



GITTELMAN & company, p.c.

- CERTIFIED PUBLIC ACCOUNTANTS
- MANAGEMENT CONSULTANTS

"Tomorrow's knowledge today"

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RE: New Jersey BAIT Tax Act

Dear Clients:

Current Federal tax law limits State and Local Property Tax (SALT) deductions to \$10,000 on your personal Federal tax return. Several states including New Jersey have adopted the Business Alternative Income Tax Act (BAIT act) that will increase the ability to deduct your NJ tax for federal tax purposes. The legislation allows New Jersey LLCs and S Corporations, such as yours, to pay and expense NJ State tax at the corporate level on behalf of its owners. This in turn reduces the profit to owners reported on your K-1 and will result in lower federal taxes.

This new NJ law should save owners Millions of dollars. The average client member or shareholder/ owner is estimated to save approximately 25-30% of your NJ tax payments in federal income tax.

Gittelman & Company has developed a preliminary plan to operationalize this opportunity. There will be a specific plan for 2020 and there may be different plan for 2021 forward.

FOR 2020

The amount due the State of NJ is directly proportional to an owner's estimated NJ K-1 income. For 2020 , your Company will need to pay NJ State (on behalf of the owners) an estimated amount of tax due before December 31, 2020, if you on the cash basis method of accounting for tax purposes, or before the due date of the 2020 New Jersey Partnership or S Corporation tax returns, if you are on the accrual method of accounting (March 15, 2021 and April 15, 2021, respectively).

NOTE: Owners will no longer need to make quarterly NJ tax payments on estimated your Company's taxable income since the LLC or S Corporation is making payments on your behalf.

FOR 2021

Future years will require your Company to pay estimated taxes quarterly starting in 2021. The rate your Company pays to New Jersey that needs to be withheld and paid on your behalf could be higher than your individual rate. However, any overage will be returned to you personally by the State of NJ after you file your personal return.

NOTE: There should be basically no net difference in the amount of tax you pay the State of New Jersey in this process.

REMEMBER – It is your Company’s payment of NJ State taxes (BAIT act) that is allowing owners the unlimited State of NJ tax deduction from your individual Federal K-1 income.

One of the professionals at Gittelman & Company will be contacting you to explain and to determine the tax payment that needs to be made, including timing and impact.

Please review the following:

1. NJ web site link - NJ State Pass-Through Business Alternative Income Tax Act
<https://www.state.nj.us/treasury/taxation/baitpte.shtml>
2. Attached pdf file: New Jersey elective business alternative income tax for pass-through entities to address SALT deduction cap
3. Attached pdf file: NJ State BAIT Legislation

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