

SENATE, No. 4735

STATE OF NEW JERSEY
222nd LEGISLATURE

INTRODUCED OCTOBER 5, 2026

Sponsored by:
Senator CARMEN F. AMATO, JR.
District 9 (Ocean)

SYNOPSIS

Allows exclusion of certain small business income from taxation under gross income tax and corporation business tax.

CURRENT VERSION OF TEXT

As introduced.



1 AN ACT allowing the exclusion of certain small business income
2 from taxation under the gross income tax and corporation
3 business tax, revising various parts of the statutory law, and
4 supplementing Title 54A of the New Jersey Statutes.

5
6 **BE IT ENACTED** *by the Senate and General Assembly of the State*
7 *of New Jersey:*

8
9 1. Section 4 of P.L.1945, c.162 (C.54:10A-4) is amended to
10 read as follows

11 4. For the purposes of this act, unless the context requires a
12 different meaning:

13 (a) "Commissioner" or "director" shall mean the Director of the
14 Division of Taxation of the State Department of the Treasury.

15 (b) "Allocation factor" shall mean the proportionate part of a
16 taxpayer's net worth or entire net income used to determine a
17 measure of its tax under this act.

18 (c) "Corporation" shall mean any corporation, joint-stock
19 company or association and any business conducted by a trustee or
20 trustees wherein interest or ownership is evidenced by a certificate
21 of interest or ownership or similar written instrument, any other
22 entity classified as a corporation for federal income tax purposes,
23 and any state or federally chartered building and loan association or
24 savings and loan association.

25 (d) "Net worth" shall mean the aggregate of the values disclosed
26 by the books of the corporation for (1) issued and outstanding
27 capital stock, (2) paid-in or capital surplus, (3) earned surplus and
28 undivided profits, and (4) surplus reserves which can reasonably be
29 expected to accrue to holders or owners of equitable shares, not
30 including reasonable valuation reserves, such as reserves for
31 depreciation or obsolescence or depletion. Notwithstanding the
32 foregoing, net worth shall not include any deduction for the amount
33 of the excess depreciation described in paragraph (2) (F) of
34 subsection (k) of this section. The foregoing aggregate of values
35 shall be reduced by 50% of the amount disclosed by the books of
36 the corporation for investment in the capital stock of one or more
37 subsidiaries, which investment is defined as ownership (1) of at
38 least 80% of the total combined voting power of all classes of stock
39 of the subsidiary entitled to vote and (2) of at least 80% of the total
40 number of shares of all other classes of stock except nonvoting
41 stock which is limited and preferred as to dividends. In the case of
42 investment in an entity organized under the laws of a foreign
43 country, the foregoing requisite degree of ownership shall effect a
44 like reduction of such investment from the net worth of the
45 taxpayer, if the foreign entity is considered a corporation for any

EXPLANATION – Matter enclosed in bold-faced brackets **[thus]** in the above bill is
not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

1 purpose under the United States federal income tax laws, such as
2 (but not by way of sole examples) for the purpose of supplying
3 deemed paid foreign tax credits or for the purpose of status as a
4 controlled foreign corporation. In calculating the net worth of a
5 taxpayer entitled to reduction for investment in subsidiaries, the
6 amount of liabilities of the taxpayer shall be reduced by such
7 proportion of the liabilities as corresponds to the ratio which the
8 excluded portion of the subsidiary values bears to the total assets of
9 the taxpayer.

10 In the case of banking corporations which have international
11 banking facilities as defined in subsection (n), the foregoing
12 aggregate of values shall also be reduced by retained earnings of the
13 international banking facility. Retained earnings means the earnings
14 accumulated over the life of such facility and shall not include the
15 distributive share of dividends paid and federal income taxes paid
16 or payable during the tax year.

17 If in the opinion of the director, the corporation's books do not
18 disclose fair valuations the director may make a reasonable
19 determination of the net worth which, in his opinion, would reflect
20 the fair value of the assets, exclusive of subsidiary investments as
21 defined aforesaid, carried on the books of the corporation, in
22 accordance with sound accounting principles, and such
23 determination shall be used as net worth for the purpose of this act.

24 (e) (Deleted by amendment, P.L.1998, c.114.)

25 (f) "Investment company" shall mean any corporation whose
26 business during the period covered by its report consisted, to the
27 extent of at least 90 percent thereof of holding, investing and
28 reinvesting in stocks, bonds, notes, mortgages, debentures, patents,
29 patent rights and other securities for its own account, but this shall
30 not include any corporation which: (1) is a merchant or a dealer of
31 stocks, bonds and other securities, regularly engaged in buying the
32 same and selling the same to customers; or (2) had less than 90
33 percent of its average gross assets in New Jersey, at cost, invested
34 in stocks, bonds, debentures, mortgages, notes, patents, patent rights
35 or other securities or consisting of cash on deposit during the period
36 covered by its report; or (3) is a banking corporation, a savings
37 institution, or a financial business corporation as defined in the
38 Corporation Business Tax Act.

39 (g) "Regulated investment company" shall mean any corporation
40 which for a period covered by its report, is registered and regulated
41 under the Investment Company Act of 1940 (54 Stat. 789), as
42 amended.

43 (h) "Taxpayer" shall mean any corporation, any combined group
44 filing a mandatory or elective New Jersey combined return, and any
45 partnership required, or consenting, to report or to pay taxes,
46 interest or penalties under this act. "Taxpayer" shall not include a
47 partnership that is listed on a United States national stock exchange.

1 (i) "Fiscal year" shall mean an accounting period ending on any
2 day other than the last day of December on the basis of which the
3 taxpayer is required to report for federal income tax purposes.

4 (j) Except as herein provided, "privilege period" shall mean the
5 calendar or fiscal accounting period for which a tax is payable
6 under this act.

7 (k) "Entire net income" shall mean total net income from all
8 sources, whether within or without the United States, and shall
9 include the gain derived from the employment of capital or labor, or
10 from both combined, as well as profit gained through a sale or
11 conversion of capital assets.

12 For the purpose of this act, the amount of a taxpayer's entire net
13 income shall be deemed prima facie to be equal in amount to the
14 taxable income, before net operating loss deduction and special
15 deductions, which the taxpayer is required to report, or, if the
16 taxpayer is classified as a partnership for federal tax purposes,
17 would otherwise be required to report, to the United States Treasury
18 Department for the purpose of computing its federal income tax,
19 provided however, that in the determination of such entire net
20 income,

21 (1) Entire net income shall exclude for the periods set forth in
22 paragraph (2)(F)(i) of this subsection, any amount, except with
23 respect to qualified mass commuting vehicles as described in
24 section 168(f)(8)(D)(v) of the Internal Revenue Code as in effect
25 immediately prior to January 1, 1984, which is included in a
26 taxpayer's federal taxable income solely as a result of an election
27 made pursuant to the provisions of paragraph (8) of that section.

28 (2) Entire net income shall be determined without the exclusion,
29 deduction or credit of:

30 (A) The amount of any exemption or credit allowed in any law
31 of the United States imposing any tax on or measured by the income
32 of corporations.

33 (B) Any part of any income from dividends or interest on any
34 kind of stock, securities or indebtedness, except as provided in
35 paragraph (5) of subsection (k) of this section.

36 (C) Taxes paid or accrued to the United States, a possession or
37 territory of the United States, a state, a political subdivision thereof,
38 or the District of Columbia, or to any foreign country, state,
39 province, territory or subdivision thereof, on or measured by profits
40 or income, or business presence or business activity, or the tax
41 imposed by this act, or any tax paid or accrued with respect to
42 subsidiary dividends excluded from entire net income as provided
43 in paragraph (5) of subsection (k) of this section.

44 (D) (Deleted by amendment, P.L.1985, c.143.)

45 (E) (Deleted by amendment, P.L.1995, c.418.)

46 (F) (i) The amount by which depreciation reported to the United
47 States Treasury Department for property placed in service on and
48 after January 1, 1981, but prior to taxpayer fiscal or calendar

1 accounting years beginning on and after the effective date of
2 P.L.1993, c.172, for purposes of computing federal taxable income
3 in accordance with section 168 of the Internal Revenue Code in
4 effect after December 31, 1980, exceeds the amount of depreciation
5 determined in accordance with the Internal Revenue Code
6 provisions in effect prior to January 1, 1981, but only with respect
7 to a taxpayer's accounting period ending after December 31, 1981;
8 provided, however, that where a taxpayer's accounting period
9 begins in 1981 and ends in 1982, no modification shall be required
10 with respect to this paragraph (F) for the report filed for such period
11 with respect to property placed in service during that part of the
12 accounting period which occurs in 1981. The provisions of this
13 subparagraph shall not apply to assets placed in service prior to
14 January 1, 1998 of a gas, gas and electric, and electric public utility
15 that was subject to the provisions of P.L.1940, c.5 (C.54:30A-49 et
16 seq.) prior to 1998.

17 (ii) For the periods set forth in subparagraph (F)(i) of paragraph
18 (2) of this subsection, any amount, except with respect to qualified
19 mass commuting vehicles as described in section 168(f)(8)(D)(v) of
20 the Internal Revenue Code as in effect immediately prior to January
21 1, 1984, which the taxpayer claimed as a deduction in computing
22 federal income tax pursuant to a qualified lease agreement under
23 paragraph (8) of that section.

24 The director shall promulgate rules and regulations necessary to
25 carry out the provisions of this section, which rules shall provide,
26 among others, the manner in which the remaining life of property
27 shall be reported.

28 (G) (i) The amount of any civil, civil administrative, or criminal
29 penalty or fine, including a penalty or fine under an administrative
30 consent order, assessed and collected for a violation of a State or
31 federal environmental law, an administrative consent order, or an
32 environmental ordinance or resolution of a local governmental
33 entity, and any interest earned on the penalty or fine, and any
34 economic benefits having accrued to the violator as a result of a
35 violation, which benefits are assessed and recovered in a civil, civil
36 administrative, or criminal action, or pursuant to an administrative
37 consent order. The provisions of this paragraph shall not apply to a
38 penalty or fine assessed or collected for a violation of a State or
39 federal environmental law, or local environmental ordinance or
40 resolution, if the penalty or fine was for a violation that resulted
41 from fire, riot, sabotage, flood, storm event, natural cause, or other
42 act of God beyond the reasonable control of the violator, or caused
43 by an act or omission of a person who was outside the reasonable
44 control of the violator.

45 (ii) The amount of treble damages paid to the Department of
46 Environmental Protection pursuant to subsection a. of section 7 of
47 P.L.1976, c.141 (C.58:10-23.11f), for costs incurred by the
48 department in removing, or arranging for the removal of, an

1 unauthorized discharge upon failure of the discharger to comply
2 with a directive from the department to remove, or arrange for the
3 removal of, the discharge.

4 (H) The amount of any sales and use tax paid by a utility vendor
5 pursuant to section 71 of P.L.1997, c.162.

6 (I) With respect to privilege periods ending before July 31,
7 2023, interest paid, accrued or incurred for the privilege period to a
8 related member, as defined in section 5 of P.L.2002, c.40
9 (C.54:10A-4.4), except that a deduction shall be permitted to the
10 extent that the taxpayer establishes by clear and convincing
11 evidence, as determined by the director, that: (i) a principal purpose
12 of the transaction giving rise to the payment of the interest was not
13 to avoid taxes otherwise due under Title 54 of the Revised Statutes
14 or Title 54A of the New Jersey Statutes, (ii) the interest is paid
15 pursuant to arm's length contracts at an arm's length rate of interest,
16 and (iii)(aa) the related member was subject to a tax on its net
17 income or receipts in this State or another state or possession of the
18 United States or in a foreign nation, (bb) a measure of the tax
19 includes the interest received from the related member, and (cc) the
20 rate of tax applied to the interest received by the related member is
21 equal to or greater than a rate three percentage points less than the
22 rate of tax applied to taxable interest by this State pursuant to
23 section 5 of P.L.1945, c.162 (C.54:10A-5).

24 With respect to privilege periods ending before July 31, 2023, a
25 deduction shall also be permitted if the taxpayer establishes by clear
26 and convincing evidence, as determined by the director, that the
27 disallowance of a deduction is unreasonable, or the taxpayer and the
28 director agree in writing to the application or use of an alternative
29 method of apportionment under section 8 of P.L.1945, c.162
30 (C.54:10A-8); nothing in this subsection shall be construed to limit
31 or negate the director's authority to otherwise enter into agreements
32 and compromises otherwise allowed by law.

33 With respect to privilege periods ending before July 31, 2023, a
34 deduction shall also be permitted to the extent that the taxpayer
35 establishes by a preponderance of the evidence, as determined by
36 the director, that the interest is directly or indirectly paid, accrued
37 or incurred to (i) a related member in a foreign nation which has in
38 force a comprehensive income tax treaty with the United States and
39 the related member (aa) was subject to tax in the foreign nation on a
40 tax base that included the payment paid, accrued, or incurred; and
41 (bb) under which the related member's income received from the
42 transaction was taxed at an effective tax rate equal to or greater than
43 a rate of three percentage points less than the rate of tax applied to
44 taxable interest by the State of New Jersey pursuant to section 5 of
45 P.L.1945, c.162 (C.54:10A-5), provided however that the taxpayer
46 shall disclose on its return for the privilege period the name of the
47 related member, the amount of the interest, the relevant foreign
48 nation, and such other information as the director may prescribe or

1 (ii) to an independent lender and the taxpayer guarantees the debt
2 on which the interest is required. The adjustments required by this
3 subparagraph shall not apply to transactions between related
4 members included in a combined group reported on a New Jersey
5 combined return.

6 (J) (i) Amounts deducted for federal tax purposes pursuant to
7 section 199 of the federal Internal Revenue Code of 1986, 26
8 U.S.C. s.199, except that this exclusion shall not apply to amounts
9 deducted pursuant to that section that are exclusively based upon
10 domestic production gross receipts of the taxpayer which are
11 derived only from any lease, rental, license, sale, exchange, or other
12 disposition of qualifying production property which the taxpayer
13 demonstrates to the satisfaction of the director was manufactured or
14 produced by the taxpayer in whole or in significant part within the
15 United States but not qualified production property that was grown
16 or extracted by the taxpayer. "Manufactured or produced" as used in
17 this paragraph shall be limited to performance of an operation or
18 series of operations the object of which is to place items of tangible
19 personal property in a form, composition, or character different
20 from that in which they were acquired. The change in form,
21 composition, or character shall be a substantial change, and result in
22 a transformation of property into a different or substantially more
23 usable product.

24 (ii) For privilege periods beginning after December 31, 2017,
25 notwithstanding the provisions of P.L.1945, c.162 (C.54:10A-1 et
26 seq.) or any other law to the contrary, for the purposes of
27 determining the amount of income pursuant to P.L.1945, c.162
28 (C.54:10A-1 et seq.) that is net of expenses, no amounts shall be
29 taken as a deduction pursuant to section 199A of the Internal
30 Revenue Code (26 U.S.C. s.199A).

31 (K) (i) For privilege periods beginning after December 31, 2017
32 and ending before July 31, 2022, the interest deduction limitation in
33 subsection (j) of section 163 of the Internal Revenue Code (26
34 U.S.C. s.163), shall apply on a pro-rata basis to interest paid to both
35 related and unrelated parties, regardless of whether the related
36 parties are subject to the add-back provision of either subparagraph
37 (I) of paragraph (2) of this subsection or in section 5 of P.L.2002,
38 c.40 (C.54:10A-4.4).

39 (ii) For privilege periods beginning after December 31, 2017
40 and ending on and after July 31, 2022, the interest deduction
41 limitation in subsection (j) of section 163 of the Internal Revenue
42 Code (26 U.S.C. s.163), shall apply to a combined group as though
43 the combined group filed a federal consolidated return; provided,
44 however, for the purposes of applying the limitation in subsection
45 (j) of section 163 of the Internal Revenue Code (26 U.S.C. s.163),
46 with regard to affiliates that were members of the federal
47 consolidated return but were not members of the combined group
48 included on the New Jersey combined return, the combined group

1 and the affiliates will also be treated as having filed one federal
2 consolidated return.

3 (3) The director may, whenever necessary to properly reflect the
4 entire net income of any taxpayer, determine the year or period in
5 which any item of income or deduction shall be included, without
6 being limited to the method of accounting employed by the
7 taxpayer.

8 (4) There shall be allowed as a deduction from entire net income
9 of a banking corporation, to the extent not deductible in
10 determining federal taxable income, the eligible net income of an
11 international banking facility determined as follows:

12 (A) The eligible net income of an international banking facility
13 shall be the amount remaining after subtracting from the eligible
14 gross income the applicable expenses;

15 (B) Eligible gross income shall be the gross income derived by
16 an international banking facility, which shall include, but not be
17 limited to, gross income derived from:

18 (i) Making, arranging for, placing or carrying loans to foreign
19 persons, provided, however, that in the case of a foreign person
20 which is an individual, or which is a foreign branch of a domestic
21 corporation (other than a bank), or which is a foreign corporation or
22 foreign partnership which is controlled by one or more domestic
23 corporations (other than banks), domestic partnerships or resident
24 individuals, all the proceeds of the loan are for use outside of the
25 United States;

26 (ii) Making or placing deposits with foreign persons which are
27 banks or foreign branches of banks (including foreign subsidiaries)
28 or foreign branches of the taxpayers or with other international
29 banking facilities;

30 (iii) Entering into foreign exchange trading or hedging
31 transactions related to any of the transactions described in this
32 paragraph; or

33 (iv) Such other activities as an international banking facility
34 may, from time to time, be authorized to engage in;

35 (C) Applicable expenses shall be any expense or other
36 deductions attributable, directly or indirectly, to the eligible gross
37 income described in subparagraph (B) of this paragraph.

38 (5) (A) (i) Entire net income shall exclude 100% of dividends
39 which were included in computing such taxable income for federal
40 income tax purposes, paid to the taxpayer by one or more
41 subsidiaries owned by the taxpayer to the extent of the 80% or more
42 ownership of investment described in subsection (d) of this section
43 for privilege periods beginning on or before December 31, 2016.

44 (ii) For privilege periods beginning after December 31, 2016
45 and before January 1, 2019, entire net income shall exclude 95% of
46 dividends which were included in computing such taxable income
47 for federal income tax purposes, paid or deemed paid, to the
48 taxpayer by one or more subsidiaries owned by the taxpayer to the

1 extent of the 80% or more ownership of investment described in
2 subsection (d) of this section. For the purposes of calculating the
3 tax liability owed for the paid or deemed paid dividends included in
4 entire net income by this subsubparagraph (ii), the taxpayer shall
5 use either their three-year average allocation factor for the
6 taxpayer's 2014 through 2016 tax years reported on the taxpayer's
7 tax returns or 3.5 percent, whichever is lower.

8 (iii) For privilege periods beginning on and after January 1, 2019
9 and ending before July 31, 2023, entire net income shall exclude
10 95% of dividends which were included in computing such taxable
11 income for federal income tax purposes, paid or deemed paid to the
12 taxpayer by one or more subsidiaries owned by the taxpayer to the
13 extent of the 80% or more ownership of investment described in
14 subsection (d) of this section.

15 (iv) For privilege periods ending on and after July 31, 2023,
16 entire net income shall exclude 100 percent of dividends and
17 deemed dividends that were included in computing such taxable
18 income for federal income tax purposes, paid or deemed paid to the
19 taxpayer by one or more subsidiaries owned by the taxpayer to the
20 extent of the 80 percent or more ownership of investment described
21 in subsection (d) of this section.

22 (B) Entire net income shall exclude 50% of dividends which
23 were included in computing such taxable income for federal income
24 tax purposes, paid or deemed paid to the taxpayer by one or more
25 subsidiaries owned by the taxpayer to the extent of 50% or more
26 ownership of investment, such ownership of investment calculated
27 in the same manner as the 80% or more of ownership of investment
28 is calculated as described in subsection (d) of this section.

29 (C) To the extent a subsidiary received dividends from other
30 subsidiaries and included those dividends in its entire net income
31 for the purposes of determining its tax liability pursuant to section 5
32 of P.L.1945, c.162 (C.54:10A-5) and paid tax on those dividends,
33 the taxpayer receiving those same dividends from the subsidiary
34 shall exclude those dividends from its entire net income based on
35 the subsidiary's allocation factor used by the subsidiary in
36 determining its tax liability pursuant to section 5 of P.L.1945, c.162
37 (C.54:10A-5). This subparagraph (C) shall not apply to privilege
38 periods ending on and after July 31, 2019.

39 (D) For privilege periods ending on and after July 31, 2019 but
40 before July 31, 2020, to the extent a subsidiary received dividends
41 from other subsidiaries and included those dividends in its entire net
42 income for the purposes of determining its tax liability pursuant to
43 section 5 of P.L.1945, c.162 (C.54:10A-5) and paid tax on those
44 dividends, the taxpayer receiving those same dividends from the
45 subsidiary shall exclude those dividends from its entire net income.

46 (E) For privilege periods ending on and after July 31, 2020, for
47 purposes of this paragraph (5), the members of a combined group
48 filing a New Jersey combined return shall be treated as one taxpayer

1 with regard to dividends and deemed dividends that were received
2 as part of the unitary business of the combined group.

3 (F) For privilege periods ending on and after July 31, 2023:

4 (i) The exclusion provided by this paragraph (5) shall be
5 deducted from entire net income after the State modifications that
6 increase federal entire net income but before the other State
7 modifications that reduce entire net income and before the
8 allocation of entire net income to this State.

9 (ii) In computing the total amount of the dividends and deemed
10 dividends excluded by this paragraph (5) for privilege periods
11 ending on and after July 31, 2023, the amount of dividends and
12 deemed dividends excluded shall be reduced by the amount of the
13 expenses and deductions that are attributable to those dividends and
14 deemed dividends. For purposes of this paragraph (5), expenses
15 and deductions related to dividends shall equal five percent of all
16 dividends and deemed dividends received by a taxpayer during an
17 income year.

18 (G) For privilege periods ending on and after July 31, 2023, for
19 the purposes of this paragraph (5) and for subsection d. of section
20 18 of P.L.2018, c.48 (C.54:10A-4.6), the income amounts required
21 to be included in federal taxable income pursuant to 26 U.S.C.
22 s.951A, shall be considered a dividend.

23 (6) (A) Net operating loss deduction. For privilege periods
24 ending before July 31, 2019, there shall be allowed as a deduction
25 for the privilege period the net operating loss carryover to that
26 period.

27 (B) Net operating loss carryover. A net operating loss for any
28 privilege period ending after June 30, 1984 shall be a net operating
29 loss carryover to each of the seven privilege periods following the
30 period of the loss and a net operating loss for any privilege period
31 ending after June 30, 2009 shall be a net operating loss carryover to
32 each of the twenty privilege periods following the period of the
33 loss. The entire amount of the net operating loss for any privilege
34 period (the "loss period") shall be carried to the earliest of the
35 privilege periods to which the loss may be carried. The portion of
36 the loss which shall be carried to each of the other privilege periods
37 shall be the excess, if any, of the amount of the loss over the sum of
38 the entire net income, computed without the exclusions permitted in
39 paragraphs (4) and (5) of this subsection or the net operating loss
40 deduction provided by subparagraph (A) of this paragraph, for each
41 of the prior privilege periods to which the loss may be carried.

42 (C) Net operating loss. For purposes of this paragraph the term
43 "net operating loss" means the excess of the deductions over the
44 gross income used in computing entire net income without the net
45 operating loss deduction provided for in subparagraph (A) of this
46 paragraph and the exclusions in paragraphs (4) and (5) of this
47 subsection.

1 (D) Change in ownership. Where there is a change in 50% or
2 more of the ownership of a corporation because of redemption or
3 sale of stock and the corporation changes the trade or business
4 giving rise to the loss, no net operating loss sustained before the
5 changes may be carried over to be deducted from income earned
6 after such changes. In addition where the facts support the premise
7 that the corporation was acquired under any circumstances for the
8 primary purpose of the use of its net operating loss carryover, the
9 director may disallow the carryover.

10 (E) Notwithstanding the provisions of this paragraph (6) of
11 subsection (k) of this section to the contrary, for privilege periods
12 beginning during calendar year 2002 and calendar year 2003, no
13 deduction for any net operating loss carryover shall be allowed and
14 for privilege periods beginning during calendar year 2004 and
15 calendar year 2005, there shall be allowed as a deduction for the
16 privilege period so much of the net operating loss carryover as
17 reduces entire net income otherwise calculated by 50%. If and only
18 to the extent that any net operating loss carryover deduction is
19 disallowed by reason of this subparagraph (E), the date on which
20 the amount of the disallowed net operating loss carryover deduction
21 would otherwise expire shall be extended by a period equal to the
22 period for which application of the net operating loss was
23 disallowed by this subparagraph.

24 Provided, that this subparagraph (E) shall not restrict the
25 surrender or acquisition of corporation business tax benefit
26 certificates pursuant to section 1 of P.L.1997, c.334 (C.34:1B-
27 7.42a) and shall not restrict the application of corporation business
28 tax benefit certificates pursuant to section 2 of P.L.1997, c.334
29 (C.54:10A-4.2).

30 (F) Reduction for discharge of indebtedness. A net operating
31 loss for any privilege period ending after June 30, 2014, and any net
32 operating loss carryover to such privilege period, shall be reduced
33 by the amount excluded from federal taxable income under
34 subparagraph (A), (B), or (C) of paragraph (1) of subsection (a) of
35 section 108 of the federal Internal Revenue Code (26 U.S.C. s.108),
36 for the privilege period of the discharge of indebtedness.

37 (7) The entire net income of gas, electric and gas and electric
38 public utilities that were subject to, or would have been subject to
39 tax if doing business in this State, the provisions of P.L.1940, c.5
40 (C.54:30A-49 et seq.) prior to 1998, shall be adjusted by
41 substituting the New Jersey depreciation allowance for federal tax
42 depreciation with respect to assets placed in service prior to January
43 1, 1998. For gas, electric, and gas and electric public utilities that
44 were subject to, or would have been subject to tax if doing business
45 in this State, the provisions of P.L.1940, c.5 (C.54:30A-49 et seq.)
46 prior to 1998, the New Jersey depreciation allowance shall be
47 computed as follows: All depreciable assets placed in service prior
48 to January 1, 1998 shall be considered a single asset account. The

1 New Jersey tax basis of this depreciable asset account shall be an
2 amount equal to the carryover adjusted basis for federal income tax
3 purposes on December 31, 1997 of all depreciable assets in service
4 on December 31, 1997, increased by the excess, of the "net carrying
5 value," defined to be adjusted book basis of all assets and liabilities,
6 excluding deferred income taxes, recorded on the public utility's
7 books of account on December 31, 1997, over the carryover
8 adjusted basis for federal income tax purposes on December 31,
9 1997 of all assets and liabilities owned by the gas, electric, or gas
10 and electric public utility as of December 31, 1997. "Books of
11 account" for gas, gas and electric, and electric public utilities means
12 the uniform system of accounts as promulgated by the Federal
13 Energy Regulatory Commission and adopted by the Board of Public
14 Utilities. The following adjustments to entire net income shall be
15 made pursuant to this section:

16 (A) Depreciation for property placed in service prior to January
17 1, 1998 shall be adjusted as follows:

18 (i) Depreciation for federal income tax purposes shall be
19 disallowed in full.

20 (ii) A deduction shall be allowed for the New Jersey
21 depreciation allowance. The New Jersey depreciation allowance
22 shall be computed for the single asset account described above
23 based on the New Jersey tax basis as adjusted above as if all assets
24 in the single asset account were first placed in service on January 1,
25 1998. Depreciation shall be computed using the straight line method
26 over a thirty-year life. A full year's depreciation shall be allowed in
27 the initial tax year. No half-year convention shall apply. The
28 depreciable basis of the single account shall be reduced by the
29 adjusted federal tax basis of assets sold, retired, or otherwise
30 disposed of during any year on which gain or loss is recognized for
31 federal income tax purposes as described in subparagraph (B) of
32 this paragraph.

33 (B) Gains and losses on sales, retirements and other dispositions
34 of assets placed in service prior to January 1, 1998 shall be
35 recognized and reported on the same basis as for federal income tax
36 purposes.

37 (C) The Director of the Division of Taxation shall promulgate
38 regulations describing the methodology for allocating the single
39 asset account in the event that a portion of the utility's operations
40 are separated, spun-off, transferred to a separate company or
41 otherwise desegregated.

42 (8) In the case of taxpayers that are gas, electric, gas and
43 electric, or telecommunications public utilities as defined pursuant
44 to subsection (q) of this section, the director shall have authority to
45 promulgate rules and issue guidance correcting distortions and
46 adjusting timing differences resulting from the adoption of
47 P.L.1997, c.162 (C.54:10A-5.25 et al.).

1 (9) Notwithstanding paragraph (1) of this subsection, entire net
2 income shall not include the income derived by a corporation
3 organized in a foreign country from the international operation of a
4 ship or ships, or from the international operation of aircraft, if such
5 income is exempt from federal taxation pursuant to section 883 of
6 the federal Internal Revenue Code of 1986, 26 U.S.C. s.883.

7 (10) Entire net income shall exclude all income of an alien
8 corporation the activities of which are limited in this State to
9 investing or trading in stocks and securities for its own account,
10 investing or trading in commodities for its own account, or any
11 combination of those activities, within the meaning of section 864
12 of the federal Internal Revenue Code of 1986, 26 U.S.C. s.864, as in
13 effect on December 31, 1998. Notwithstanding the previous
14 sentence, if an alien corporation undertakes one or more infrequent,
15 extraordinary or non-recurring activities, including but not limited
16 to the sale of tangible property, only the income from such
17 infrequent, extraordinary or non-recurring activity shall be subject
18 to the tax imposed pursuant to P.L.1945, c.162 (C.54:10A-1 et
19 seq.), and that amount of income subject to tax shall be determined
20 without regard to the allocation to that specific transaction of any
21 general business expense of the taxpayer and shall be specifically
22 assigned to this State for taxation by this State without regard to
23 section 6 of P.L.1945, c.162 (C.54:10A-6). For the purposes of this
24 paragraph, "alien corporation" means a corporation organized under
25 the laws of a jurisdiction other than the United States or its political
26 subdivisions.

27 (11) No deduction shall be allowed for research and
28 experimental expenditures, to the extent that those research and
29 experimental expenditures are qualified research expenses or basic
30 research payments for which an amount of credit is claimed
31 pursuant to section 1 of P.L.1993, c.175 (C.54:10A-5.24) unless
32 those research and experimental expenditures are also used to
33 compute a federal credit claimed pursuant to section 41 of the
34 federal Internal Revenue Code of 1986, 26 U.S.C. s.41; provided,
35 however, for privilege periods beginning on and after January 1,
36 2022, a deduction for research and experimental expenditures shall
37 be allowed during the same privilege period for which a credit is
38 claimed pursuant to section 1 of P.L.1993, c.175 (C.54:10A-5.24),
39 notwithstanding the timing schedule required by the federal Internal
40 Revenue Code of 1986, 26 U.S.C. s.174, for the deduction of
41 specified research and experimental expenditures.

42 (12) (A) Notwithstanding the provisions of subsection (k) of
43 section 168 of the federal Internal Revenue Code of 1986, 26
44 U.S.C. s.168, subsection (b) of section 1400L of the federal Internal
45 Revenue Code of 1986, 26 U.S.C. s.1400L, or any other federal
46 law, for property acquired after September 10, 2001, the
47 depreciation deduction otherwise allowed pursuant to section 167 of
48 the federal Internal Revenue Code of 1986, 26 U.S.C. s.167, shall

1 be determined pursuant to the provisions of the federal Internal
2 Revenue Code of 1986 (26 U.S.C. s.1 et seq.) in effect on
3 December 31, 2001.

4 (B) The director shall prescribe the rules and regulations
5 necessary to carry out the provisions of this paragraph, including,
6 among others, those for determining the adjusted basis of the
7 acquired property for the purposes of the Corporation Business Tax
8 Act (1945), P.L.1945, c.162.

9 (13) (A) Notwithstanding the provisions of section 179 of the
10 federal Internal Revenue Code of 1986, 26 U.S.C. s.179, for
11 property placed in service on or after January 1, 2004, the costs that
12 a taxpayer may otherwise elect to treat as an expense which is not
13 chargeable to a capital account shall be determined pursuant to the
14 provisions of the federal Internal Revenue Code of 1986 (26 U.S.C.
15 s.1 et seq.) in effect on December 31, 2002.

16 (B) The director shall prescribe the rules and regulations
17 necessary to carry out the provisions of this paragraph, including,
18 among others, those for determining the adjusted basis of the
19 acquired property for the purposes of the Corporation Business Tax
20 Act (1945), P.L.1945, c.162.

21 (14) Notwithstanding the provisions of subsection (i) of section
22 108 of the federal Internal Revenue Code of 1986 (26 U.S.C. s.108),
23 for privilege periods beginning after December 31, 2008 and before
24 January 1, 2011, entire net income shall include the amount of
25 discharge of indebtedness income excluded for federal income tax
26 purposes pursuant to subsection (i) of section 108 of the federal
27 Internal Revenue Code of 1986 (26 U.S.C. s.108), and for privilege
28 periods beginning on or after January 1, 2014 and before January 1,
29 2019, entire net income shall exclude the amount of discharge of
30 indebtedness income included for federal income tax purposes,
31 pursuant to subsection (i) of section 108 of the federal Internal
32 Revenue Code of 1986 (26 U.S.C. s.108).

33 (15) Entire net income shall exclude the gain or income derived
34 from the sale or assignment of a tax credit transfer certificate
35 pursuant to section 7 of P.L.2011, c.149 (C.34:1B-248) and section
36 10 of P.L.2014, c.63 (C.34:1B-251).

37 (16) (A) There shall be allowed as a deduction an amount
38 computed in accordance with this paragraph.

39 (B) For purposes of this paragraph, "net deferred tax liability"
40 means deferred tax liabilities that exceed the deferred tax assets of
41 the combined group, as computed in accordance with generally
42 accepted accounting principles, and "net deferred tax asset" means
43 that deferred tax assets exceed the deferred tax liabilities of the
44 combined group, as computed in accordance with generally
45 accepted accounting principles.

46 (C) Only publicly traded companies, including affiliated
47 corporations participating in the filing of a publicly traded
48 company's financial statements prepared in accordance with

1 generally accepted accounting principles, as of the effective date of
2 this paragraph, shall be eligible for this deduction.

3 (D) If the provisions of sections 18 through 23 of P.L.2018, c.48
4 (C.54:10A-4.6 to C.54:10A-4.11) result in an aggregate increase to
5 the members' net deferred tax liability or an aggregate decrease to
6 the members' net deferred tax asset, or an aggregate change from a
7 net deferred tax asset to a net deferred tax liability, the combined
8 group shall be entitled to a deduction, as determined in this
9 paragraph.

10 (E) (i) Beginning with the combined group's first privilege
11 period on or after January 1 of the fifth year after the effective date
12 of P.L.2018, c.48 (C.54:10A-5.41 et al.), a combined group shall be
13 entitled to a deduction from combined group entire net income
14 equal to one-tenth of the amount necessary to offset the increase in
15 the net deferred tax liability or decrease in the net deferred tax
16 asset, or aggregate change from a net deferred tax asset to a net
17 deferred tax liability, according to the schedule provided by
18 subsubparagraphs (ii) and (iii) of this subparagraph (E). Such
19 increase in the net deferred tax liability or decrease in the net
20 deferred tax asset or the aggregate change from a net deferred tax
21 asset to a net deferred tax liability shall be computed based on the
22 change that would result from the imposition of the unitary
23 reporting requirements under sections 1 and 18 through 23 of
24 P.L.2018, c.48 (C.54:10A-5.41 and C.54:10A-4.6 to C.54:10A-
25 4.11) but for the deduction provided under this paragraph as of the
26 effective date of this paragraph.

27 (ii) For group privilege periods beginning on and after January
28 1, 2023, but before January 1, 2030, the combined group may
29 deduct one percent of the amount necessary to offset the increase in
30 the net deferred tax liability or decrease in the net deferred tax
31 asset, or aggregate change from a net deferred tax asset to a net
32 deferred tax liability, during a group privilege period. Such
33 increase in the net deferred tax liability or decrease in the net
34 deferred tax asset or the aggregate change from a net deferred tax
35 asset to a net deferred tax liability shall be computed based on the
36 change that would result from the imposition of the unitary
37 reporting requirements under sections 1 and 18 through 23 of
38 P.L.2018, c.48 (C.54:10A-5.41 and C.54:10A-4.6 to C.54:10A-
39 4.11) but for the deduction provided under this paragraph as of the
40 effective date of this paragraph.

41 (iii) For group privilege periods beginning on and after January
42 1, 2030, the combined group may deduct up to five percent of any
43 remaining unused amount of the deduction during the group
44 privilege period, until the group privilege period in which the total
45 deduction amount has been fully utilized. Such increase in the net
46 deferred tax liability or decrease in the net deferred tax asset or the
47 aggregate change from a net deferred tax asset to a net deferred tax
48 liability shall be computed based on the change that would result

1 from the imposition of the unitary reporting requirements under
2 sections 1 and 18 through 23 of P.L.2018, c.48 (C.54:10A-5.41 and
3 C.54:10A-4.6 to C.54:10A-4.11) but for the deduction provided
4 under this paragraph as of the effective date of this paragraph.

5 (F) The deferred tax impact determined in subparagraph (E) of
6 this paragraph must be converted to the annual Deferred Tax
7 Deduction amount, as follows:

8 (i) the deferred tax impact determined in subparagraph (E) of
9 this paragraph shall be divided by the rate determined under section
10 5 of P.L.1945, c.162 (C.54:10A-5) at the effective date of P.L.2018,
11 c.48 (C.54:10A-5.41 et al.);

12 (ii) the resulting amount shall be further divided by the New
13 Jersey unitary business allocation factor that was used by the
14 combined group in the calculation of the deferred tax assets and
15 deferred tax liabilities as described in subparagraph (E) of this
16 paragraph;

17 (iii) the resulting amount represents the total net Deferred Tax
18 Deduction available over the period as described in subparagraph
19 (E) of this paragraph.

20 (G) The deduction calculated under this paragraph shall not be
21 adjusted as a result of any events happening subsequent to such
22 calculation, including, but not limited to, any disposition or
23 abandonment of assets. Such deduction shall be calculated without
24 regard to the federal tax effect and shall not alter the tax basis of
25 any asset. If the deduction under this section is greater than
26 combined group entire net income, any excess deduction shall be
27 carried forward and applied as a deduction to combined group entire
28 net income in future privilege periods until fully utilized.

29 (H) Any combined group intending to claim a deduction under
30 this paragraph shall file a statement with the director on or before
31 July 1 of the year subsequent to the first privilege period for which
32 a combined return is required. Such statement shall specify the total
33 amount of the deduction which the combined group claims on such
34 form and in such manner as prescribed by the director. No
35 deduction shall be allowed under this paragraph for any privilege
36 period except to the extent claimed on such timely filed statement
37 in accordance with this paragraph.

38 (17) (A) In the case of a taxpayer that is a cannabis licensee,
39 there shall be allowed as a deduction an amount equal to any
40 expenditure that is eligible to be claimed as a federal income tax
41 deduction but is disallowed because cannabis is a controlled
42 substance under federal law, and income shall be determined
43 without regard to section 280E of the Internal Revenue Code (26
44 U.S.C. s.280E) for cannabis licensees.

45 (B) In the case of a taxpayer that is a cannabis licensee, there
46 shall be allowed as a deduction an amount equal to any expenditure
47 that would qualify as a specified research or experimental
48 expenditure pursuant to section 174 of the Internal Revenue Code

1 but is disallowed as a deduction for federal tax purposes because
2 cannabis is a controlled substance under federal law. Any
3 expenditure that is claimed as a deduction pursuant to this
4 subparagraph may also be claimed as a qualified research expense
5 for purposes of the credit allowed pursuant to section 1 of P.L.1993,
6 c.175 (C.54:10A-5.24).

7 (C) For purposes of this paragraph, "licensee" means the same as
8 that term is defined in section 3 of P.L.2021, c.16 (C.24:6I-33).

9 (18) For privilege periods ending on and after July 31, 2022:

10 (A) Notwithstanding subparagraph (A) of paragraph (2) of this
11 subsection or any other law or treaty to the contrary, for a
12 corporation that is incorporated or formed in a foreign nation with a
13 comprehensive tax treaty with the United States, and that is not a
14 member of a world-wide group combined return filed pursuant to
15 subsection b. of section 23 of P.L.2018, c.48 (C.54:10A-4.11),
16 entire net income shall not include an item of income or loss
17 excluded or exempted from federal taxable income under the terms
18 of the treaty, and no other deduction, exclusion, or elimination shall
19 be permitted for an item of income or loss excluded by this
20 paragraph.

21 (B) For a non-U.S. corporation that files a federal tax return and
22 is not a member of a combined group filing a New Jersey combined
23 return on a world-wide basis pursuant to subsection b. of section 23
24 of P.L.2018, c.48 (C.54:10A-4.11), the non-U.S. corporation shall
25 only include its income or loss included in federal taxable income,
26 which shall be limited to only the non-U.S. corporation's effectively
27 connected income or loss, as modified by the provisions of the
28 Corporation Business Tax Act (1945), P.L.1945, c.162 (C.54:10A-1
29 et seq.), and the items of expense and the allocation factor receipts
30 attributable to such items of income or loss.

31 (19) (A) For privilege periods beginning after December 31,
32 2024, the entire net income of a corporation that is a qualified small
33 business shall not include an amount up to \$50,000 of the entire net
34 income otherwise calculated pursuant to this subsection, prior to
35 any other permitted exclusions, deductions, or credits.

36 (B) For purposes of this paragraph, "qualified small business"
37 means a corporation that:

38 (i) is independently owned and operated, with management
39 owning at least a 51 percent ownership interest in the corporation
40 and being responsible for both its daily and long-term operations;

41 (ii) has its principal business operations located in the State;

42 (iii) is registered to do business in this State with the Director of
43 the Division of Revenue and Enterprise Services in the Department
44 of the Treasury;

45 (iv) earned gross revenues not more than \$2,000,000 during the
46 privilege period; and

47 (v) employed not more than 20 full-time or part-time employees
48 during the privilege period, not including seasonal employees or

1 part-time employees employed for less than 90 days in the privilege
2 period, except that a majority of the full-time and part-time
3 employees of the corporation shall be residents of this State.

4 (l) "Real estate investment trust" shall mean any corporation,
5 trust or association qualifying and electing to be taxed as a real
6 estate investment trust under federal law.

7 (m) "Financial business corporation" shall mean any corporate
8 enterprise which is (1) in substantial competition with the business
9 of national banks and which (2) employs moneyed capital with the
10 object of making profit by its use as money, through discounting
11 and negotiating promissory notes, drafts, bills of exchange and
12 other evidences of debt; buying and selling exchange; making of or
13 dealing in secured or unsecured loans and discounts; dealing in
14 securities and shares of corporate stock by purchasing and selling
15 such securities and stock without recourse, solely upon the order
16 and for the account of customers; or investing and reinvesting in
17 marketable obligations evidencing indebtedness of any person,
18 copartnership, association or corporation in the form of bonds,
19 notes or debentures commonly known as investment securities; or
20 dealing in or underwriting obligations of the United States, any
21 state or any political subdivision thereof, or of a corporate
22 instrumentality of any of them. This shall include, without
23 limitation of the foregoing, business commonly known as industrial
24 banks, dealers in commercial paper and acceptances, sales finance,
25 personal finance, small loan and mortgage financing businesses, as
26 well as any other enterprise employing moneyed capital coming
27 into competition with the business of national banks; provided that
28 the holding of bonds, notes, or other evidences of indebtedness by
29 individual persons not employed or engaged in the banking or
30 investment business and representing merely personal investments
31 not made in competition with the business of national banks, shall
32 not be deemed financial business. Nor shall "financial business"
33 include national banks, production credit associations organized
34 under the Farm Credit Act of 1933 or the Farm Credit Act of 1971,
35 Pub.L.92-181 (12 U.S.C. s.2091 et seq.), stock and mutual
36 insurance companies duly authorized to transact business in this
37 State, security brokers or dealers or investment companies or
38 bankers not employing moneyed capital coming into competition
39 with the business of national banks, real estate investment trusts, or
40 any of the following entities organized under the laws of this State:
41 credit unions, savings banks, savings and loan and building and
42 loan associations, pawnbrokers, and State banks and trust
43 companies.

44 (n) "International banking facility" shall mean a set of asset and
45 liability accounts segregated on the books and records of a
46 depository institution, United States branch or agency of a foreign
47 bank, or an Edge or Agreement Corporation that includes only
48 international banking facility time deposits and international

1 banking facility extensions of credit as such terms are defined in
2 section 204.8(a)(2) and section 204.8(a)(3) of Regulation D of the
3 board of governors of the Federal Reserve System, 12 CFR Part
4 204, effective December 3, 1981. In the event that the United States
5 enacts a law, or the board of governors of the Federal Reserve
6 System adopts a regulation which amends the present definition of
7 international banking facility or of such facilities' time deposits or
8 extensions of credit, the Commissioner of Banking and Insurance
9 shall forthwith adopt regulations defining such terms in the same
10 manner as such terms are set forth in the laws of the United States
11 or the regulations of the board of governors of the Federal Reserve
12 System. The regulations of the Commissioner of Banking and
13 Insurance shall thereafter provide the applicable definitions.

14 (o) "S corporation" means a corporation that has elected to be an
15 "S corporation" pursuant to section 1361 of the federal Internal
16 Revenue Code of 1986, 26 U.S.C. s.1361, for the taxable year.

17 (p) "New Jersey S corporation" means a taxpayer that has made
18 a valid election to be an S corporation for federal tax purposes, and
19 that has not made a valid election pursuant to subsection d. of
20 section 20 of P.L.2022, c.133 (C.54:10A-5.22).

21 (q) "Public Utility" means "public utility" as defined in
22 R.S.48:2-13.

23 (r) "Qualified investment partnership" means a partnership
24 under this act that has more than 10 members or partners with no
25 member or partner owning more than a 50% interest in the entity
26 and that derives at least 90% of its gross income from dividends,
27 interest, payments with respect to securities loans, and gains from
28 the sale or other disposition of stocks or securities or foreign
29 currencies or commodities or other similar income (including but
30 not limited to gains from swaps, options, futures or forward
31 contracts) derived with respect to its business of investing or
32 trading in those stocks, securities, currencies or commodities, but
33 "investment partnership" shall not include a "dealer in securities"
34 within the meaning of section 1236 of the federal Internal Revenue
35 Code of 1986, 26 U.S.C. s.1236.

36 (s) "Savings institution" means a state or federally chartered
37 building and loan association, savings and loan association, or
38 savings bank.

39 (t) "Partnership" means an entity classified as a partnership for
40 federal income tax purposes.

41 (u) "Prior net operating loss conversion carryover" means a net
42 operating loss incurred in a privilege period ending prior to July 31,
43 2019 and converted from a pre-allocation net operating loss to a
44 post-allocation net operating loss as follows:

45 (1) As used in this subsection:

46 "Base year" means the last privilege period ending prior to July
47 31, 2019.

1 "Base year BAF" means the taxpayer's business allocation factor
2 as provided in sections 6 through 10 of P.L.1945, c.162 (C.54:10A-
3 6 through C.54:10A-10) for purposes of calculating entire net
4 income for the base year, as such section was in effect for the last
5 privilege period ending prior to July 31, 2019.

6 "UNOL" means the unabsorbed portion of net operating loss as
7 calculated under paragraph (6) of subsection (k) of this section as
8 such paragraph was in effect for the last privilege period ending
9 prior to July 31, 2019, that was not deductible in previous privilege
10 periods and was eligible for carryover on the last day of the base
11 year subject to the limitations for deduction under such subsection,
12 including any net operating loss sustained by the taxpayer during
13 the base year.

14 (2) The prior net operating loss conversion carryover shall be
15 calculated as follows:

16 (A) The taxpayer shall first calculate the tax value of its UNOL
17 for the base year and for each preceding privilege period for which
18 there is a UNOL. The value of the UNOL for each privilege period
19 is equal to the product of (I) the amount of the taxpayer's UNOL for
20 a privilege period, and (II) the taxpayer's base year BAF. This result
21 shall equal the taxpayer's prior net operating loss conversion
22 carryover.

23 (B) The taxpayer shall continue to carry over its prior net
24 operating loss conversion carryover to offset its allocated entire net
25 income as provided in sections 6 through 10 of P.L.1945, c.162
26 (C.54:10A-6 through C.54:10A-10) for privilege periods ending on
27 and after July 31, 2019. Such carryover periods shall not exceed the
28 twenty privilege periods following the privilege period of the initial
29 loss. The entire amount of the prior net operating loss conversion
30 carryover for any privilege period shall be carried to the earliest of
31 the privilege periods to which the loss may be carried. The portion
32 of the prior net operating loss conversion carryover which shall be
33 carried to each of the other privilege periods shall be the excess, if
34 any, of the amount of the prior net operating loss conversion
35 carryover over the sum of the entire net income, computed without
36 the exclusions permitted in paragraphs (4) and (5) of subsection (k)
37 of this section allocated to this State. For privilege periods ending
38 on and after July 31, 2023, for the purpose of computing taxable net
39 income for a current privilege period, the amount of the prior net
40 operating loss conversion carryover shall be subtracted from entire
41 net income allocated to this State, after the application of
42 paragraphs (4) and (5) of subsection (k) of this section against
43 current privilege period income when the entire net income
44 allocated to this State for the privilege period is greater than zero.

45 (C) The prior net operating loss conversion carryover computed
46 under this subsection shall be applied against the entire net income
47 allocated to this State before the net operating loss carryover
48 computed under subsection (v) of this section.

1 (v) "Net operating loss deduction" means the amount allowed as
2 a deduction for the net operating loss carryover to the privilege
3 period, calculated as follows:

4 (1) Net operating loss carryover. A net operating loss for any
5 privilege period ending on or after July 31, 2019, shall be a net
6 operating loss carryover to each of the twenty privilege periods
7 following the period of the loss. The entire amount of the net
8 operating loss for any privilege period shall be carried to the earliest
9 of the privilege periods to which the loss may be carried. For
10 privilege periods ending before July 31, 2023, the portion of the
11 loss which shall be carried to each of the other privilege periods
12 shall be the excess, if any, of the amount of the loss over the sum of
13 the entire net income, computed without the exclusions permitted in
14 paragraphs (4) and (5) of subsection (k) of this section allocated to
15 this State. For privilege periods ending on and after July 31, 2023,
16 the portion of the loss that shall be carried to each of the other
17 privilege periods shall be the excess, if any, of the amount of the
18 loss over the sum of the entire net income, after the application of
19 paragraphs (4) and (5) of subsection (k) of this section allocated to
20 this State; provided, however, for the purpose of computing taxable
21 net income for the privilege period, the net operating loss carryover
22 shall only be subtracted from entire net income allocated to this
23 State when the entire net income allocated to this State is greater
24 than zero.

25 (2) Net operating loss. For purposes of this paragraph the term
26 "net operating loss" means the excess of the deductions over the
27 gross income used in computing entire net income, without regard
28 to any net operating loss carryover, and for privilege periods ending
29 before July 31, 2023, computed without the exclusions in
30 paragraphs (4) and (5) of subsection (k) of this section, and for
31 privilege periods ending on and after July 31, 2023, computed after
32 the application of paragraphs (4) and (5) of subsection (k) of this
33 section, allocated to this State pursuant to sections 6 through 10 of
34 P.L.1945, c.162 (C.54:10A-6 through C.54:10A-10).

35 (3) Reduction for discharge of indebtedness. A net operating
36 loss for any privilege period ending on or after July 31, 2019, and
37 any net operating loss carryover to such privilege period, shall be
38 reduced by the amount excluded from federal taxable income under
39 subparagraph (A), (B), or (C) of paragraph (1) of subsection (a) of
40 section 108 of the federal Internal Revenue Code, 26 U.S.C. s.108,
41 for the privilege period of the discharge of indebtedness.

42 (4) A net operating loss carryover shall not include any net
43 operating loss incurred during any privilege period ending prior to
44 July 31, 2019.

45 (5) Change in ownership. Where there is a change in 50% or
46 more of the ownership of a corporation because of redemption or
47 sale of stock and the corporation changes the trade or business
48 giving rise to the loss, no net operating loss sustained before the

1 changes may be carried over to be deducted from income earned
2 after such changes. In addition, where the facts support the premise
3 that the corporation was acquired under any circumstances for the
4 primary purpose of the use of its net operating loss carryover, the
5 director may disallow the carryover; provided, however, this
6 paragraph shall not apply between members of a combined group
7 reported on a New Jersey combined return.

8 (w) "Taxable net income" means entire net income allocated to
9 this State as calculated pursuant to sections 6 through 8 of
10 P.L.1945, c.162 (C.54:10A-6 through 54:10A-8) as modified by
11 subtracting any prior net operating loss conversion carryforward
12 calculated pursuant to subsection (u) of this section, and any net
13 operating loss calculated pursuant to subsection (v) of this section;
14 provided, however, for privilege periods ending on and after July
15 31, 2023, when subtracting any net operating losses calculated
16 pursuant to subsection (v) of this section or the combined group net
17 operating losses calculated pursuant to subsection h. of section 18
18 of P.L.2018, c.48 (C.54:10A-4.6), the limitation set forth in
19 paragraph (2) of subsection (a) of Internal Revenue Code Section
20 172 (26 U.S.C. s.172(a)(2)) shall apply, except that August 1, 2023
21 is substituted for the reference to January 1, 2018 in subparagraph
22 (A) of paragraph (2) of subsection a. of Internal Revenue Code
23 Section 172 (26 U.S.C. s.172), and July 31, 2023 is substituted for
24 the reference to December 31, 2017 in subparagraph (B) of
25 paragraph (2) of subsection (a) of Internal Revenue Code Section
26 172 (26 U.S.C. s.172). For privilege periods ending on and after
27 July 31, 2023, for a combined group, before subtracting the prior
28 net operating loss conversion carryforwards and subtracting the net
29 operating losses of the combined group when computing the total
30 taxable net income, the combined group shall first add together the
31 allocated entire net income from the unitary business of the
32 combined group and the portion of allocated entire net income of
33 members with activities independent of the group, and then subtract
34 the prior net operating loss conversion carryforwards and then the
35 net operating losses.

36 (x) "Affiliated group" means, for purposes of section 23 of
37 P.L.2018, c.48 (C.54:10A-4.11), an affiliated group as defined in
38 section 1504 of the federal Internal Revenue Code, 26 U.S.C.
39 s.1504, except such affiliated group shall include all U.S. domestic
40 corporations that are commonly owned, directly or indirectly, by
41 any member of such affiliated group, without regard to whether the
42 affiliated group includes (1) corporations included in more than one
43 federal consolidated return, (2) corporations engaged in one or more
44 unitary businesses, or (3) corporations that are not engaged in a
45 unitary business with any other member of the affiliated group.

46 For purposes of this subsection:

47 "U.S. domestic corporations" means: (1) business entities
48 wherever incorporated or formed that are U.S. domestic

1 corporations, are deemed to be, or are treated as U.S. domestic
2 corporations under the provisions of the federal Internal Revenue
3 Code; or (2) any entities incorporated or formed under the laws of a
4 foreign nation that are required to file federal tax returns if such
5 entities have effectively connected income within the meaning of
6 the federal Internal Revenue Code; and

7 "Commonly owned" means that more than 50 percent of the
8 voting control of each member of an affiliated group is directly or
9 indirectly owned by a common owner or owners, either corporate or
10 non-corporate, whether or not the owner or owners are members of
11 the affiliated group. Whether voting control is indirectly owned
12 shall be determined in accordance with section 318 of the federal
13 Internal Revenue Code (26 U.S.C. s.318).

14 (y) "Combinable captive insurance company" means an entity
15 that is treated as an association taxable as a corporation under the
16 federal Internal Revenue Code:

17 (1) more than 50% of the voting stock of which is owned or
18 controlled, directly or indirectly, by a single entity that is treated as
19 an association taxable as a corporation under the federal Internal
20 Revenue Code, and not exempt from federal income tax;

21 (2) that is licensed as a captive insurance company under the
22 laws of this State or another jurisdiction;

23 (3) whose business includes providing, directly and indirectly,
24 insurance or reinsurance covering the risks of its parent, members
25 of its affiliated group, or both; and

26 (4) 50% or less of whose gross receipts for the privilege period
27 consist of premiums from arrangements that constitute insurance for
28 federal income tax purposes.

29 A combinable captive insurance company shall not be exempt
30 under section 3 of P.L.1945, c.162 (C.54:10A-3). A captive
31 insurance company that does not meet the definition of combinable
32 captive insurance company shall be excluded as provided in
33 subsection k. of section 18 of P.L.2018, c.48 (C.54:10A-4.6) and
34 shall be exempt under section 3 of P.L.1945, c.162 (C.54:10A-3).

35 For purposes of this definition:

36 "Affiliated group" shall have the same meaning as that term is
37 given by section 1504 of the federal Internal Revenue Code, 26
38 U.S.C. s.1504, except that the term "common parent corporation" as
39 used in section 1504 of the federal Internal Revenue Code, 26
40 U.S.C. s.1504, shall mean any person, as defined in section 7701 of
41 the federal Internal Revenue Code, 26 U.S.C. s.7701, and references
42 to "at least 80%" in section 1504 of the federal Internal Revenue
43 Code, 26 U.S.C. s.1504, shall be read as "50% or more." Section
44 1504 of the federal Internal Revenue Code, 26 U.S.C. s.1504, shall
45 be read without regard to the exclusions provided for in subsection
46 (b) of that section.

47 "Gross receipts" includes the amounts included in gross receipts
48 for purposes of paragraph (15) of subsection (c) of section 501 of

1 the federal Internal Revenue Code, 26 U.S.C. s.501, except that
2 those amounts also include all premiums.

3 "Premiums" includes consideration for annuity contracts and
4 excludes any part of the consideration for insurance, reinsurance, or
5 annuity contracts that do not provide bona fide insurance,
6 reinsurance, or annuity benefits.

7 (z) "Combined group" means the group of all companies that
8 have common ownership and are engaged in a unitary business,
9 where at least one company is subject to tax under this chapter, and
10 shall include all business entities, except as provided for under any
11 section of the Corporation Business Tax Act (1945), P.L.1945,
12 c.162 (C.54:10A-1 et seq.).

13 A combined group shall be treated, for privilege periods ending
14 on and after July 31, 2020, as one taxpayer for purposes of
15 paragraph (1) of subsection (c) of section 5 of P.L.1945, c.162
16 (C.54:10A-5) and section 1 of P.L.2018, c.48 (C.54:10A-5.41) for
17 the income derived from the unitary business; provided however,
18 with regard to the surtax imposed pursuant to section 1 of P.L.2018,
19 c.48 (C.54:10A-5.41) and for that purpose only, the portion of
20 income that is attributable to a member which is a public utility
21 exempt from the surtax shall not be included when computing the
22 surtax due.

23 (aa) "Common ownership" means that more than 50% of the
24 voting control of each member of a combined group is directly or
25 indirectly owned by a common owner or owners, either corporate or
26 non-corporate, whether or not the owner or owners are members of
27 the combined group. Whether voting control is indirectly owned
28 shall be determined in accordance with section 318 of the federal
29 Internal Revenue Code, 26 U.S.C. s.318.

30 (bb) "Group privilege period" means, if two or more members in
31 the combined group file in the same federal consolidated tax return,
32 the same income year as that used on the federal consolidated tax
33 return and, in all other cases, the privilege period of the managerial
34 member.

35 (cc) "Managerial member" means if the combined group has a
36 common parent corporation and that common parent corporation is
37 a taxable member, the managerial member shall be the common
38 parent corporation. In other cases, the combined group shall select a
39 taxable member as its managerial member or, in the discretion of
40 the director or upon failure of the combined group to select its
41 managerial member, the director shall designate a taxable member
42 of the combined group as managerial member.

43 (dd) "Member" means a business entity that is a part of a
44 combined group.

45 A corporation exempt pursuant to section 3 of P.L.1945, c.162
46 (C.54:10A-3) from the tax imposed by P.L.1945, c.162 (C.54:10A-1
47 et seq.) shall not be a member of a combined group.

1 (ee) "Nontaxable member" means a member that is: (i) not
2 subject to tax pursuant to the Corporation Business Tax Act (1945),
3 P.L.1945, c.162 (C.54:10A-1 et seq.); or (ii) (deleted by
4 amendment, P.L.2020, c.118 (C.54:10A-5.46 et al.).

5 (ff) "Taxable member" means a member that is subject to tax
6 pursuant to the Corporation Business Tax Act (1945), P.L.1945,
7 c.162 (C.54:10A-1 et seq.).

8 A New Jersey S corporation shall only be included as a taxable
9 member of a combined group filing a New Jersey combined return
10 if the New Jersey S Corporation elects to be included as a member
11 and taxed at the same rate as the other members of the combined
12 group. A New Jersey S corporation that does not elect to be
13 included shall be excluded as a member of the combined return and
14 shall file a separate return.

15 (gg) "Unitary business" means, for privilege periods ending
16 before July 31, 2023, a single economic enterprise that is made up
17 either of separate parts of a single business entity or of a group of
18 business entities under common ownership that are sufficiently
19 interdependent, integrated, and interrelated through their activities
20 so as to provide a synergy and mutual benefit that produces a
21 sharing or exchange of value among them and a significant flow of
22 value among the separate parts. For privilege periods ending on
23 and after July 31, 2023, "unitary business" means a single economic
24 enterprise that is made up either of separate parts of a single
25 business entity or of a group of business entities under common
26 ownership that are sufficiently interdependent, integrated, or
27 interrelated through their activities so as to provide a synergy and
28 mutual benefit that produces a sharing or exchange of value among
29 them and a significant flow of value among the separate parts.
30 "Unitary business" shall be construed to the broadest extent
31 permitted under the Constitution of the United States. A business
32 conducted by a partnership which is in a unitary business with the
33 combined group shall be treated as the business of the partners that
34 are members of the combined group, whether the partnership
35 interest is held directly or indirectly through a series of
36 partnerships, to the extent of a partner's distributive share of
37 partnership income. The amount of partnership income to be
38 included in the partner's entire net income shall be determined in
39 accordance with subsection a. of section 3 of P.L.2001, c.136
40 (C.54:10A-15.6) or subsection a. of section 4 of P.L.2001, c.136
41 (C.54:10A-15.7), as applicable. A business conducted directly or
42 indirectly by one corporation is unitary with that portion of a
43 business conducted by another corporation through its direct or
44 indirect interest in a partnership.

45 (hh) "Captive investment company" shall mean, for privilege
46 periods ending on and after July 31, 2023, an investment company
47 that is not regularly traded on an established securities market and
48 of which more than 50 percent of the voting stock is owned or

1 controlled, directly or indirectly, by a single corporation, other than
2 an investment company, that is not exempt from federal income tax.
3 For purposes of this subsection, a captive investment company shall
4 not include any captive investment company of which at least 50
5 percent of the shares, by vote or value, is owned or controlled,
6 directly or indirectly, by a state or federally chartered bank, savings
7 bank, or savings and loan association with assets that do not exceed
8 \$15 billion.

9 For privilege periods ending on and after July 31, 2023, any
10 voting stock in an investment company that is held in a segregated
11 asset account of a life insurance corporation, as described in section
12 817 of the Internal Revenue Code, shall not be taken into account
13 for purposes of determining whether an investment company is a
14 captive regulated investment company.

15 For privilege periods ending on and after July 31, 2023, a captive
16 investment company shall be taxed in the same manner as a C
17 corporation, and subsection d. of section 5 of P.L. 1945, c. 162 (C.
18 54:10A-5) shall not apply. A captive investment company shall not
19 be permitted to claim any deductions or expenses that were
20 permitted for federal purposes, solely as a result of the entity being
21 an investment company, when computing federal taxable net
22 income. A captive investment company shall be a member of a
23 combined group and shall be included as a member on the
24 combined return.

25 (ii) "Captive real estate investment trust" shall mean, for
26 privilege periods ending on and after July 31, 2023, a real estate
27 investment trust that is not regularly traded on an established
28 securities market and of which more than 50 percent of the voting
29 stock is owned or controlled, directly or indirectly, by a single
30 entity that is treated as an association taxable as a corporation under
31 the Internal Revenue Code, is not exempt from federal income tax,
32 and is not a real estate investment trust. For purposes of this
33 subsection, a captive real estate investment trust shall not include
34 any captive real estate investment trust of which at least 50 percent
35 of the shares, by vote or value, is owned or controlled, directly or
36 indirectly, by a state or federally chartered bank, savings bank, or
37 savings and loan association with assets that do not exceed \$15
38 billion.

39 For privilege periods ending on and after July 23, 2023, any
40 voting stock in a real estate investment trust that is held in a
41 segregated asset account of a life insurance corporation, as
42 described in section 817 of the Internal Revenue Code (26 U.S.C.
43 s.817), shall not be taken into account for purposes of determining
44 whether a real estate investment trust is a captive real estate
45 investment trust. For purposes of this subsection, an association
46 taxable as a corporation shall not include any listed Australian
47 property trust or any qualified foreign entity.

1 For privilege periods ending on and after July 31, 2023, a captive
2 real estate investment trust shall be taxed in the same manner as a C
3 corporation, and subsection d. of section 5 of P.L.1945, c.162
4 (C.54:10A-5) shall not apply. A captive real estate investment trust
5 shall not be permitted to claim any deductions or expenses that were
6 permitted for federal purposes, solely as a result of the entity being
7 a real estate investment trust, when computing federal taxable net
8 income. A captive real estate investment trust shall be a member of
9 a combined group and shall be included as a member on the
10 combined return.

11 As used in this subsection:

12 "Australian property trust" means an Australian unit trust that is
13 registered as a managed investment scheme under the Australian
14 Corporations Act, and in which the principal class of units is listed
15 on a recognized stock exchange in Australia and is regularly traded
16 on an established securities market; or an entity organized as a trust,
17 provided that a listed Australian property trust owns or controls,
18 directly or indirectly, 75 percent or more of the voting power or
19 value of the beneficial interests of shares of the trust.

20 "Qualified foreign entity" means a corporation, trust, association,
21 or partnership that is organized outside the laws of the United States
22 and that satisfies the following criteria:

23 (1) At least 75 percent of the entity's total asset value at the
24 close of its taxable year is represented by real estate assets, as
25 defined at subparagraph (B) of paragraph (5) of subsection (c) of
26 section 856 of the Internal Revenue Code (26 U.S.C. s.856),
27 including shares or certificates of beneficial interest in any real
28 estate investment trust, cash and cash equivalents, and United States
29 Government securities;

30 (2) The entity is not subject to tax on amounts distributed to its
31 beneficial owners, or is exempt from entity-level taxation;

32 (3) The entity distributes, on an annual basis, at least 85 percent
33 of its taxable income, as computed in the jurisdiction in which it is
34 organized, to the holders of its shares or certificates of beneficial
35 interest;

36 (4) No more than 10 percent of the voting power or value in the
37 entity is held directly, indirectly, or constructively by a single entity
38 or individual, or the shares or certificates of beneficial interests of
39 the entity are regularly traded on an established securities market;
40 and

41 (5) The entity is organized in a country that has a tax treaty with
42 the United States.

43 (jj) "Captive regulated investment company" shall mean, for
44 privilege periods ending on and after July 31, 2023, a regulated
45 investment company that is not regularly traded on an established
46 securities market, and of which more than 50 percent of the voting
47 stock is owned or controlled, directly or indirectly, by a single
48 corporation, other than a regulated investment company, that is not

1 exempt from federal income tax. For purposes of this subsection, a
2 captive regulated investment company shall not include any captive
3 regulated investment company of which at least 50 percent of the
4 shares, by vote or value, is owned or controlled, directly or
5 indirectly, by a state or federally chartered bank, savings bank, or
6 savings and loan association with assets that do not exceed \$15
7 billion.

8 For privilege periods ending on and after July 31, 2023, any
9 voting stock in a regulated investment company that is held in a
10 segregated asset account of a life insurance corporation, as
11 described in section 817 of the Internal Revenue Code (26 U.S.C.
12 s.817), shall not be taken into account for purposes of determining
13 whether a regulated investment company is a captive regulated
14 investment company.

15 For privilege periods ending on and after July 31, 2023, a captive
16 regulated investment company shall be taxed in the same manner as
17 a C corporation and subsection d. of section 5 of P.L.1945, c.162
18 (C.54:10A-5) shall not apply. A captive real estate investment
19 company shall not be permitted to claim any deductions or expenses
20 that were permitted for federal purposes, solely as a result of the
21 entity being a regulated investment company, when computing
22 federal taxable net income. A captive regulated investment
23 company shall be a member of a combined group and shall be
24 included as a member on the combined return.

25 (kk) "World-wide basis" and "world-wide group" shall mean, for
26 privilege periods ending on and after July 31, 2022, for the
27 purposes of sections 18 through 23 of P.L.2018, c.48 (C.54:10A-4.6
28 through C.54:10A-4.11) and for the purposes of combined reporting
29 in general under the Corporation Business Tax Act (1945),
30 P.L.1945, c.162 (C.54:10A-1 et seq.), that the combined group shall
31 include all of the members of the combined group, wherever located
32 or formed. For privilege periods ending on and after July 31, 2022,
33 the combined group shall include all of the income and attributes of
34 those members regardless of how or whether those members file
35 federal returns or report or include their income in federal taxable
36 income for federal purposes, and without regard to any exemption
37 or exclusion from federal taxable income under the terms of a tax
38 treaty; provided, however, any deductions that are allowed under
39 the federal Internal Revenue Code that are also allowable under the
40 Corporation Business Tax Act (1945), P.L.1945, c.162 (C.54:10A-1
41 et seq.), that would apply to a U.S. corporation, but that a non-U.S.
42 corporation is prohibited from claiming for federal corporation
43 income tax purposes because the corporation's income was not
44 included in federal taxable income for any reason or because the
45 corporation is a non-U.S. corporation, shall be allowed for the non-
46 U.S. corporation members of the combined group for New Jersey

1 corporation business tax purposes as though those non-U.S.
2 corporation members were U.S. corporations.
3 (cf: P.L.2023, c.96, s.1)
4

5 2. Section 12 of P.L.1993, c.173 (C.54A:5-10) is amended to
6 read as follows:

7 12. For the purposes of the "New Jersey Gross Income Tax Act,"
8 N.J.S.54A:1-1 et seq.:

9 "New Jersey S corporation" means a corporation that has made a
10 valid election to be an S corporation for federal tax purposes for the
11 taxable year, and that has not made a valid election pursuant to
12 subsection d. of section 20 of P.L.2022, c.133 (C.54:10A-5.22).

13 "Pro rata share" means the portion of any items attributable to an
14 S corporation shareholder for a taxable year determined in the
15 manner provided in, and subject to any election made under
16 subsection (a) of section 1377 or subsection (e) of section 1362 of
17 the federal Internal Revenue Code of 1986, 26 U.S.C. s.1377 and
18 s.1362.

19 "Pro rata share of S corporation income" means the sum of the
20 shareholder's proportionate share of:

21 For a New Jersey S corporation, the S corporation income
22 allocated to this State of all New Jersey S corporations; and the S
23 corporation income not allocated to this State.

24 "S corporation" means a corporation that has elected to be an "S
25 corporation" pursuant to section 1361 of the federal Internal
26 Revenue Code, 26 U.S.C. s.1361, for the taxable year.

27 "S corporation income" means the net of an S corporation's items
28 of income, loss or deduction taken into account by the shareholder
29 in the manner provided in section 1366 of the federal Internal
30 Revenue Code of 1986, 26 U.S.C. s.1366; provided however that:

31 a. S corporation income shall be determined without the
32 exclusion, deduction or credit of:

33 (1) any dividend exclusion or deduction otherwise allowed
34 pursuant to paragraph 5 of subsection (k) of section 4 of P.L.1945,
35 c.162 (C.54:10A-4);

36 (2) taxes paid or accrued to the United States, a possession or
37 territory of the United States, a state including this State, a political
38 subdivision thereof, or the District of Columbia on or measured by
39 profits or income, or business presence or business activity, of the
40 corporation;

41 (3) any income taxes paid or accrued to the United States, a
42 possession or territory of the United States, a state including this
43 State, a political subdivision thereof, or the District of Columbia
44 paid or accrued by the S corporation on behalf of, or in satisfaction
45 of the liabilities of, shareholders of the corporation;

46 (4) interest income on obligations of any state other than this
47 State, or of a political subdivision thereof, or of the federal

1 government, except as deducted pursuant to subsection b. of this
2 section; or

3 (5) interest on indebtedness incurred or continued, expenses
4 paid and incurred to purchase, carry, manage or conserve, and
5 expenses of collection of the income or gain from obligations the
6 income or gain from which is deductible pursuant to subsection b.
7 of this definition; and

8 b. S corporation income shall be determined after deduction of:

9 (1) any gains or income derived from obligations which are
10 referred to in N.J.S.54A:6-14 or from securities which evidence
11 ownership in a qualified investment fund as defined in section 2 of
12 P.L.1987, c.310 (C.54A:6-14.1), and any interest excluded from
13 gross income pursuant to N.J.S.54A:6-14, or distributions excluded
14 from income pursuant to section 2 of P.L.1987, c.310 (C.54A:6-
15 14.1); and

16 (2) (a) in the case of a taxpayer that is a cannabis licensee, an
17 amount equal to any expenditure that is eligible to be claimed as a
18 federal income tax deduction but is disallowed because cannabis is
19 a controlled substance under federal law;

20 (b) for purposes of this paragraph, "licensee" means the same as
21 that term is defined in section 3 of P.L.2021, c.16 (C.24:6I-33); and

22 c. The character of any S corporation item taken into account
23 by a shareholder of an S corporation shall be determined as if such
24 items were received or incurred by the S corporation and not its
25 shareholder.

26 d. (1) For taxable years beginning after December 31, 2024,
27 the S corporation income of a qualified small business shall not
28 include up to \$50,000 of the amount otherwise calculated pursuant
29 to this section, prior to any other permitted exclusions, deductions,
30 or credits.

31 (2) For purposes of this subsection, "qualified small business"
32 means an S corporation that:

33 (i) is independently owned and operated, with management
34 owning at least a 51 percent ownership interest in the corporation
35 and being responsible for both its daily and long-term operations;

36 (ii) has its principal business operations located in the State;

37 (iii) is registered to do business in this State with the Director of
38 the Division of Revenue and Enterprise Services in the Department
39 of the Treasury;

40 (iv) earned gross revenues not more than \$2,000,000 during the
41 taxable year; and

42 (v) employed not more than 20 full-time or part-time employees
43 during the taxable year, not including seasonal employees or part-
44 time employees employed for less than 90 days in the taxable year,
45 except that a majority of the full-time and part-time employees of
46 the S corporation shall be residents of this State.

47 "S corporation income allocated to this State" means that portion
48 of the S corporation income that is allocated to this State by the

1 allocation factor of the corporation for the fiscal or calendar
2 accounting period pursuant to sections 6 through 10 of P.L.1945,
3 c.162 (C.54:10A-6 through 54:10A-10), reduced by any tax
4 imposed pursuant to paragraph (3) of subsection (c) of section 5 of
5 P.L.1945, c.162 (C. 54:10A-5).

6 "S corporation income not allocated to this State" means S
7 corporation income less S corporation income allocated to this
8 State.

9 (cf: P.L.2023, c.50, s.2)

10
11 3. (New section) a. For taxable years beginning after
12 December 31, 2024, the gross income of a qualified small business
13 shall not include up to \$50,000 of the amount otherwise calculated
14 pursuant to the provisions of N.J.S.54A:1-1 et seq., prior to any
15 other permitted exclusions, deductions, or credits.

16 b. For purposes of this section, "qualified small business"
17 means a business entity that:

18 (1) is independently owned and operated, with management
19 owning at least a 51 percent ownership interest in the entity and
20 being responsible for both its daily and long-term operations;

21 (2) has its principal business operations located in the State;

22 (3) is registered to do business in this State with the Director of
23 the Division of Revenue and Enterprise Services in the Department
24 of the Treasury;

25 (4) earned gross revenues not more than \$2,000,000 during the
26 taxable year;

27 (5) employed not more than 20 full-time or part-time employees
28 during the taxable year, not including seasonal employees or part-
29 time employees employed for less than 90 days in the taxable year.
30 except that a majority of the full-time and part-time employees of
31 the entity shall be residents of this State.

32
33 4. This act shall take effect immediately and shall apply to
34 privilege periods and taxable years beginning after December 31,
35 2024.

36 37 38 STATEMENT

39
40 This bill excludes up to \$50,000 of the income earned by
41 qualified small businesses from taxation under the corporation
42 business tax and the gross income tax. The provisions of this bill
43 would apply to tax periods beginning after December 31, 2024.

44 Under the bill, a "qualified small business" is defined to include
45 a business entity that: (1) is independently owned and operated,
46 with management owning at least a 51 percent ownership interest in
47 the corporation and being responsible for both its daily and long-
48 term operations; (2) has its principal business operations located in

1 the State; (3) is registered to do business in this State with the
2 Director of the Division of Revenue and Enterprise Services; (4)
3 earned gross revenues not more than \$2 million during the
4 applicable tax period; and (5) employed not more than 20 full-time
5 or part-time employees during the taxable year, not including
6 certain seasonal employees, except that a majority of the employees
7 are required to be residents of this State.