



This guide is current for the 2017 tax year and has not been updated to include changes for 2018.

New Jersey Tax Guide

Retirement Income



Retirement Income

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

Social Security, Railroad Retirement Benefits, and Disability Benefits

Social Security and Railroad Retirement benefits are exempt from New Jersey Income Tax and should not be reported as income on your New Jersey return.

Payments from a public or private pension plan as a result of total and permanent disability also are exempt. However, if an individual retired before age 65 on a total and permanent disability pension and continues to receive pension payments after reaching age 65, the disability pension is treated as an ordinary pension beginning at age 65.

Pension, Annuity, and IRA Income

Pensions and Annuities

Pension and annuity income is taxable and must be reported on your New Jersey Income Tax return. In some cases, the taxable amount of pension or annuity you report on your New Jersey tax return may differ from the taxable amount for federal income tax purposes. This is because you may have to use a different method to calculate the taxable amount for your New Jersey return than the method you use for federal income tax purposes.

Pension and annuity income received by a nonresident for work performed in New Jersey is not taxable under the New Jersey Gross Income Tax Act. However, if you have other income from New Jersey that is taxable to a nonresident (e.g., wages, business income, a gain from the sale of real property in New Jersey), you are required to file a New Jersey Income Tax Nonresident Return ([Form NJ-1040NR](#)) and report any pension or annuity income in Column A along with your other taxable income.

Taxable vs. Excludable Distribution Amounts

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 plan.

A *noncontributory plan* is one to which an individual has not made contributions. Distributions from a noncontributory plan are fully taxable. Include the full amount on your tax return.

A *contributory plan* is one to which an individual has made contributions. In general, your contributions were already taxed, since they are made through payroll deductions. When you receive a pension or annuity distribution from a contributory plan, you must determine the taxable portion and the excludable portion of payments you receive, to avoid being taxed twice on your contributions. To determine the calculation (General Rule Method vs. Three Year Rule Method), consult publication [GIT-1](#), *Pensions and Annuities*.

Individual Retirement Account (IRA) Withdrawals

In general, IRA *contributions* were taxed when you made them and are not taxed by New Jersey when withdrawn. The remaining portion of your withdrawal is fully taxable, including any:

- Interest;
- Dividends;
- Other earnings credited to the IRA; and/or
- Amounts that were rolled over into an IRA from a tax-deferred pension plan.

You must calculate the taxable and excludable portions of the withdrawal for the New Jersey tax return.

See Tax Topic Bulletin [GIT-2](#), *IRA Withdrawals* for information on how to calculate taxable and excludable portions of the withdrawal for your New Jersey Income Tax return.

For information on Roth IRAs, see Technical Bulletin [TB-44R](#).

*Note: 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. For more information, see Tax Topic Bulletin [GIT-5](#), *Exempt Obligations*.

Maintain Your Records

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 the statements from your pension, annuity, or IRA, including Forms W-2P and 1099-R. We also recommend you keep any worksheets used to calculate your taxable and excludable retirement income distributions each year.

401(k) Withdrawals

On and after January 1, 1984, employee contributions to 401(k) Plans were no longer included in taxable wages when earned. Since the contributions were not taxed when made, they are fully taxable upon distribution.

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 this date. If your retirement plan is a 401(k) Plan, review the information on Page 8 in Section 401(k) Plans of [GIT-1](#).

Military Pensions

U.S. military pensions or survivor's benefits are exempt from New Jersey Income Tax 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. For more information, see Tax Topic Bulletin [GIT-7](#), *Military Personnel*.

Beneficiaries of a Pension, Annuity, or IRA

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 to the extent that they exceed the decedent's previously taxed contributions.

If the pension or annuity was subject to tax under the New Jersey Transfer Inheritance Tax Act, the value of the pension or annuity, as determined and taxed for Inheritance Tax purposes, is deemed to be the decedent's previously taxed contributions and is deductible in determining the taxable pension, annuity, or IRA income received. For more information, see Tax Topic Bulletin [GIT-1](#), *Pensions and Annuities*, or [GIT-12](#), *Estates and Trusts*.

Qualified Domestic Relations Order (QDRO) Savings Plan

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 savings account is simply divided by the QDRO and not received as a pension distribution, there should be no New Jersey Income Tax due. Tax will only be due upon withdrawal or distribution from the 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. (Check the Publications Section Fact Sheets on the Pensions and Benefits website for more information.)

New Jersey Pension/Retirement Exclusion

Qualified taxpayers can exclude all or part of the income received during the year from taxable pensions, annuities, and IRA withdrawals. Beginning in Tax Year 2017, you will now be able to exclude more retirement income. The increased pension exclusion amounts will be phased in over a four-year period. For Tax Year 2017, you may exclude the following amount of retirement income:

- \$40,000 (if married/CU couple or filing joint return);
- \$30,000 (if single, head of household, or qualifying widow(er)/surviving CU partner); or
- \$20,000 (if married/CU partner, filing separate return).

You can be taxed on any amount over the exclusion. To qualify, you must be:

- 62 years of age or older or permanently disabled/blind; and
- Have gross income of \$100,000 or less.

Note: If filing jointly and both spouses received retirement income, but only one of you is 62 or older, you may only exclude retirement income of the eligible spouse.

There is also a Special Exclusion available for those who cannot receive Social Security or Railroad Retirement Benefits. You must qualify to claim the Special Exclusion. Consult publication [GIT-1](#) or the [NJ-1040 instructions](#) for more information.

Withholding and Estimated Tax

Individuals who expect their New Jersey Income Tax liability to be **more than \$400** after taking into account all their exemptions, deductions, withholdings, and other credits for the tax year are required to make quarterly estimated tax payments. Use [Form NJ-1040-ES](#) to file estimated tax payments when due. For more information, see Tax Topic Bulletin [GIT-8](#), *Estimating Income Taxes*.

New Jersey residents who receive pension or annuity income may ask the payer to withhold New Jersey Income Tax from these payments. If you want to have New Jersey Income Tax withheld, 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 it to the payer of the pension or annuity.

New Jersey does not have a tax rate to withhold at, which makes figuring out how much tax to withhold from a pension payment a little more challenging. Consult our [supplemental tax tables](#) to get a better idea of what 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.

The default rate used is Rate B.

Post-Retirement Employment/Income

You may be interested in earning additional income after retirement. You also may want to know if you will owe New Jersey Income Tax on those earnings. To determine how much you could earn in wage, self-employment, or any other income along with your retirement income, while being minimally taxed, you must:

- Total up your estimated income;
- Apply the retirement exclusion if eligible;
- If your gross income for the year (amount after retirement exclusion, but before any deductions) is more than \$20,000 (\$10,000 if filing single or married/CU filing separately) you will owe New Jersey Income Tax.

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

Life Insurance

Life insurance proceeds are exempt from New Jersey Income Tax **only** when received because of a person's death. If a whole life or universal life insurance policy is cashed in for any other reason other than the insured's death, it is a taxable event. Here are some questions and answers that may help you:

- **I have a life insurance policy that I received through my old company on which I now pay the premiums. Is the coverage a taxable benefit just as it was when I was an active employee?**

No. It is considered an out-of-pocket expense. It is no longer a taxable benefit.

- **How is group life insurance taxed if I am retired but my spouse dies while working as an active employee of a government agency in NJ?**

Information regarding death claims is supplied to the Division of Taxation by the Division of Pensions and Benefits. A beneficiary or beneficiaries may be considered to be personally liable for any and all inheritance and/or estate taxes until paid.

Property Tax Relief Programs

With retirement comes a fixed income in many cases. New Jersey offers two property tax relief programs to help retirees remain in their homes. You must apply annually for both programs.

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](#). To qualify, you must meet all the [eligibility requirements](#) for each year from the [base year](#) through the application year. The Senior Freeze program eligibility takes into account age/disability status, has residency requirements, and has an income limit associated with it.

Consult 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 your property tax bill sent by your municipality.

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

Veteran Exemption

Many veterans qualify for an additional exemption of \$3,000 on their New Jersey Income Tax for income earned in 2017 and beyond. This exemption does **not** apply to income earned in 2016 or earlier. If you are a military veteran, you are eligible for this exemption if you were honorably discharged. (You must provide [official documentation](#) showing that you were honorably discharged or released under honorable circumstances from active duty the first time you claim the exemption.) See [Military Personnel](#) for more information.