Roth IRAs

TB-44(R) – February 9, 2010
Tax: Gross Income Tax

P.L. 1998, c. 57, which was signed into law on July 24, 1998, conformed the New Jersey Gross Income Tax treatment of Roth IRAs with Federal Income Tax treatment. Since 1998, contributions to Roth IRAs are not deductible, but qualified distributions can be excluded from New Jersey gross income. Not all taxpayers are qualified to establish a Roth IRA. Contact the Internal Revenue Service to see if you qualify.

ESTABLISHING YOUR ROTH IRA

DIRECT CONTRIBUTIONS
Contributions to Roth IRAs cannot be deducted on New Jersey Gross Income Tax returns.

ROLLOVERS
Taxpayers can withdraw all or part of the assets from an existing traditional IRA and reinvest them (generally within 60 days) in a Roth IRA if they satisfy the Federal requirements.

In most cases, the contributions to a traditional IRA were previously taxed in New Jersey. However, accumulated earnings in a traditional IRA have not been previously taxed and must be included in New Jersey gross income. Also, any amounts rolled over from a traditional IRA to a Roth IRA that were not previously taxed by New Jersey, such as a rollover distribution from an employer's 401(k) plan, are included in New Jersey income (both principal and earnings).

Taxable amounts should be reported for New Jersey Gross Income Tax purposes in the same year as reported for Federal Income Tax purposes.

REPORTING DISTRIBUTIONS MADE BEFORE JANUARY 1, 1999
New Jersey has adopted the same four-year rule as Federal for reporting taxable income on amounts withdrawn from a traditional IRA and converted to a Roth IRA. If you rolled over an existing IRA to a Roth IRA prior to January 1, 1999, and made a Federal election to spread the income over a four-year period, you must also spread the amount that is taxable for New Jersey purposes over a four-year period. Report this income each year on the New Jersey return as taxable pensions and annuities.

REPORTING DISTRIBUTIONS MADE AFTER DECEMBER 31, 1998
If you rolled over a traditional IRA into a Roth IRA after December 31, 1998, the taxable portion for New Jersey income tax purposes must be reported as income on your New Jersey Income Tax return in the same year as for Federal Income Tax.

QUALIFIED DISTRIBUTIONS
A qualified distribution from a Roth IRA is excludable and should not appear anywhere on the New Jersey return.

A "qualified distribution" means any payment or distribution that is made after the five-year period beginning with the first tax year in which a contribution was made to an individual's Roth IRA, **and** is made:

1. On or after the date on which the individual reaches age 59½; or
2. To a beneficiary (or the individual's estate) after the individual's death; or
3. Because the individual becomes disabled; or
4. As a qualified first-time home buyer distribution as defined by the Internal Revenue Code.

Contact the Internal Revenue Service for more information on the five-year-rule.

NONQUALIFIED DISTRIBUTIONS

A nonqualified distribution is one that is not made under one of the four circumstances above or one that does not meet the five-year-rule. A distribution that is considered nonqualified for Federal income tax purposes is also considered nonqualified for New Jersey income tax purposes.

TAXABLE PORTION

In the case of a nonqualified distribution from a Roth IRA, taxable amounts withdrawn are reported on the New Jersey tax return as taxable pensions and annuities. The New Jersey taxable portion of a nonqualified distribution from a Roth IRA is calculated in the same manner as a distribution from a traditional IRA, using the IRA Worksheet. For information on calculating the taxable portion, see the income tax return instruction booklets, or request Tax Topic Bulletin GIT-2, IRA Withdrawals.

EXCLUSIONS

Because nonqualified distributions are reported as pension and annuity income, the same income exclusions may apply.

For more information on reporting pension and annuity income, including income exclusions, on your New Jersey income tax return, consult Tax Topic Bulletin GIT-1, Pensions and Annuities.

Note: A Technical Bulletin is an informational document designed to provide guidance on a topic of interest to taxpayers and describe changes to the law, regulations, or Division policies. It is accurate as of the date issued. However, taxpayers should be aware that subsequent changes in the tax law or its interpretation may affect the accuracy of a Technical Bulletin. The information provided in this document does not cover every situation and is not intended to replace the law or change its meaning.