



# Q4 NEWSLETTER

Dear Clients and Colleagues:

Despite a weak September for the stock market, at the end of the third quarter the S&P500 is positive for the year with a year-to-date total return of 5.57%. In this Newsletter, we review market returns and discuss recent changes to the New Jersey income tax, including special rules applicable to owners of pass-through entities, the Millionaire’s Tax, and the income tax exclusion for certain retirement income.

## 3Q2020 Market Performance<sup>1</sup>

	<u>3Q2020</u>	<u>YTD</u>
S&P 500	8.93%	5.57%
MSCI EAFE (Dev.Int’l)	4.8%	-7.09%
MSCI EM (EmergingMrkt)	9.56%	-1.16%
BBgBarc US Agg Bnd	.62%	6.79%

### Trivia

The last Major League Baseball team to win the World Series in a shortened season was the Atlanta Braves in 1995. The 1994 strike ended on April 2, 1995 and the MLB played a shortened 144-game schedule with the Braves winning the World Series over the Cleveland Indians.

## New Jersey Income Tax

The recent changes to Federal income taxes have received a lot of attention. For instance, the 2017 **Tax Cuts and Jobs Act** lowered income tax rates and imposed a \$10,000 cap on local and state tax deductions; the **Secure Act** established a new ten-year distribution rule for many inherited retirement accounts and changed the required beginning date for mandatory distributions from retirement accounts from age 70.5 to age 72; and the **CARES Act** permitted in 2020 “coronavirus-

<sup>1</sup>Indices are unmanaged, and one cannot invest directly in an index. Past performance is not a guarantee of future results. MSCI EAFE Index serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia. MSCI EAFE Emerging Markets Index is a free float-adjusted market capitalization index designed to measure equity market performance in the global emerging markets. Bloomberg Barclays U.S. Aggregate Bond Index represents the US investment-grade fixed-rate bond market. S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market. References to specific securities, asset classes and financial markets are for illustrative purposes only and do not constitute a solicitation, offer, or recommendation to purchase or sell a security.

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related distributions” from retirement accounts up to \$100,000 and suspended any 2020 RMD requirement.

## New Jersey Pass-Through Business Alternative Income Tax

Less attention has been given to recent changes and other unique features of the New Jersey State income tax. In January 2020, New Jersey enacted the **Pass-Through Business Alternative Income Tax Act**, which enables LLC members, partners, and S-corp. owners to elect to be taxed in New Jersey at the business entity level, creating a full credit (not limited by the \$10,000 SALT cap) when computing Federal taxable income.

## New Jersey Millionaire’s Tax

New Jersey is also set to impose the so-called **Millionaire’s Tax**, which raises the top marginal income tax rate from 8.97% to 10.75% on taxable income above \$1 million. Previously, the higher 10.75% rate applied to taxable income over \$5 million.

## New Jersey Pension Exclusion

Retirement plan contributions and distributions are often treated differently under Federal and New Jersey income tax rules. For example, New Jersey does not tax up to \$100,000 of retirement account distributions by married couples as long as the couple’s total income does not exceed \$100,000. This New Jersey income tax exclusion applies to distributions from IRA’s, 401(k)’s and pensions. Additionally, any unclaimed part of the exclusion may be used to offset other income if certain requirements are met. Social security benefits also are not subject to New Jersey income tax whereas up to 85% of benefits are subject to Federal income tax at high income levels.

Unlike the Federal rules, in New Jersey, IRA and other retirement plan contributions (with the exception of 401(k) contributions) are subject to New Jersey income tax when made but distributions of contributions are not taxed when withdrawn. Interest, dividends and other earnings credited to an IRA are taxable when withdrawn.