The Business Tax Reform Act, P.L. 2002, c.40, enacted July 2, 2002 ("BTRA") made numerous amendments and supplements to the Corporation Business Tax Act ("Act"). Important changes, contained in Section I, amended N.J.S.A. 54:10A-2. Those amendments made clear that the franchise tax is due from foreign corporations “for the privilege of deriving receipts from sources within the State, or for the privilege of engaging in contacts within this State.”

The amendments mandated that a taxpayer’s exercise of its franchise in this state is subject to taxation in this state if the taxpayer’s business activity in New Jersey is sufficient to give the state jurisdiction to impose the tax under the constitution and statutes of the United States. This change applied to privilege periods and taxable years beginning on or after January 1, 2002.

Accordingly, after the law changed effective January 2, 2002, corporations that derive receipts from sources within New Jersey or engage in contacts within New Jersey are subject to tax in New Jersey, provided that the taxpayer’s business activity in New Jersey is sufficient to give this State jurisdiction to impose the tax under the constitution and statutes of the United States.


The New Jersey Supreme Court upheld the application of the Corporation Income Tax Act in Avco Financial Services Consumer Discount Company One, Inc. v. Director, Division of Taxation, 100 N.J. 27, 494 A.2d 788 (1985). (See also First Family Mortgage Corporation of Florida v. Linda A. Durham and Mr. Linda Durham, and Attorney General of New Jersey, Intervenor-Respondent, 108 N.J. 277, 528 A.2d 1288 (1987), citing Avco in determining that N.J.S.A. 14A:13-15, requiring foreign corporations which were not certified to do business in the State and which had not filed timely tax returns to file business activities reports with the Director of the Division of Taxation, did not violate the commerce clause).

Applying the principles of the statute as amended and the above-referenced court decisions, taxpayers performing services and domiciled outside the State that solicit business within the State or derive receipts from sources within the State must file a Corporation Business Tax return and pay the applicable tax to New Jersey. This principle applies to all corporations, including financial corporations. A financial business corporation, a banking corporation, a credit card company or similar business that has its commercial domicile in another state is subject to tax in this State if during any year it obtains or solicits business or receives gross receipts from sources within the State. As noted above, the principles explained in this notice are applicable for privilege periods beginning on and after January 1, 2002.

It should be noted that taxpayers may continue to request an adjustment under N.J.S.A. 54:10A-8. Pursuant to N.J.S.A. 54:10A-8 and N.J.A.C. 18:7-8.3, if it appears that the business allocation factor computed on the basis of all or any of the property-receipts payroll fractions does not properly reflect the activity, business, receipts, capital, entire net worth or entire net income of the taxpayer in New Jersey, the Director may adjust or taxpayer may request an adjustment of the business allocation factor.

The Division intends to codify the contents of this notice in a regulation, pursuant to the Administrative Procedure Act, N.J.S.A. 52:14B-1 et seq.

**Note:** A Technical Advisory Memorandum (“TAM”) is an informational statement of the law, regulations, or Division policies. It is accurate on the date issued. Subsequent changes in the law or regulations, judicial decisions or changes in Division policies could affect the validity of the information presented in a TAM.