



# IRA Withdrawals

## 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 2018 to illustrate return completion. The forms and amounts shown in the examples may not reflect current information for other tax years.

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.

## Changes for Tax Year 2018

Qualified taxpayers can exclude more pension and other income on the New Jersey return. The increased exclusion amounts are being phased in over a four-year period. For Tax Year 2018, the exclusion amounts are up to \$60,000 (married/CU couple, filing joint return), \$45,000 (single, head of household, or qualifying widow(er)/surviving CU partner), or \$30,000 (married/CU partner, filing separate return).

## IRA Contributions

### **Traditional IRA**

The New Jersey Gross Income Tax Act does not contain any provisions similar to the Internal Revenue Code that allow 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 already taxed.

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 when they were 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 (within 60 days) in a Roth IRA. In most cases, your contributions to a traditional IRA were previously taxed. Only the earnings are taxable to New Jersey in the year you 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 your New Jersey income in the year the funds are withdrawn from the traditional IRA.

## **IRA Withdrawals**

### **Traditional IRA**

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 In general, your contributions were taxed when you made them and are not taxed by New Jersey when withdrawn.

Interest, dividends, and other earnings credited to an IRA are taxable when withdrawn, as are any amounts that were rolled over into an IRA tax-free from a pension plan.

There is an exception 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.

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 is exempt if it 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 to the extent the distributions are from 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 your New Jersey income in the year received, whether it is a periodic distribution or a lump-sum distribution. A "qualified distribution" means a payment distributed after a five-year waiting period, which begins with the first tax year for which a contribution was made to an individual's 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.** A payment or distribution becomes nonqualified if it is not 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 described above. Under this five-year rule, if you established a Roth IRA in 2013, you will not be able to receive a qualified distribution before 2018. For information on calculating the taxable and excludable portions of a nonqualified distribution, see [Lump-Sum Distributions and Rollovers](#) and [Periodic Distributions](#).

## Reporting Taxable and Excludable Amounts

**Traditional IRAs.** You must report the *taxable* portion of a withdrawal from a traditional IRA on Line 20a, Form NJ-1040 or Line 22, 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 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 20b 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. Note that 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. Do not report the amount that represents your previously taxed contributions or 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 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.

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](#).

## 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 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.

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

Some taxpayers 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 20a, Form NJ-1040 or Line 22, Column A, Form NJ-1040NR. Residents must also report the excludable portion of the distribution on Line 20b, 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 20b, 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](#).

Residents may calculate the excludable amount by subtracting the portion of their 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 this [IRA Worksheet](#) 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.

**Worksheet C – IRA Withdrawals**

**Part I – Calculating Taxable and Excludable Amounts**

1. **Value of IRA on 12/31/18.**  
Include contributions made for the tax year from 1/1/19 – 4/15/19..... 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 12/31/18.**  
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)**

**Example**

Herbert Walters, a New Jersey resident, started to make withdrawals from his traditional IRA in 2017. He withdrew \$1,000 in 2017 and another \$1,000 in 2018. The Worksheet C that follows show how he calculated the taxable portion and the excludable portion of the withdrawals for his 2017 and 2018 New Jersey Income Tax returns.

<b>Worksheet C – IRA Withdrawals</b>	
<b>Part I – Calculating Taxable and Excludable Amounts</b>	
1. <b>Value of IRA on 12/31/17.</b> Include contributions made for the tax year from 1/1/18 – 4/15/18.....	1. <u>          9,210          </u>
2. <b>Total distributions from IRA during the tax year.</b> 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>         10,210         </u>
<b>Unrecovered Contributions:</b> Complete <b>either</b> line 4a or 4b. Then continue with line 5.	
4a. <b>First year of withdrawal from IRA:</b> Enter the total of IRA contributions that were previously taxed.....	4a. <u>          7,000         </u>
4b. <b>After first year of withdrawal from IRA:</b> Complete Part II. Enter amount of unrecovered contributions from line 15.....	4b. <u>                          </u>
5. <b>Accumulated earnings in IRA on 12/31/17.</b> Subtract either line 4a or 4b from line 3.....	5. <u>          3,210         </u>
6. Divide line 5 by line 3. (Enter the result as a decimal.) .....	6. <u>          .314          </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 20a, Form NJ-1040.....	7. <u>          314          </u>
8. <b>Excludable portion of this year’s withdrawal.</b> Subtract line 7 from line 2. Enter here and on Line 20b, Form NJ-1040.....	8. <u>          686          </u>
<b>Part II – Unrecovered Contributions (For Second and Later Years)</b> See Part III if you <b>did not</b> complete Worksheet C in prior years.	
9. <b>Last year’s unrecovered contributions.</b> From line 4 of last year’s Worksheet C .....	9. <u>                          </u>
10. <b>Amount withdrawn last year.</b> From line 2 of last year’s Worksheet C.....	10. <u>                          </u>
11. <b>Taxable portion of last year’s withdrawal.</b> From line 7 of last year’s Worksheet C.....	11. <u>                          </u>
12. <b>Contributions recovered last year.</b> Subtract line 11 from line 10.....	12. <u>                          </u>
13. <b>This year’s unrecovered contributions.</b> Subtract line 12 from line 9.....	13. <u>                          </u>
14. <b>Contributions to IRA during current tax year.</b> Do not include tax-free rollovers.....	14. <u>                          </u>
15. <b>Total unrecovered contributions.</b> Add lines 13 and 14. Enter here and <b>on line 4b</b> .....	15. <u>                          </u>
<b>Part III – Unrecovered Contributions (For Second and Later Years)</b> Complete this section <b>only</b> if you <b>did not</b> complete Worksheet C in prior years. Calculate the amount of unrecovered contributions as follows:	
16. Total amount of <b>withdrawals</b> made from the IRA in previous years.....	16. <u>                          </u>
17. Total of previous year withdrawal(s) already reported as income on prior New Jersey tax returns.....	17. <u>                          </u>
18. Contributions already recovered. Subtract line 17 from line 16.....	18. <u>                          </u>
19. <b>Unrecovered contributions.</b> Subtract line 18 from the total amount of contributions made to the IRA. Enter here and <b>on line 4b</b> .....	19. <u>                          </u>
<b>(Keep for your records)</b>	

*Example, continued*

**Worksheet C – IRA Withdrawals**

**Part I – Calculating Taxable and Excludable Amounts**

1. **Value of IRA on 12/31/18.**  
Include contributions made for the tax year from 1/1/19 – 4/15/19..... 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 12/31/18.**  
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)**

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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**

- See our [forms](#) and [publications](#) pages;
- 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.