



## **Introduction**

An individual retirement account (IRA) is a personal savings plan in which you set aside money for retirement. This bulletin explains the New Jersey Income Tax rules that apply when you contribute money to or withdraw money from a traditional IRA or Roth IRA. It also describes how to use New Jersey's IRA Worksheet to calculate the taxable portion and the excludable portion of an IRA withdrawal for your New Jersey Income Tax return. The portion of your IRA withdrawal that is taxable for New Jersey purposes may differ from the federal amount.

This publication uses forms and worksheets for Tax Year 2016 to illustrate return completion. Thus, the forms and amounts shown in the examples may not reflect current information for other tax years.

### **Changes Coming for Tax Year 2017**

Qualified taxpayers will be able to exclude more pension and other income on the New Jersey return. The increased exclusion amounts will be phased in over a four-year period. For Tax Year 2017, the exclusion amounts will be up to \$40,000 (married/CU couple, filing joint return), \$30,000 (single, head of household, or qualifying widow(er)/surviving CU partner), or \$20,000 (married/CU partner, filing separate return).

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

## **IRA Contributions**

### **Traditional IRA**

The New Jersey Gross Income Tax Act does not contain any provisions similar to the Internal Revenue Code that permit an individual to deduct contributions to an IRA. Contributions to an IRA are subject to New Jersey Income Tax in the year they are made. When you make a withdrawal from an IRA, the amount you contributed is not taxable, since the contributions were taxed at the time they were made.

Any contributions you made to an IRA before you moved to New Jersey are treated in the same way as they would have been treated if you had been living in New Jersey at the time you made the contributions.

### **Roth IRA**

As with any other IRA, contributions to a Roth IRA are subject to New Jersey Income Tax in the year they are made. When you make a withdrawal from a Roth IRA, the portion of the withdrawal that represents your contributions is not taxable, since the contributions were taxed at the time they were made.

**Rollovers.** If you qualify under federal rules to convert an existing IRA to a Roth IRA, you also qualify for New Jersey tax purposes. Conversion eligibility for New Jersey is automatic upon federal qualification, even if your New Jersey taxable income exceeds the federal limitations.

You can withdraw all or part of the assets from a traditional IRA and reinvest them (within 60 days) in a Roth IRA. In most cases, your contributions to a traditional IRA were previously taxed and only the earnings are taxable to New Jersey in the year you elect to roll over the funds. However, any amounts you roll over from a traditional IRA to a Roth IRA that were 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 New Jersey income in the year withdrawn from the traditional IRA.

## **IRA Withdrawals**

### **Traditional IRA**

Your IRA consists of your contributions and earnings plus certain amounts, if any, rolled over from other pension plans. In general, your contributions were taxed when they were made and not taxed by New Jersey when withdrawn.

Interest, dividends, and other earnings credited to an IRA are subject to tax upon withdrawal. In addition, any amounts that were rolled over into an IRA tax-free from a pension plan are subject to New Jersey tax when they are withdrawn.

An exception exists with respect to the taxability of an IRA withdrawal when the IRA funds are invested in obligations that are exempt from New Jersey Income Tax. The 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;
- and
- Interest received from direct federal obligations that are statutorily free from state or local taxation.

Thus, if the interest received by the taxpayer as part of an IRA distribution is from exempt obligations that are directly owned by the taxpayer in the IRA plan, the interest is exempt from New Jersey Income Tax.

Likewise, if the IRA is part of a New Jersey "Qualified Investment Fund," the portion of the distribution from the IRA that represents interest or gains from the qualified exempt obligations held by the fund is exempt. 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 to the extent the distributions are attributable to interest on federal obligations.

For more information on tax-exempt interest income and New Jersey Qualified Investment Funds, see Tax Topic Bulletin [GIT-5](#), *Exempt Obligations*.

## Roth IRA

**Qualified Distributions.** A qualified distribution from a Roth IRA does not have to be included in New Jersey income in the year received, whether it is a periodic distribution or a lump-sum distribution. A “qualified distribution” means any payment or distribution that is made after the five-year period beginning with the first tax year in which a contribution was made to an individual’s Roth IRA, **and** is made:

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

**Nonqualified Distributions.** A payment or distribution will not be treated as a qualified distribution unless it is made under one of the four circumstances above or if it is made within the five-year period that begins with the year the first contribution was made to the Roth IRA. A distribution that is considered “nonqualified” for federal income tax purposes is also considered nonqualified for New Jersey Income Tax purposes.

Likewise, a payment or distribution of an allowable rollover contribution (or income earned on the amount rolled over) from an IRA other than a Roth IRA, is not a qualified distribution if it is made within the five-year period that begins with the year in which the rollover contribution was made. Under this “five-year rule,” if you established a Roth IRA in 2011, you will not be able to receive a “qualified distribution” before 2016. For information on calculating the taxable and excludable portions of a nonqualified distribution, see [Lump-Sum Distributions and Rollovers](#) on page 4 and [Periodic Distributions](#) on page 5.

## Reporting Taxable and Excludable Amounts

**Traditional IRAs.** You must report the taxable portion of a withdrawal from a traditional IRA on Line 19a, Form NJ-1040 or Line 21, Column A, Form NJ-1040NR. Since you report taxable IRA distributions on the same line as taxable pensions and annuities, you can apply the pension and/or other retirement income exclusions authorized by the New Jersey Gross Income Tax Act to your taxable IRA distributions if you meet the eligibility requirements.

Residents must also report the excludable portion of a withdrawal from a traditional IRA on Line 19b of the New Jersey resident return (Form NJ-1040). This is the same line where you report the excludable portion of your pension or annuity payments. The nonresident return (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.

**Roth IRAs.** If you receive a *qualified distribution* from a Roth IRA, do not report any portion of the distribution on your return, neither the amount that represents your previously taxed contributions nor the amount that represents earnings and amounts rolled over that were not previously taxed. 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 19a, Form NJ-1040 or Line 21, Column A, Form NJ-1040NR. Residents must also report the excludable portion on Line 19b, Form NJ-1040.

If you convert a traditional IRA into a Roth IRA, any amount from the existing IRA that would be taxable if withdrawn must be included in your income on Line 19a, Form NJ-1040 or Line 21, Column A, Form NJ-1040NR. Residents must also report the excludable portion of the converted IRA on Line 19b, Form NJ-1040.

For information on reporting pension and annuity income on your New Jersey Income Tax return and using the New Jersey income exclusions, see Tax Topic Bulletin [GIT-1](#), *Pensions and Annuities*. For information on Roth IRAs, see Technical Bulletin [TB-44](#), *Roth IRAs*, and [Roth IRA](#) on page 1.

### **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 the qualified higher education expenses of the designated beneficiary of the account. New Jersey's treatment of Coverdell ESAs differs from the federal treatment. 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 upon withdrawal. Distributed earnings from a Coverdell ESA are reported on Line 15a, Form NJ-1040 or Line 15, Column A, Form NJ-1040NR. Do not include the earnings portion of a distribution from a Coverdell ESA on Line 19a, Form NJ-1040 or Line 21, Column A, Form NJ-1040NR.

For information on the treatment of qualified state tuition program accounts, including the New Jersey Better Educational Savings Trust (NJBEST) accounts, see Tax Topic Bulletin [GIT-5](#), *Exempt Obligations*.

### **Lump-Sum Distributions and Rollovers**

When you receive a lump-sum distribution from a traditional IRA or lump-sum *nonqualified* distribution from a Roth IRA, the amounts you receive that are in excess of your previously taxed contributions to the traditional IRA or Roth IRA are fully taxable and must be included in income in the year you receive them. New Jersey has no provisions for income averaging of lump-sum distributions. You must report the taxable amount on Line 19a, Form NJ-1040 or Line 21, Column A, Form NJ-1040NR. Residents must also report the excludable portion of the distribution on Line 19b, Form NJ-1040.

A lump-sum distribution that you roll over (transfer) into a traditional IRA or other eligible plan should not be reported on your New Jersey return if the rollover qualifies for deferral for federal income tax purposes. The amount rolled over (minus previously taxed amounts) is taxable later when you withdraw it. As under federal law, the rollover must be made within the 60-day period after distribution.

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 there are contributions remaining in the IRA that were subject to New Jersey Income Tax when the contributions were made.

## Periodic Distributions

If you make 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 (including amounts rolled over and not previously taxed) as taxable income each year a withdrawal is made. 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. Residents must also report the excludable portion of the distribution on Line 19b, Form NJ-1040.

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 a withdrawal is made, *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 the first withdrawal was made. (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, but the base for each item changes to take into account the fact that both taxable and excludable (nontaxable) amounts have been withdrawn from the account. See [example](#) on page 8.

Residents calculate the excludable portion to enter on Line 19b, Form NJ-1040 by subtracting the portion of their distribution that is taxable from the total distribution.

## 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 may use a separate worksheet for each IRA, or you may 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 Worksheet](#) on page 7 or the ones that appear in the New Jersey Income Tax return resident or nonresident instruction booklets, as appropriate. *Do not file the IRA Worksheet with your New Jersey Income Tax return.* Keep it for your records.

## **Recordkeeping**

Keeping records will help you prepare a complete and accurate tax return and pay the correct amount of New Jersey tax on income from your IRA.

**Contributions.** It is very important to keep any statements that show contributions made to your IRA. You will need this information when you start to make withdrawals. You may have to pay more tax than necessary if you cannot determine the amount in your IRA on which New Jersey Income Tax has already been paid. If you do not have a record of your contributions, you must contact the holder of the IRA account to get that information.

**Income Statements.** Keep all the statements from your IRA showing the amounts you have received from the plan.

**Tax Returns and Worksheets.** Keep copies of the tax returns you have filed and the Income Tax instruction booklet as part of your records. You may need information from the return, the IRA Worksheet, or other worksheets in the instruction booklet to prepare future tax returns. When you make withdrawals from a traditional IRA or *nonqualified* withdrawals from a Roth IRA over a period of years, you will use the previous year's IRA Worksheet as a basis for determining the taxable portion of a subsequent withdrawal from the IRA. You will need the information above if you file an amended return. In addition, copies of your returns and other records can be helpful to your surviving spouse/civil union partner or to the executor/administrator of your estate.

## NEW JERSEY IRA WORKSHEET

Tax Year \_\_\_\_\_

**Part I**

1. **Value of IRA on 12/31 of tax year.** Include contributions made for the tax year from 1/1–4/15 of the following year ..... 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.
- 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 Part II, line (g)\* ..... 4b. \_\_\_\_\_
  5. **Accumulated earnings in IRA on 12/31 of tax year.**  
Subtract either line 4a or 4b from line 3 ..... 5. \_\_\_\_\_
  6. Divide line 5 by line 3 and 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 19a, Form NJ-1040 or Line 21, Column A, Form NJ-1040NR..... 7. \_\_\_\_\_

**Residents Only:** Complete line 8

8. **Excludable portion of this year's withdrawal.** Subtract line 7 from line 2. Enter here and on Line 19b, Form NJ-1040 ..... 8. \_\_\_\_\_

**Part II—Unrecovered Contributions** (For Second and Later Years)

- (a) **Last year's unrecovered contributions.**  
From line 4 of last year's worksheet\* ..... (a) \_\_\_\_\_
- (b) **Amount withdrawn last year.**  
From line 2 of last year's worksheet ..... (b) \_\_\_\_\_
- (c) **Taxable portion of last year's withdrawal.**  
From line 7 of last year's worksheet ..... (c) \_\_\_\_\_
- (d) **Contributions recovered last year.** Subtract line (c) from line (b) ..... (d) \_\_\_\_\_
- (e) **This year's unrecovered contributions.**  
Subtract line (d) from line (a) ..... (e) \_\_\_\_\_
- (f) **Contributions to IRA during current tax year.**  
Do not include tax-free rollovers ..... (f) \_\_\_\_\_
- (g) **Total unrecovered contributions.**  
Line (e) plus line (f). Enter here and on Part I, line 4b ..... (g) \_\_\_\_\_

- \* If you did not complete a worksheet in prior year(s), skip Part II and calculate the amount of unrecovered contributions as follows:
- A. Determine the total amount of **withdrawal(s)** made from the IRA in previous years.
  - B. Total the portion(s) of these previous year withdrawal(s) already reported as income on prior New Jersey tax returns.
  - C. Subtract the amount of previous year withdrawals reported (B) from the total amount of previous year withdrawals (A). This difference is the amount of contributions that have been recovered thus far.
  - D. Subtract the amount of recovered contributions (C) from the total amount of contributions made to the IRA. This is the amount of unrecovered contributions to enter on line 4b of Part I.

**(Keep for your records)**

**Example**

Herbert Walters, a New Jersey resident, started to make withdrawals from his traditional IRA in 2015. He withdrew \$1,000 in 2015 and another \$1,000 in 2016. The IRA Worksheets that follow show how he calculated the taxable portion and the excludable portion of the withdrawals for his 2015 and 2016 New Jersey income tax returns.

**NEW JERSEY IRA WORKSHEET**

Tax Year 2015

**Part I**

1. **Value of IRA on 12/31 of tax year.** Include contributions made for the tax year from 1/1–4/15 of the following year ..... 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.
- 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 Part II, line (g)\* ..... 4b. \_\_\_\_\_
  5. **Accumulated earnings in IRA on 12/31 of tax year.**  
Subtract either line 4a or 4b from line 3 ..... 5. 3,210
  6. Divide line 5 by line 3 and 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 19a, Form NJ-1040 or Line 21, Column A, Form NJ-1040NR..... 7. 314
- Residents Only:** Complete line 8
8. **Excludable portion of this year's withdrawal.** Subtract line 7 from line 2. Enter here and on Line 19b, Form NJ-1040 ..... 8. 686

**Part II—Unrecovered Contributions** (For Second and Later Years)

- (a) **Last year's unrecovered contributions.**  
From line 4 of last year's worksheet\* ..... (a) \_\_\_\_\_
- (b) **Amount withdrawn last year.**  
From line 2 of last year's worksheet ..... (b) \_\_\_\_\_
- (c) **Taxable portion of last year's withdrawal.**  
From line 7 of last year's worksheet ..... (c) \_\_\_\_\_
- (d) **Contributions recovered last year.** Subtract line (c) from line (b) ..... (d) \_\_\_\_\_
- (e) **This year's unrecovered contributions.**  
Subtract line (d) from line (a) ..... (e) \_\_\_\_\_
- (f) **Contributions to IRA during current tax year.**  
Do not include tax-free rollovers ..... (f) \_\_\_\_\_
- (g) **Total unrecovered contributions.**  
Line (e) plus line (f). Enter here and on Part I, line 4b ..... (g) \_\_\_\_\_



Example, *continued*

### NEW JERSEY IRA WORKSHEET

Tax Year 2016

**Part I**

- |  |                 |
|--|-----------------|
| 1. <b>Value of IRA on 12/31 of tax year.</b> Include contributions made for the tax year from 1/1–4/15 of the following year ..... | 1. <u>8,622</u> |
| 2. <b>Total distributions from IRA during the tax year.</b><br>Do not include tax-free rollovers.....                              | 2. <u>1,000</u> |
| 3. <b>Total value of IRA.</b> Add lines 1 and 2 .....  | 3. <u>9,622</u> |

**Unrecovered Contributions:** Complete **either** line 4a or 4b.

- |  |                  |
|--|------------------|
| 4a. <b>First year of withdrawal from IRA:</b> Enter the total of IRA contributions that were previously taxed .....  | 4a. _____        |
| 4b. <b>After first year of withdrawal from IRA:</b> Complete Part II. Enter amount of unrecovered contributions from Part II, line (g)* .....  | 4b. <u>6,314</u> |
| 5. <b>Accumulated earnings in IRA on 12/31 of tax year.</b><br>Subtract either line 4a or 4b from line 3 .....   | 5. <u>3,308</u>  |
| 6. Divide line 5 by line 3 and enter the result as a decimal .....   | 6. <u>.344</u>   |
| 7. <b>Taxable portion of this year's withdrawal.</b> Multiply line 2 by decimal amount on line 6. Enter here and on Line 19a, Form NJ-1040 or Line 21, Column A, Form NJ-1040NR..... | 7. <u>344</u>    |

**Residents Only:** Complete line 8

- |   |               |
|---|---------------|
| 8. <b>Excludable portion of this year's withdrawal.</b> Subtract line 7 from line 2. Enter here and on Line 19b, Form NJ-1040 ..... | 8. <u>656</u> |
|---|---------------|

**Part II—Unrecovered Contributions** (For Second and Later Years)

- |  |                  |
|--|------------------|
| (a) <b>Last year's unrecovered contributions.</b><br>From line 4 of last year's worksheet* .....               | (a) <u>7,000</u> |
| (b) <b>Amount withdrawn last year.</b><br>From line 2 of last year's worksheet .....                           | (b) <u>1,000</u> |
| (c) <b>Taxable portion of last year's withdrawal.</b><br>From line 7 of last year's worksheet .....            | (c) <u>314</u>   |
| (d) <b>Contributions recovered last year.</b> Subtract line (c) from line (b) .....                            | (d) <u>686</u>   |
| (e) <b>This year's unrecovered contributions.</b><br>Subtract line (d) from line (a) .....                     | (e) <u>6,314</u> |
| (f) <b>Contributions to IRA during current tax year.</b><br>Do not include tax-free rollovers .....            | (f) _____        |
| (g) <b>Total unrecovered contributions.</b><br>Line (e) plus line (f). Enter here and on Part I, line 4b ..... | (g) <u>6,314</u> |

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## **For More Information**

### **Online**

- Division of Taxation [website](#);
- [Email](#) general State tax questions.  
Do not include confidential information such as Social Security or federal tax identification numbers, liability or payment amounts, dates of birth, or bank account numbers in your email;
- Subscribe to [NJ Tax E-News](#), the Division of Taxation's online information service.

### **By Phone**

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

### **In Person**

Visit a New Jersey Division of Taxation Regional Information Center. For the address of the center nearest you, visit our [website](#) or call the Automated Tax Information System at 1-800-323-4400.

## **Forms and Publications**

- Visit the Division of Taxation's website for [forms](#) and [publications](#);
- Call the Forms Request System at **1-800-323-4400** (within NJ, NY, PA, DE, and MD) or **609-826-4400** (touch-tone phones only) to have printed forms or publications mailed to you. **NOTE:** Due to budgetary constraints, supplies are limited and only certain forms and publications can be ordered through this system.