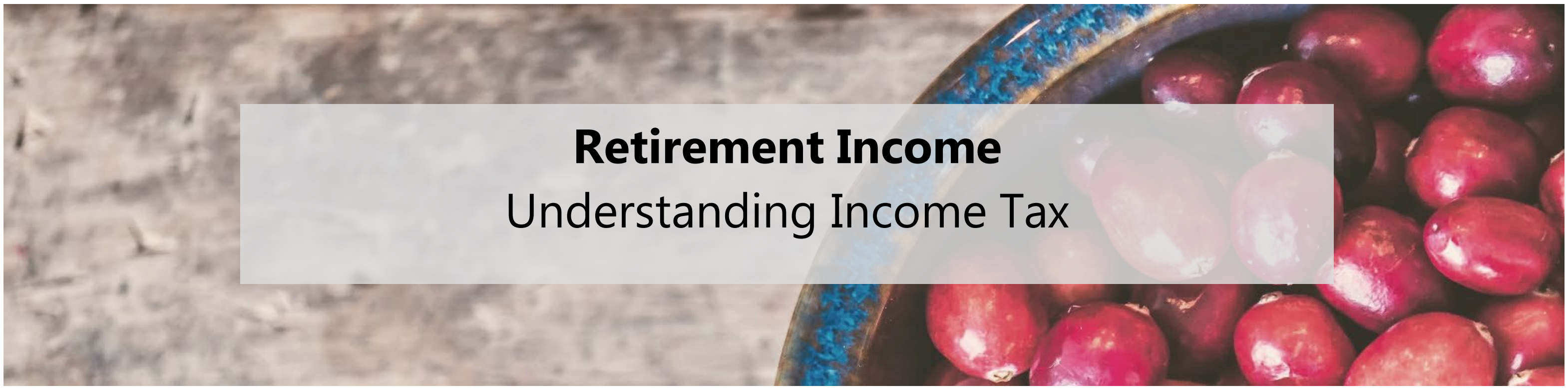
Part I	**Net Gains or Income From Disposition of Property**	List the net gains or income, less net loss, derived from the sale, exchange, or other disposition of property including real or personal whether tangible or intangible as reported on federal Schedule D.						
(a) Kind of property and description	(b) Date aquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Gross sales price		(e) Cost or other basis as adjusted (see instructions) and expense of sale		(f) Gain or (loss) (d less e)	
65. Six-acre lot in Park Ridge, NJ	3/11/2009	11/18/2024	112,500		60,000		52,500	
66. Capital Gains Distribution						66.		
67. Other Net Gains						67.		
68. Net Gains (Add lines 65, 66, and 67) (Enter here and on line 19) (If loss, enter zero)						68.	52,500	

Survivors and Beneficiaries: Pension, Annuity, and IRA

In general, pension, annuity, and IRA income received by a survivor or beneficiary is treated the same way as regular pension, annuity, or IRA income. Amounts received, whether in the form of periodic payments or in a lump sum, are taxable if they exceed the decedent's previously taxed contributions to the plan. Upon the death of the owner of the pension, annuity, or IRA, the amount paid to the surviving beneficiary is taxable if it exceeds the surviving beneficiary's contribution to the plan. The surviving beneficiary's contribution is determined as follows:

1. When the distribution to the surviving beneficiary is subject to the New Jersey Inheritance Tax,* the contribution of the surviving beneficiary is the value of the annuity, pension, or retirement benefits as determined for Inheritance Tax purposes. The recipient can exclude from Income Tax the amount that represents the contribution, which is the value determined for Transfer Inheritance Tax purposes. Consult the **Tax Guide on being an Executor** for more details.
2. When the beneficiary receives benefits that are not subject to Inheritance Tax, they are entitled to exclude from income the remaining previously taxed contributions of the decedent. If the decedent's contributions to the plan have already been recovered, all pension income the beneficiary receives is taxable and must be included in income.

*Contact the Division's Inheritance Tax Section at (609) 292-5033 for more information.



Retirement Income
Understanding Income Tax

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The forms and amounts referred to in this Bulletin are for Tax Year 2024. This document is designed to provide guidance to taxpayers and is accurate as of the date issued.

*Any reference in this publication 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.*