

SUBCHAPTER 2. PENALTIES AND INTEREST

18:2-2.1 Application

The provisions on penalty and interest in this subchapter are applicable to penalty and interest impositions made on and after October 1, 1975, pursuant to P.L. 1975, c.177, approved August 4, 1975, and on all taxes subject to the State Tax Uniform Procedure Law, as amended by P.L. 1987, c.76 and P.L. 1992, c.175, approved December 10, 1992.

Amended by R.1997 d.98, effective March 17, 1997.
 See: 28 N.J.R. 3716(a), 29 N.J.R. 913(b).
 Inserted reference to P.L. 1992, c.175.

18:2-2.2 Tax laws affected

The provisions of the State Tax Uniform Procedure Law and this subchapter shall apply to any tax which is payable to or collectible by the Director of the Division of Taxation, unless the law imposing such tax specifically provides that the State Tax Uniform Procedure Law and this subchapter shall not apply, or unless the specific provisions of the law imposing such tax provide for penalty and interest which is different from the provisions of the State Tax Uniform Procedure Law and this subchapter.

18:2-2.3 Failure to file return on time

(a) On or before December 8, 1987, any taxpayer failing to file a return within the time prescribed by the act imposing a particular tax shall be liable for the following:

1. A late filing penalty of \$2.00 for each day that the return is delinquent; plus
2. A penalty of five percent per month or fraction thereof of the total tax liability not to exceed 25 percent of such tax liability.

(b) On and after December 9, 1987, any taxpayer failing to file a return within the time prescribed by the act imposing a particular tax shall be liable for the following:

1. A late filing penalty of \$100.00 per month or any part of a month that the return is delinquent; plus
2. A penalty of five percent per month or any part of a month of the total tax liability not to exceed 25 percent of such tax liability.

(c) On and after September 14, 1998, any taxpayer failing to file a return within the time prescribed by the act imposing a particular tax shall be liable for the following:

1. A late filing penalty of \$100.00 per month or any part of a month that the return is delinquent; plus
2. A penalty of five percent per month or any part of a month of the underpayment not to exceed 25 percent of such underpayment; except that

3. If a return has not been filed within 30 days of the date on which the first notice of delinquency in filing the return was sent to the taxpayer, the penalty shall accrue at five percent per month or any part of a month of the total tax liability not to exceed 25 percent of such tax liability.

(d) The penalties set forth in (a), (b), and (c) above shall be imposed on the first day following the original due date of the return and the same calendar day of each succeeding month thereafter. The following are examples of penalty computations.

1. A corporate taxpayer filed its 1987 corporation business tax return with a due date of April 15, 1988 on June 1, 1988. The return is 47 days late. The taxpayer had a total tax liability for 1987 of \$10,000. In addition to the unpaid tax the taxpayer owes the following amounts.

Delinquency penalty: \$100.00 per month for two months	\$ 200.00
Late filing penalty: five percent per month of the tax liability	
Five percent x two months = 10 percent of \$10,000	\$1,000.00
Tax liability	<u>\$10,000.00</u>
Total	<u>\$11,200.00*</u>

2. A corporate taxpayer filed its 1999 corporate business tax return with a return due date of April 15, 2000, on May 1, 2000. The taxpayer had a total tax liability of \$100,000. The taxpayer sent a payment of \$80,000 with its payment. The taxpayer owes the following amounts:

Delinquency penalty: \$100.00 per month for one month	\$ 100.00
Late filing penalty: five percent per month of the underpayment not to exceed 25 percent	
Five percent x \$20,000 x one month	\$ 1,000.00
Tax Liability	<u>\$20,000.00</u>
Total	<u>\$21,100.00*</u>

3. A corporate taxpayer filed its 1999 corporate business tax return with a return due date of April 15, 2000, on September 16, 2000. The taxpayer had a total tax liability of \$100,000. The taxpayer made a payment of \$80,000 on April 15, 2000. A Notice of Delinquency was sent to the taxpayer on May 16, 2000.

In addition to the unpaid tax, the taxpayer owes the following amounts:

Delinquency penalty: \$100.00 per month for five months	\$ 500.00
Late filing penalty: five percent per month of the total tax liability not to exceed 25 percent	
Five percent x \$100,000.00 x five months	\$25,000.00
Tax Liability	<u>\$20,000.00</u>
Total	<u>\$45,500.00*</u>

In addition, the taxpayer will be liable for interest (see N.J.A.C. 18:2-2.4) and may be liable for other penalties (see, for example, N.J.A.C. 18:2-2.4 and N.J.S.A. 54:49-9 and 9.1).

(e) A taxpayer that fails to provide or complete all of the reports, schedules or other documentation required to be submitted in a return or report, or omits information from a return or accompanying report, shall be subject to late filing penalties. Such omissions will be treated as a failure to file a return and/or a failure to file a return on time, and the taxpayer shall be liable for penalties and interest as set forth in (a), (b), (c) and (d) above. The only exception to this rule will be if authority to omit or to substitute information is expressly stated on the return form, in a statute or enabling regulation. The imposition of late filing penalties as provided under this subsection shall be governed by the State Uniform Tax Procedure Law, except as otherwise provided in pertinent State tax statutes or other chapters of this Code.

Example: CBT-100-R-P, Schedule A-4, lines 13 and 14 require historical information to be supplied. Failure to provide such information and related information on Schedule AM will be deemed a failure to file a return and/or failure to file a timely return, and applicable penalties will be imposed.

Amended by R.2004 d.247, effective July 6, 2004.
See: 35 N.J.R. 5526(a), 36 N.J.R. 3300(a).
Rewrote the section.

18:2-2.4 Failure to pay on time; extensions of time to pay

(a) Any taxpayer failing to pay a tax within the time prescribed by the act imposing a particular tax shall pay, in addition to the unpaid tax, the following:

1. Interest on said tax at the rate of one percent for each month or fraction thereof that the same remains unpaid, to be calculated from the date the tax was originally due until October 1, 1975, and at the rate of one and one-half percent per month or fraction thereof from October 1, 1975 to the date of actual payment or until December 8, 1987, whichever is earlier. On and after December 9, 1987, interest on the unpaid tax shall be charged at an annual rate of five percentage points above the prime rate, compounded daily upon the amount that remains unpaid, calculated from the date the tax was originally due until the date of payment. Interest on penalties which are assessed on and after December 9, 1987 shall be charged at the same rate from the date the penalty is assessed until the date of payment. On and after July 1, 1993, interest on the unpaid tax shall be charged at the rate of three percentage points above the prime rate assessed for each month or fraction thereof. On and after July 1, 1993, interest will be compounded annually at the end of each calendar year.

2. Unless any part of any underpayment of tax required to be shown on a return or report is shown to be unpaid due to reasonable cause, a sum equivalent to five percent of the tax shall be added to the amount of the tax as a penalty. The taxpayer has the affirmative obligation to show reasonable cause for the underpayment in order to avoid imposition of the penalty. See N.J.A.C. 18:2-2.7 for basis for a finding of reasonable cause.

(b) The following examples apply only to tax liabilities paid prior to December 9, 1987:

1. Taxpayer failed to pay a tax that was due on April 15, 1975. On January 15, 1976, the Division of Taxation imposed interest and penalty charges for such failure. Interest will be calculated from April 15, 1975, to October 1, 1975, at the rates in effect immediately prior to October 1, 1975, and at the rate of 1½ percent for each month or fraction thereof that the tax remained unpaid from October 1, 1975, to the date of payment, plus a penalty of five percent of the balance of tax due.

2. In example 1, if taxpayer also failed to file his return (due April 15, 1975) until January 15, 1976, he would be subject to additional penalties set forth in Section 3 of this Subchapter.

3. On May 1, 1975, the division assessed the taxpayer for additional taxes due and at the same time imposed additional interest charges at the rate of one percent per month. On February 15, 1976, taxpayer offers to pay his unpaid taxes. Additional interest shall be calculated from April 15, 1975, to October 1, 1975, at the rate of one percent per month or fraction thereof, and from October 1, 1975, to February 15, 1976, (the date of payment) at the rate of 1½ percent per month or fraction thereof. In addition, a five percent penalty may be imposed on the balance of tax due.

(c) The following example applies only to tax liabilities paid on or after December 9, 1987:

1. Corporation X's Corporation Business Tax return was due and filed on April 15, 1988. A deficiency of \$50,000.00 is assessed by the Division. Payment is due on July 31, 1988.

The taxpayer must submit the following amounts on or before July 31, 1988.

Late payment penalty: five percent of the balance of tax due	\$ 2,500.00
Deficiency assessed:	<u>\$50,000.00</u>
	<u>\$52,500.00</u>

Interest on tax, calculated at an annual rate of the prime rate plus five percentage points compounded daily from the original due date (April 15, 1988) until the date of payment (assume July 31, 1988), plus interest on penalty, calculated at the same rate from the date the penalty is assessed until the date of payment. The applicable prime rate shall be the rates effective on January 1, 1988 and April 1, 1988, which are assumed to be nine percent and nine and one-half percent, respectively, for the purposes of this example.

	<u>\$ 2,222.30</u>
Total	<u>\$54,722.30</u>

(d) Where the Director is authorized by law and grants an extension of time in which a tax shall be paid, the taxpayer shall be liable for the payment of interest on the unpaid tax at the rate of three percentage points above the prime rate, to be compounded daily from the date such tax was originally due to the date of actual payment. If any or all of such tax is not paid within the time fixed under the extension, the interest on the amount of such unpaid tax shall be computed at the annual rate of five percentage points above the prime rate, to be compounded daily from the date the tax was originally due to the date of actual payment. On and after July 1, 1993, where the Director grants an extension, interest on the unpaid tax shall be paid at the rate of three percentage points above the prime rate assessed for each month or fraction thereof, compounded annually at the end of each calendar year. If any tax is not paid within the time fixed under the extension, the interest on the amount of such unpaid tax shall be computed at the rate of three percentage points above the prime rate assessed for each month or fraction thereof, compounded annually at the end of each calendar year.

(e) On and after December 9, 1987, which is the first day immediately following the 90 day tax amnesty period authorized by P.L. 1987, c.76, for purposes of calculating interest unpaid tax shall mean the total of the following:

1. The actual unpaid tax liability;
2. All penalties accrued to that date; and
3. Interest accrued to that date.

(f) The following example applies only to tax liabilities paid on or after July 1, 1993:

1. Taxpayer failed to pay tax that was due April 15, 1994. On January 15, 1995, the Division issues a Notice

and Demand which imposes interest and penalty. Interest will be calculated at the rate of three percent above the prime rate for each month or fraction thereof, commencing on the date that the tax was originally due, and shall continue to accrue until the date upon which payment is received. In addition, late payment penalty may be imposed. Beginning January 1, 1995, tax, penalty and interest are added together at the beginning of each calendar year to become the basis for further calculations of interest.

Amended by R.1997 d.98, effective March 17, 1997.
See: 28 N.J.R. 3716(a), 29 N.J.R. 913(b).

In (a)1, added last two sentences; in (a)2, inserted text "Unless any part ... due to reasonable cause," and added second and third sentences; in (d), added last two sentences; and added (f).

18:2-2.5 Cost of collection defined

(a) Cost of collection means the amount of expense incurred by the State with respect to the issuance of a certificate of debt for, and the collection of, any State tax not paid within the time prescribed by law. These expenses include, but are not limited to, the following:

1. Cost of postage;
2. Cost of telephone;
3. Cost of photocopying;
4. State payroll hours used, including all associated overhead;
5. Cost of filing and prosecuting suit;
6. The cost of agents, contractors, subcontractors or others employed or otherwise engaged by the State of New Jersey subsequent to the entry of a certificate of debt for the efficient and expeditious collection of unpaid tax; and
7. Any other expense deemed by the Director to be reasonably related and necessary for the collection of any unpaid tax.

(b) The Director may, in his discretion, impose the actual cost of collection, or, in lieu of ascertaining and imposing the actual cost of collection, may impose a fee as follows:

1. In the event that any State tax is not paid within the time prescribed by law and the Director issues a certificate of debt pursuant to N.J.S.A. 54:49-12, the greater of five percent of the tax or \$100.00;