

# UTILITY AND TRANSPORTATION CONTRACTOR

## NEW JERSEY 2007 BUDGET HIGHLIGHTS

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On July 8, 2006, the State lawmakers passed a \$30.8 million budget which includes changes to sales tax and other business taxes.

As you all know, the sales tax rate increased from 6% to 7% on previously taxed items effective July 15, 2006. One half of the increase will be dedicated to property tax reform and the other half will go to the general fund. In addition, the sales tax will be extended to a number of previously untaxed items effective October 15, 2006. Among some of these items are the taxability of self-storage services, separately stated shipping and handling, landscaping services that result in capital improvements to land, installation of flooring and initiation fees, membership fees and dues for access of a property or facility of a health, fitness, athletic, sporting or shopping club. With regard to dues; I have been asked the question "If the dues are prepaid before October 15, 2006 can the sales tax be avoided?" The answer is no because if the membership period you are paying for begins after October 15, 2006, the sales tax applies.

If you have any taxable sales transactions that began before July 15, 2006 and are completed on or after July 15, 2006, different rules may apply depending on the circumstances. If the property was paid before July 15, 2006, but it was not delivered or services were not rendered until on or after July 15, 2006, you must charge (or pay) tax at a rate of 7%. This applies whether or not payment was made in whole or in part before delivery. When taxable building materials are delivered on or after July 15, 2006, the sale of the materials is subject to 7%. In certain circumstances where the materials are for use in unalterable building contracts entered into before July 15, 2006, the contractor who has paid the tax may seek a refund of 1% from the Division of Taxation. A claim for refund must be filed with the State of New Jersey.

There were also some significant changes in the budget which contained a positive impact for businesses. The deduction for net operating losses has been fully restored. The alternative minimum assessment of the Corporation Business Tax has been eliminated. Also, the tax burdens of certain corporations have been lowered.

Other tax changes include a new tax surcharge for corporations (both C- & S-Corporations) equal to 4% of a company's total tax after credits. This surcharge is temporary and will expire after three years. It begins with periods ending on or after July 1, 2006.

The budget also provided for an increased minimum corporation business tax. It will be a sliding scale minimum tax based on New Jersey Gross Receipts. For the calendar year 2006 and thereafter, the minimum tax is as follows:

- If gross receipts are less than \$100,000, the minimum tax is \$500.
- If gross receipts are \$100,000 or more but less than \$250,000, the minimum tax is \$750.
- If gross receipts are \$250,000 or more but less than \$500,000, the minimum tax is \$1,000.
- If gross receipts are \$500,000 or more but less than \$1,000,000, the minimum tax is \$1,500.
- If gross receipts are \$1,000,000 or more, the minimum tax is \$2,000.

For the prior calendar years of 2002 through 2005, the minimum tax was \$500 regardless of gross receipts.

The tax rate for S-Corporations has decreased for years beginning on or after July 1, 2006. If an S-Corporation has entire net income in excess of \$100,000, the tax rate is 0.67%. For the year 2005 and prior, the tax rate was 1.33%. For years beginning after July 1, 2007 the tax rate will be 0%.

There is also a new requirement in the State of New Jersey for businesses which make payments to unregistered unincorporated construction contractors. New Jersey personal income tax withholding will be required for payments made after 2006 to unregistered unincorporated businesses. The requirement applies to any person transacting business in the state other than a government entity, homeowner or tenant. The term "contractor" includes subcontractors and "unincorporated contractor" means a sole proprietorship, partnership or any other business not federally taxable as a corporation.

In this article I have mentioned only some of the highlights of the New Jersey Tax changes as they may affect your businesses. For a more complete summary of the New Jersey Tax changes, you can visit our website at [www.curchin.com](http://www.curchin.com) or the State of New Jersey Division of Taxation website at [www.state.nj.us/treasury/taxation](http://www.state.nj.us/treasury/taxation).



### About the Author

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