

Alternate Business Calculation

New important legislation was recently signed, effective on or after January 1, 2012, establishing an alternate business calculation.

Senate Bill No. 2754 sponsored by Senators Buono and Greenstein, establishes an alternative business calculation that permits taxpayers who generate income from different types of business entities to offset gains from one type of business with losses from another and permits taxpayers to carry forward business related losses for a period of up to 20 years.

The bill specifies that that a taxpayer who sustains a loss from a sole proprietorship may apply that loss against income derived from a partnership, subchapter S corporation or rents and royalties but is barred from applying those losses to other types of income not related to the taxpayer's own business such as salaries, wages, disposition of property and interest and dividends when filing a gross income tax return. The bill provides that net losses from the business related categories of income may be carried forward and applied against income in future taxable years.

The bill phases in the tax savings over a five year period beginning with tax year 2012 with 10% as the allocation factor in 2012 and capping at 50% in tax year 2016 and forward. Specific instructions and calculations are being developed by the NJ Division of Taxation and should be available before year end.

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