



# **New Jersey Income Tax Guide**

## **Retiring in New Jersey**



(Updated April 2022)

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## Retirement Income In New Jersey

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New Jersey taxes retirement income differently than the federal government. If you are retired or planning to retire, this guide answers common questions regarding retirement income and how to report it on your New Jersey Income Tax return. It also can help prepare you for future tax situations.

## Pay Tax Throughout the Year

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### Withholding Tax from a Pension

New Jersey residents who receive pension or annuity income should consider asking their fund manager to withhold New Jersey Income Tax from those payments. The **reason to withhold** some money to cover taxes is because if you owe us too much tax, we might require you to make estimated payments every three months the following tax year.

If you want New Jersey Income Tax withheld from a pension, complete [Form NJ-W-4P](#), Certificate of Voluntary Withholding of New Jersey Gross Income Tax from Pension and Annuity Payments. Indicate the amount of tax to be withheld (\$10 minimum) and give the certificate to the payer of the pension or annuity.

### Withholding Tax from an IRA

If you have an IRA, you might want to *consider withholding New Jersey Income Tax* when you receive an annual distribution, **so you do not have to make estimated payments** every quarter in subsequent years.

### Making Estimated Tax Payments

You **are required** to make quarterly estimated tax payments to New Jersey **if you owe more than \$400** after taking all exemptions, deductions, withholdings, and other credits on your State return. Use [Form NJ-1040-ES](#) to file estimated tax payments when due. (See [Estimating Income Taxes](#).)

Figuring out how much tax to withhold from a pension payment can be challenging. Consult our [supplemental tax tables](#) to get an idea of the withholding amount to indicate on your NJ-W-4P. For better accuracy, you will need to know:

- The frequency of payment – weekly, bi-weekly, etc.;
- How much your payments are;
- How many exemptions you expect to claim.

## Coronavirus-Related Distributions

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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. [More information](#).

## Social Security, Railroad Retirement, and Disability Benefits

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Social Security and Railroad Retirement benefits are *not taxable* under the New Jersey Income Tax and should not be reported as income on your State return.

Payments from a public or private pension plan because of total and permanent disability also are *not taxable*. However, if you retired before age 65 on a permanent disability pension and continue to receive payments after 65, the disability pension is treated as an ordinary pension beginning at that age and is **taxable**.

## Rollovers

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If you take a distribution that qualifies for federal income tax deferral, it also qualifies for New Jersey Income Tax deferral. Do not report qualified rollovers. However, tax-deferred distributions are taxable contributions upon withdrawal. (For more information about any deferrals written under the CARES Act, see [Coronavirus-related distribution](#).)

## Retirement Income Loan

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

## Military Personnel & Veterans

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### Military Pensions or Survivor Benefits

New Jersey does not tax U.S. military pensions or survivor's benefits, regardless of your age or disability status. Do not include such payments on your New Jersey return.

This exemption does not apply to civil service pensions or annuities, even if the pension or annuity is based on credit for military service. They are **taxable**. (See [Military Personnel and Families](#).)

### Veteran Exemption

Many veterans qualify for an additional \$6,000 exemption on their New Jersey Income Tax. If you are an honorably discharged military veteran, you are eligible for this exemption.

The first time you claim the exemption, you must provide [official documentation](#) showing you were honorably discharged or released under honorable circumstances from active duty. (See [Military Personnel and Families](#).)

## Pensions and Annuities

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Pension and annuity income are **taxable** and must be reported on your New Jersey Income Tax return. In some cases, the taxable pension or annuity amount that you report on your New Jersey return may differ from the amount reported on your federal return.

That is because you may have to use a different method to calculate the taxable amount for your New Jersey return than the method used for federal income tax purposes. (See [Retirement Income](#).)

### Nonresidents

Pension and annuity income received by a nonresident for work performed in New Jersey are *not taxable*, even if you were a resident when you worked in New Jersey. However, you might have other income from

New Jersey that is **taxable** to a nonresident (e.g., wages, business income, or a gain from selling real property – such as real estate – in New Jersey).

If so, you are required to file a New Jersey Nonresident Income Tax return ([Form NJ-1040NR](#)) and report any pension or annuity income in Column A along with your other taxable income.

### Taxable vs. Excludable Distributions

Pensions and annuities fall into one of two categories: noncontributory or contributory. The taxable amount you report on your New Jersey Income Tax return will depend on whether the pension or annuity payment came from a contributory or a noncontributory retirement plan.

#### Noncontributory Plan

You have a *noncontributory plan* if you did not make contributions to that plan. Distributions from a noncontributory plan are taxable. Include the full amount on your tax return.

#### Contributory Plan

You have a *contributory plan* if you made contributions to that plan. In general, your contributions were already taxed since they were made through payroll deductions. Therefore, contributions are excludable from tax.

When you receive a pension or annuity distribution from a contributory plan, you must determine the taxable and excludable portions so you are not taxed twice on your contributions.

## Individual Retirement Account (IRA) Withdrawals

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You must calculate the taxable and excludable portions of the withdrawal for your New Jersey tax return. (See [Retirement Income](#) for information on how to calculate taxable and excludable portions.)

### Contributions

Money added to your IRA is referred to as your *contributions*. In general, IRA contributions were taxed when you made them and are not taxed by New Jersey when withdrawn. However, amounts rolled over into your IRA from tax-deferred pension plans that qualify for federal tax deferral are taxable upon withdrawal, since the money was never previously taxed.

### Earnings

Interest, dividends, and capital appreciation (i.e., an increase in the value of the investments you bought) are taxable upon withdrawal.

### Roth IRAs

Roth IRA contributions were taxed when you made them. For more information on the taxability of Roth IRA distributions, see our Technical Bulletin [Roth IRAs](#).

### New Jersey Bonds

An IRA withdrawal is *not taxable* if the distribution you receive was derived entirely from New Jersey municipal, county, or State debt (bonds) that is exempt from New Jersey Income Tax. (For more information, see [Exempt Obligations](#).)

## 401(k) Plans

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Contributions that employees make to 401(k) plans from their wages are *not taxable* as of January 1, 1984. 401(k) distributions, including contributions made on or after January 1, 1984, are fully **taxable** since the contributions were not taxed when made, and earnings are taxable.

If you made contributions to a 401(k) plan before January 1, 1984, your distribution will be treated differently than if all the contributions were made after that date. (See [Retirement Income](#) for more information.)

If you convert a 401(k) plan to an IRA — meaning the funds go from one financial institution to another, not to you — that is a rollover, which is *not taxable*. The same applies when you transfer funds from one IRA to another. However, the money is **taxable** when you withdraw it.

## Section 457 plans (Deferred Compensation)

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Some retirement plans, such as the New Jersey Deferred Compensation Plan offered to government workers, are called Section 457 plans. Unlike a 401(k) or IRA, those plans are funded with after-tax earnings, *not* pre-tax earnings. Because you already paid tax on the earnings used to fund the plan, you will have to calculate how much of your annual distribution results from after-tax earnings and how much results from capital gains to figure out what you owe in taxes. Otherwise, you could be taxed twice on the same income.

You only pay New Jersey tax on the amount that exceeds what you contributed to the plan. New Jersey has two ways to calculate tax on a 457 plan distribution: The Three-Year Rule and the General Rule.

Use the Three-Year Rule if you will receive an amount that equals or exceeds your total contributions within three years of the date of your first distribution from the plan. The General Rule applies if it will take more than three years to recover all of your contributions. You can find more details in [Retirement Income](#).

If you die before receiving all of the funds in the plan, your immediate family heirs (spouse and children) will pay no Inheritance Tax on the remaining distributions. However, if your beneficiaries are nieces and nephews, they are treated differently than immediate family and may have to pay Inheritance Tax on a 457 plan distribution.

## Pension Exclusion, Unused Exclusion, and Special Exclusion

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New Jersey provides retirees a pension exclusion to reduce gross income. Additionally, a Gross Income Tax exclusion for unused pension exclusion amounts and a special exclusion.

### **Pension Exclusion**

To qualify for the pension exclusion, you must be:

- 62 years of age or older, or permanently disabled/blind;
  - If filing jointly and both spouses received retirement income, but only one of you is 62 or older or permanently disabled/blind, you may *only* exclude the retirement income of the eligible spouse.

- A resident of New Jersey;
  - 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.](#))

For **Tax Year 2021**, the exclusion varies depending on gross income and filing status.

- If your **gross income is less than \$100,000**, you may exclude up to:
  - 100% if you are married/CU couple, filing a joint return;
  - 75% if you are single, head of household, or qualifying widow(er)/surviving CU partner; or
  - 50% if you are married/CU partner, filing a separate return.
- If your **gross income is \$100,001 to \$125,000**, you may exclude:
  - 50% of your pension and other retirement income if you are a married/CU couple, filing a joint return;
  - 37.5% of your pension and other retirement income if you are single, head of household, or qualifying widow(er)/surviving CU partner; or
  - 25% of your pension and other retirement income if you are married/CU partner, filing a separate return.
- If your **gross income is \$125,001 to \$150,000**, you may exclude:
  - 25% of your pension and other retirement income if you are married/CU couple, filing a joint return;
  - 18.75% of your pension and other retirement income if you are single, head of household, or qualifying widow(er)/surviving CU partner; or
  - 12.5% of your pension and other retirement income if married/CU partner, filing a separate return.

For **Tax Year 2020**, if your gross income is \$100,000 or less, you can exclude up to the following amounts of retirement income:

- 100% if you are married/CU couple, filing a joint return;
- 75% if you are single, head of household, or qualifying widow(er)/surviving CU partner; or
- 50% if you are married/CU partner, filing a separate return.

For **Tax Year 2019**, if your gross income is \$100,000 or less, the three exclusions mentioned above were \$80,000, \$60,000, and \$40,000, respectively.

Access 2018 and prior year information by referring to the Income Tax booklet instructions for a specific year.

[Learn more](#) about exclusions.

## Qualified Domestic Relations Order (QDRO) Savings Plan

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When couples divorce, a QDRO can be ordered by a Court to grant someone the right to a portion of his/her former spouse's retirement accounts. Funds from a QDRO savings plan must be properly disbursed per the Court Order.

If the spouses simply divide the savings under the QDRO, and neither party receives a cash distribution, you will not have to pay New Jersey Income Tax. You will have to pay tax when you receive a cash distribution from the savings plan/account.

If you are a member of a New Jersey State-administered pension plan (PERS or TPAF, for example), the Order must be deemed acceptable by the Division of Pensions and Benefits before you can determine the taxability of the disbursement. The form of the payment determines how payments are reported for tax purposes. (See the Life Events tab on the [Division of Pensions and Benefits website](#), and select "divorce/dissolution.")

## Beneficiaries of a Pension, Annuity, or IRA

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In general, pension and annuity income received by a survivor or beneficiary, whether in the form of periodic payments or in a lump sum, are **taxable** if they exceed the decedent's previously taxed contributions.

If the pension or annuity was subject to the New Jersey Transfer Inheritance Tax, the value of the pension or annuity represents the decedent's previously taxed contributions. Those contributions are deductible when determining the taxable pension, annuity, or IRA income received. (See [Retirement Income](#) or [Estates and Trusts](#).)

## Post-Retirement Employment/Income

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You may want to earn extra money from a part-time job, self-employment, or other sources after retirement. That extra income could increase your State tax obligation. To determine how much you could earn along with your retirement income, you must:

- Total your estimated income;
- Apply the retirement exclusion – if eligible;
- Total your gross income (the amount after taking the exclusion but before any deductions).

If your gross income for the year is more than \$20,000 (or \$10,000 if filing single or married/CU partner filing separately) **you will owe New Jersey Income Tax**.

For more information on gross income, consult the [NJ-1040 instruction booklet](#).

## Life Insurance

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Life insurance proceeds are exempt from New Jersey Income Tax *only* when received because of someone's death. A whole life or universal life insurance policy is **taxable** when cashed in for any other reason other than the insured's death.



**Example: You have a life insurance policy from your old company, but now you pay the premiums. Is the coverage taxable just as it was when you were an active employee?**

No. It is considered an out-of-pocket expense, not a taxable benefit.

## Property Tax Relief

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Many retirees live on a fixed income. New Jersey offers two property tax relief programs to help you remain in your New Jersey home. You must apply annually for both programs to be eligible.

### Senior Freeze

This program reimburses eligible senior citizens and disabled persons for [property tax](#) or mobile home park [site fee](#) increases on their [principal residence](#) (main home).

To qualify, you must meet [eligibility requirements](#) for each year – from the [base year](#) through the application year.

Senior Freeze eligibility depends on age and disability status, residency and income.

See our [Property Tax Reimbursement](#) page for more details.

### Homestead Benefit

This program is not only for seniors and disabled persons. However, it does have different eligibility guidelines for those seniors who may [qualify](#). For most, the approved benefit is credited to your local property taxes. You will see it reflected on a property tax bill sent by your municipality.

See our [Homestead Benefit Program](#) page for more details.

## Maintain Good Records

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Keep any statements that show your contributions to your pension, annuity, or IRA. You will need this information when you start to withdraw money from the plan. You may have to pay more tax if you do not know the amount of your contributions on which New Jersey Income Tax has already been paid.

If you do not have a record of your contributions, you may contact the payer of the pension or annuity to obtain that information. Keep all statements from your pension, annuity, or IRA payer, including Forms W-2P and 1099-R. We also recommend that you keep any worksheets used to calculate your taxable and excludable retirement income distributions each year.

## Connect With Us

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*The forms and amounts referred to in this Bulletin are for Tax Year 2021. This document is designed to guide 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.*