

AN ALERT FROM THE BDO STATE AND LOCAL TAX PRACTICE

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SALT



SUBJECT

NEW JERSEY SALES AND USE TAX RATE CHANGE EFFECTIVE JANUARY 1, 2017

SUMMARY

On October 14, 2016, legislation was enacted that will reduce the New Jersey sales and use tax rate from 7 percent to 6.875 percent for the period January 1, 2017, through December 31, 2017. The rate will be further reduced to 6.625 percent for all periods beginning on January 1, 2018. In addition, the legislation includes special transitional provisions for taxing sales transactions that stretch across the tax rate change dates.

DETAILS

Transitional Provisions

Below are some examples explaining how the transitional provisions will be applied:

Example 1: Tangible personal property is sold on or after July 15, 2016, but prior to January 1, 2017. This property is not delivered until on or after January 1, 2017, but prior to January 1, 2018. In this case, the tax rate will be computed at 6.875 percent.

Example 2: Services are sold on or after July 15, 2016, but prior to January 1, 2017. The services are not delivered until on or after January 1, 2017, but prior to January 1, 2018. In this case, the taxpayer would first need to calculate the ratio of the number of days falling within each of the said periods (July 15, 2016–December 31, 2016, and January 1, 2017–December 31, 2017) to the total number of days covered. Next, the taxpayer would apply the tax applicable to each period, apportioned based on the ratio calculated above.

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Example 3: If a service or maintenance agreement is put into effect on or before December 31, 2016, and covers billing periods ending in the period January 1, 2017–December 31, 2017, the seller should use the tax rate at 7 percent if the bill is provided before January 1, 2017. If the bill is provided on or after January 1, 2017, but prior to January 1, 2018, the seller would need to use the tax rate of 6.875 percent.

Note: Computing the tax for transactions occurring over the tax years 2017 and 2018 would be calculated in the same way as in the examples described above.

BDO INSIGHTS

- ▶ For companies planning a significant large purchase transaction or making capital expenditures in New Jersey, the timing of the rate change may provide a sales tax savings.
- ▶ Companies responsible for collecting and remitting New Jersey sales tax should ensure that their sales orders and POS systems are reflecting the correct tax rates.
- ▶ Companies paying New Jersey sales tax at the point of sale are urged to review all invoices from their vendors to verify the application of the new reduced sales tax rates beginning January 1, 2017.
- ▶ Companies that are self-assessing New Jersey use tax should ensure that their calculations reflect the application of the new reduced use tax rates beginning January 1, 2017.
- ▶ Companies with sales that straddle the transitional periods should verify the application of sales or use tax in accordance with the rules.

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