

## Budget Now in Tow, Here Cometh Taxman

### NJBIZ

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David J. Shipley

Newly instituted combined reporting requirements for corporations and new taxes on C-corporations and individuals earnings more than \$5 million are matters in New Jersey's fiscal 2019 budget that beg close heed, tax attorneys caution.

"Most of the companies that are required to file a unitary combined returned have to file similar returns in other states like California and New York," said David Shipley, partner in McCarter & English's tax and employee benefits arm. "It's not going to be something new or different for these corporations because they're filing these returns in other states."

"What's interesting is this affects in-state and out-of-state corporations equally because your income that's subject to tax is apportioned based on the percentage of sales in New Jersey," Shipley said. "If you have a New Jersey-based company that makes \$50 million and has 10 percent of their earnings here, and if you have an out-of-state company with the same sales and income, they're going to be taxed the same. You're not worse off than if you're located out of state."

"That being said, I think the rate increase along with the shift to unitary combined reported, and the reduction in the dividends received deduction collectively send a message to corporations that New Jersey isn't a tax friendly state," he added.

As for the tax on the state's wealthiest residents, it affects individuals with annual incomes of \$5 million. Gov. Phil Murphy estimates that some 1,700 New Jerseyans will have to pay the new 10.75 percent tax, dubbed a "millionaires' tax" as first proposed by the governor but more of a multimillionaires' tax as enacted.

"Pennsylvania's highest tax rate is 3.07 percent," Shipley said. "In that area, it puts New Jersey at a competitive disadvantage, as it's significant how much money someone going from New Jersey to Pennsylvania would save [on taxes] if they make \$5 million."

How this will affect the state, he said, depends on how many of its most affluent residents move as a result of the tax.