NEW JERSEY SURVIVAL GUIDE TAX REFORM

Demystifying New Jersey's Net Deferred Tax Impact Deduction

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https://www.youtube.com/watch?v=7_ojPOKRJBw

ReedSmith
State Tax Web Series

ASC 740—Measuring Deferred Taxes

- Identify temporary differences and categorize as either deferred liabilities or deferred assets
- Multiply by applicable tax rate:
  - ✓ Statutory rate x state apportionment % when temporary difference expected to reverse
  - ✓ Impact of changes in law recognized in period when adopted (not when law goes into effect)
- Adjust to reflect any valuation allowances
- Year-over-year changes added to tax expense

New Jersey Combination

- Mandatory combined reporting
  - ✓ Enacted in 2018, applies to 2019 tax year
  - ✓ Waters edge, worldwide, or affiliated election
  - ✓ Division's policy: P.L. 86-272 no longer available
- Market sourcing applies beginning in 2019
- Temporary surtax increases tax rate to 11.5% for 2018-2019 and 10.5% for 2020-2021

Net Deferred Tax Impact Deduction

- Offsets financial statement impact of New Jersey's combination provisions
- Annual deduction pro-rated over 10 years beginning in 2023 tax year
- Taxpayers must file Form DT-1 due by July 1 at www.njportal.com/DOR/TCM
- Deduction capped at amount reported on DT-1
- Informal guidance provided in TB-96

Form DT-1: Division's Policy per TB-96

1	Enter the combined group's net DTA or DTL as of the last day of the privilege period ending prior to July 31, 2019, excluding the impact associated with the enactment of combined unitary reporting.	DTL or DTA on 12/31/2018 ATR with surtax, but no market sourcing and no combination
2	Enter the combined group's net DTA or DTL as of the last day of the privilege period ending prior to July 31, 2019, including the impact associated with the enactment of combined unitary reporting.	Recompute DTL or DTA ATR with surtax and combination, but no market sourcing
3	Subtract line 1 from line 2. If the result is $0, stop here.	Δ = Impact on DTL or DTA from combination provisions
4a	Tax rate of the combined group.	
4b	Divide line 3 by line 4a.	Divide Δ by 11.5% (statutory rate + surtax)
5	Enter the combined group's allocation factor that was used in the calculation of the deferred tax amount on line 2.	
6	Divide line 4b by line 5.	Divide by combined group NJ apportionment factor
7	Divide line 6 by 10.	Annual deduction = Line 6 ÷ 10

Form DT-1: Alternative View

1	Enter the combined group's net DTA or DTL as of the last day of the privilege period ending prior to July 31, 2019, excluding the impact associated with the enactment of combined unitary reporting.
2	Enter the combined group's net DTA or DTL as of the last day of the privilege period ending prior to July 31, 2019, including the impact associated with the enactment of combined unitary reporting.
3	Subtract line 1 from line 2. If the result is $0, stop here.
4a	Tax rate of the combined group.
4b	Divide line 3 by line 4a.
5	Enter the combined group's allocation factor that was used in the calculation of the deferred tax amount on line 2.
6	Divide line 4b by line 5.
7	Divide line 6 by 10.

Use 7/1/2018 **or** 12/31/2018
ATR with neither surtax, nor market sourcing, nor combination

Recompute DTL or DTA
ATR with surtax, market sourcing and combination

Δ = Impact on DTL or DTA from combination provisions

Divide Δ by 9%
(statutory rate only)

Divide by combined group NJ apportionment factor

Annual deduction = Line 6 ÷ 10

Concluding Thoughts

- Unclear whether deduction will be postponed
- DT-1 limited to "the same amounts that were reported for financial statement purposes"?
- No adjustment for subsequent events
- DT-1 caps the amount of any future deduction

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