

## Gross Income Tax Depreciation Adjustment Worksheet GIT-DEP General Instructions

Worksheet GIT-DEP

The Gross Income Tax Act was amended by P.L.2004, c.65 to include Section 5-1.2. This section applies to tax years beginning on or after January 1, 2004 and decouples the Gross Income Tax Act from some federal changes to depreciation and to IRC section 179 for assets placed in service on or after January 1, 2004.

For gross income tax purposes,

- The federal 30% Special Depreciation Allowance is allowed if the asset meets Internal Revenue Code requirements. For example, if a federal 30% deduction is permissible but is precluded by the federal 179 deduction, the 30% deduction is allowed.
- The federal 50% Special Depreciation Allowance is **not** allowed. If in lieu of the 50% deduction, the 30% deduction is taken federally, the 30% deduction is allowed.
- The maximum Section 179 deduction is \$25,000. The federal reduced dollar limitation for asset cost applies and is calculated using the New Jersey maximum deduction of \$25,000. There are no business income limitations. Unused deductions can not be carried forward. Instructions for each category of income are listed below.
- For Liberty Zone property, the maximum Section 179 deduction is \$60,000 (the New Jersey maximum of \$25,000 plus the federally allowed increased amount up to a maximum of \$35,000). The Liberty Zone Depreciation Allowance is allowed if the asset meets Internal Revenue Code requirements. Calculation is based on the total New Jersey Section 179 deduction.
- Unused depreciation adjustment can not be carried forward, carried back or applied against another category of income.

For tax years beginning on or after January 1, 2004, if assets were placed in service on or after January 1, 2004 and the federal 50% Special Depreciation Allowance or Section 179 expense were deducted, then a New Jersey depreciation adjustment is required. A New Jersey adjustment is not required for assets placed in service within a tax year beginning prior to January 1, 2004.

The Gross Income Tax Depreciation Adjustment Worksheet GIT-DEP must be used to calculate the New Jersey Section 179 expense allowable, New Jersey Special Depreciation Allowance, New Jersey depreciable basis, New Jersey depreciation allowable and New Jersey depreciation adjustment required. For subsequent years, Worksheet GIT-DEP must be used to calculate New Jersey depreciation adjustments until the asset is fully depreciated or disposed of; adjustments to federal Section 179 recapture income; and adjustments to the gain or loss from disposition of the assets.

**Note:** If the initially required New Jersey depreciation adjustment for an asset was not reported, whether due to a reporting error which was not corrected by the Division of Taxation or because the partnership, S corporation, sole proprietor or the owner of rental property or other income producing depreciable asset did not have a New Jersey filing requirement, then the asset's New Jersey basis and allowable depreciation will be the same as for federal tax purposes and a New Jersey depreciation adjustment is neither required nor allowable in subsequent years.

New Jersey depreciation adjustments will affect an individual's, estate's or trust's determination of income reportable in the categories of net profits from business, net gains or income from disposition of property, net gains or net income from rents, royalties, patents and copyrights, net gains or income derived from estates or trusts, distributive share of partnership income and net pro rata share of S corporation income. Partnerships and S corporations with a New Jersey filing requirement will calculate the entity's adjustments to New Jersey depreciation; federal Section 179 recapture income; and gain or loss from disposition of the assets. Each partnership and S corporation is limited to a maximum Section 179 deduction of \$25,000 (see instructions for Liberty Zone Property). The entity will take the New Jersey adjustment into consideration in calculating the partner's distributive share and the shareholder's net pro rata share of income reported on their NJ K-1.

If the partnership or S corporation does not file a New Jersey return, the partner or shareholder will enter their New Jersey depreciation adjustment on Worksheet A, Bulletin GIT-9P, or Worksheet B or Worksheet B Liquidated, Bulletin GIT-9S following the instructions provided in those publications and using information which must be provided by the entity.

Partners will report the total distributive share of income from all partnerships, as calculated by the entities and reported on their NJ K-1s or as calculated on Worksheets A, as distributive share of partnership income on their form 1040, 1040NR, or 1041. Shareholders will report the total net pro rata share of income from all S corporations, as calculated by the entities and reported on their NJ K-1s or as calculated on Worksheet B or Worksheet B Liquidated, as net pro rata share of S corporation income on their form 1040, 1040NR or 1041.

For determining the New Jersey income reportable in each of the income categories of net profits from business and net gains or net income from rents, royalties, patents and copyrights, an individual, estate or trust's total Section 179 deduction is limited to a maximum of \$25,000 (or New York Liberty Zone amount federally deducted). One Worksheet GIT-DEP is to be prepared for each of the categories and the worksheet must include all reportable activity. For example, an individual with three rental properties, one of which was disposed of, will calculate the New Jersey 179 deduction, New Jersey Special Depreciation Allowance, New Jersey basis, New Jersey depreciation allowable, adjustment to federal Section 179 recapture income and adjustment to gain or loss on disposition applicable to assets within all three properties on one Worksheet GIT-DEP. The resulting adjustments will be applied according to the instructions on Worksheet GIT-DEP.

An individual, estate or trust should report its income from estates and trusts as reported on its New Jersey K-1, provided by the estate or trust, or based on its federal K-1 after taking into account all New Jersey adjustments.

All Worksheets GIT-DEP should be retained for future reference.