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July 12, 2006

Re: Important sales tax changes effective July 15, 2006

Dear client:

Recently passed legislation increases the New Jersey sales and use tax rate from 6% to 7%. The rate change affects all retail sales of taxable merchandise or services that take place on and after July 15, 2006.

SALES AND USE TAX RATE CHANGE

You must remit 7% sales and use tax on all taxable sales of property and services that occur on and after July 15, 2006.

TRANSITION FROM 6% TO 7%

If you have any taxable sale transactions that began before July 15, 2006, and are completed on or after July 15, 2006, the following rules apply:

Sales Made Before July 15, 2006; Delivery On And After July 15, 2006 - If the property was sold and delivered or services were rendered before July 15, 2006, the tax rate is 6%. If the property or services were sold but the property was not delivered or the services were not rendered until on or after July 15, 2006, or after, you must charge tax at the rate of 7%. This rule applies whether or not payment has been made in whole or in part prior to delivery.

Contracts Entered Into Before July 15, 2006 - If you have entered into a written agreement with your customer for a product or service and have accepted a partial payment or deposit, you must still charge 7% sales and use tax. Your customer may apply to the Division of Taxation for a refund of the 1% under certain circumstances.

Sales of Services - Unless the services were entirely rendered before July 15, 2006, you must charge 7% tax on the sale of the services. Receipts applicable to services prior to July 15, 2006, are taxable at 6%. However, if a service agreement is in effect prior to July 15, 2006 and covers **billing periods** ending after July 15, 2006, the seller shall collect 6% tax unless the billing period starts on or after July 15, 2006, in which case the seller must collect 7% tax.

Room Occupancy - Periods of taxable occupancy on or after July 15, 2006, are subject to tax at 7%, regardless of any prior lease or other rental agreement. Periods of taxable occupancy prior to July 15, 2006, are taxable at 6%.

Admission Charges - The tax on taxable admission charges on or after July 15, 2006, is 7%, even if the charges for the tickets were paid prior to July 15, 2006. Redfield, Blonsky & Co., LLC

However, if the tickets were actually delivered prior to July 15, 2006, and the tax of 6% was paid, there is no additional tax due.

Building Materials - If taxable building materials are delivered on or after July 15, 2006, the sale of the materials is subject to tax at 7%. In certain circumstances (i.e. where the materials are for use in unalterable building contracts entered into before July 15, 2006), the contractor who has paid the tax may seek a refund of 1% from the Division of Taxation. A Claim for Refund (A-3730) is available under **Sales Tax Forms**.

Leases and Rentals of tangible personal property - If an agreement for a period of more than six months is entered into prior to July 15, 2006, the tax is imposed at the rate of 6%. If an agreement for a period of more than six months is entered into on or after July 15, 2006, the tax is imposed at the rate of 7%. For agreements which are less than six months, the tax is imposed at the rate of 7% for all rental periods that begin on or after July 15, 2006.

USE TAX

A 7% use tax is imposed on the use in this State of any taxable property or service on which New Jersey sales tax has not been paid. Credit may be allowed for taxes paid to other states.

If you purchase taxable property or services on or after July 15, 2006, from a vendor who has not collected New Jersey sales tax, you are required to include the 7% use tax on your sales and use tax return (Form ST-50).

ATLANTIC CITY BUSINESSES

This legislation also changed the combined rate for sales subject to both the New Jersey Sales and Use Tax and the Atlantic City Luxury Tax from 12% to 13%. The following rules apply to all sales made in Atlantic City on and after July 15, 2006.

Sales that are subject to both taxes continue to be subject to the Atlantic City Luxury Tax at 9%. However, these sales are now subject to New Jersey Sales and Use Tax at the new rate of 4%.

Sales subject only to New Jersey Sales and Use Tax are taxable at the new rate of 7%.

Sales of alcoholic beverages by the drink in Atlantic City are taxable at the combined rate of 10% (3% Atlantic City Luxury Tax and 7% Sales and Use Tax). Sales of package goods are subject to Sales and Use Tax at the rate of 7%.

The transition provisions outlined in the above also apply to sales made by Atlantic City vendors. However, for sales subject to both New Jersey Sales and Use Tax and Atlantic City Luxury Tax, the Sales and Use Tax rate increases from 3% to 4%.

URBAN ENTERPRISE ZONE /SALEM COUNTY BUSINESSES

On and after July 15, 2006, sellers authorized to charge the 50% reduced rate are required to charge and collect sales tax at the rate of 3.5% on all qualified taxable sales.

CAPE MAY COUNTY TOURISM BUSINESSES

On and after July 15, 2006, businesses in Wildwood, North Wildwood and Wildwood Crest which are subject to the Tourism Sales Tax will collect the 2% Tourism Tax and 7% Sales Tax, for a combined rate of tax of 9% on tourism-related sales (this is in addition to the 1.85% Tourism Assessment and the 3.15% State Occupancy Fee on hotel occupancies)

NEW URBAN ENTERPRISE ZONE (UEZ) PROCEDURES

The UEZ law provides an exemption for certain sales made to a qualified business. The purchase exemption remains effective; however, procedural amendments to the law now require the sales tax to be collected on sales made to qualified businesses on and after July 15, 2006, unless the business is a "small qualified business"(annual gross receipts less than \$1 million in the prior annual tax period.)

In order to administer this procedure immediately, the Division has created a new temporary exemption certificate (Form UZ-5-SB). **Sellers must obtain the temporary certificate from any business claiming the tax exemption at the point of sale.** Sellers have 60 days after the date of the sale to obtain the UZ-5-SB from a small qualified business. For purposes of the point of sale exemption, sellers can no longer rely on the qualified business's prior exemption certificate (UZ-5). The UZ-5 exemption certificate is now only applicable to purchases made prior to July 15, 2006, regardless of the effective dates printed on the certificate. A qualified business that is not a "small qualified business" and therefore cannot issue the new UZ-5-SB must pay the sales tax at the point of sale, but may apply to the Division for a refund within one year of the sale. The new exemption certificate will be available on the Division's website under Forms/UEZ Forms.

NEWLY TAXABLE GOODS AND SERVICES

On and after October 1, 2006, the 7% sales and use tax will apply to certain goods and services that were previously not subject to tax. These services are:

- **furnishing of space for storage;**
- **tanning services;**

- **massage services, unless medically prescribed;**
- **tattooing;**
- **investigation and security services;**
- **information services;**
- **limousine services originating in New Jersey, except when provided in connection with funeral services;**
- **initiation fees, or dues for access to or use of the property or facilities of a health and fitness, athletic, sporting or shopping club or organization, except for membership in a club or organization whose members are predominantly age 18 or under; and**
- **parking, storing, or garaging a motor vehicle.**

If you have any questions please contact our office or

Visit their State of New Jersey website at

<http://www.state.nj.us/treasury/taxation/>

Or call the State of NJ Customer Service Center at 1- 866-698-9065, Monday through Friday, 8:30 am to 4:30 pm

Very truly yours

REDFIELD, BLONSKY & CO., LLC

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