

## **Change to State and Local Income Tax Withholding For Post-Employment Compensation**

**What:** Johnson & Johnson will withhold state and local income taxes from post-employment compensation paid through payroll (including equity-based compensation, such as RSU / PSU vesting and stock option exercise proceeds) based on the location in which employees worked immediately prior to retirement or other separation from employment (instead of based solely on the location of employees' permanent residence or domicile).

**When:** Starting January 1, 2022

**Why:** Johnson & Johnson continuously reviews its tax withholding practices and decided to make this change after considering evolving state and local tax withholding requirements and engaging with state tax authorities.

Check out these FAQs and the examples below to help you understand the impact on your future financial and retirement planning:

### **FAQs**

#### **1. What type of post-employment compensation will this apply to?**

This change will generally apply to compensation paid through payroll, such as equity-based compensation that exercises or vests following employment. Please note that this change will not apply to pension and 401(k) benefits, which will continue to have only permanent residence or domicile state taxes withheld in accordance with federal law requirements.

#### **2. How will this affect my financial planning?**

We know that there are many aspects that you consider in connection with your personal financial planning, including your tax obligations. Therefore, we are advising you of this change so that you may consider any potential impact. As with any financial decisions, we encourage you to consult your financial advisor to discuss your personal circumstances.

#### **3. What if I or my tax advisor disagree with the state tax withholding? Are exceptions permitted?**

As mentioned, Johnson & Johnson decided to make this change after considering tax withholding requirements and therefore this change will apply to all former employees. If you disagree with this, you may wish contact your personal tax advisor to determine what alternatives may be available to you.

### **Examples\*:**

Example 1: Former employee lives and works in New Jersey prior to her retirement on August 30, 2020. During her employment, J&J withholds New Jersey state income taxes on her compensation. Following retirement, she continues to have her permanent residence in New Jersey and exercises stock options on July 1, 2022. The company will withhold New Jersey state income taxes upon exercise of the options.

Example 2: Same as Example 1, except that Former Employee moves to and establishes permanent residence in California in 2020 immediately following her retirement. Upon exercise of her stock options on July 1, 2022, the company will withhold New Jersey and California state income taxes (with the amount of California withholding offset by the amount of New Jersey taxes withheld).

Example 3: Same as Example 1, except that Former Employee moves to and establishes permanent residence in Florida (which has no state income tax) in 2020 immediately following her retirement. Upon exercise of her stock options on July 1, 2022, the company will withhold only New Jersey state income taxes.

Example 4: Former Employee lives in Pennsylvania and works in New Jersey prior to her retirement on August 30, 2020. Based on the reciprocal tax agreement between Pennsylvania and New Jersey, Former Employee has only Pennsylvania state income taxes withheld on compensation paid to her during employment. Following retirement, she continues to have her permanent residence in Pennsylvania and exercises stock options on July 1, 2022. The company will continue to withhold only Pennsylvania state income taxes upon exercise of the options due to the fact that the reciprocal agreement will continue to apply.

Example 5: Same as Example 4, except that Former Employee moves to and establishes permanent residence in Florida in 2020 immediately following her retirement. Upon exercise of her stock options on July 1, 2022, the company will withhold New Jersey state income taxes (given that New Jersey was her last employment state and given that the New Jersey/Pennsylvania reciprocal agreement no longer applies to her).

*\*The examples above are provided for illustrative purposes only, and are not intended to provide, and should not be relied on for, tax or legal advice. We encourage you to consult your personal tax advisor to determine your federal, state and local tax obligations. The company reserves the right to amend its practices at any time in its sole discretion.*