

ASSEMBLY, No. 3096

STATE OF NEW JERSEY 219th LEGISLATURE

INTRODUCED FEBRUARY 24, 2020

Sponsored by:

Assemblyman JOHN F. MCKEON

District 27 (Essex and Morris)

SYNOPSIS

Allows gross income tax deductions for contributions to, or purchases of credits from, federally qualified tuition program.

CURRENT VERSION OF TEXT

As introduced.



1 AN ACT allowing gross income tax deductions for contributions to,
2 or purchases of credits from, a federally qualified tuition
3 program, supplementing Title 54A of the New Jersey Statutes
4 and amending P.L.1997, c.237.

5

6 **BE IT ENACTED** by the Senate and General Assembly of the State
7 of New Jersey:

8

9 1. (New section) A taxpayer shall be allowed a deduction
10 from the taxpayer's gross income for the taxable year in the amount
11 of the taxpayer's contribution for the taxable year to an account
12 established pursuant to the "New Jersey Better Educational Savings
13 Trust (NJBEST) Program," (N.J.S.18A:71B-35 et seq.), or an
14 account established pursuant to a program established in
15 compliance with subsection (b) of section 529 of the federal
16 Internal Revenue Code of 1986, 26 U.S.C. s.529, or for the cost of a
17 tuition credit or certificate purchased during the taxable year
18 pursuant to any such program.

19

20 2. Section 13 of P.L.1997, c.237 (C.54A:6-25) is amended to
21 read as follows:

22 13. a. Gross income shall not include earnings on a Coverdell
23 education savings account, **【a qualified State】** an eligible tuition
24 program account, or a qualified ABLE account until the earnings
25 are distributed from the account, at which time **【they】** the amount
26 of the distribution attributable to earnings on the account and the
27 amount of the distribution attributable to contributions allowed as a
28 deduction pursuant to section 1 of P.L. , c. (C.) (pending
29 before the Legislature as this bill) shall be includible in the gross
30 income of the distributee except as provided in this section.

31 b. Gross income shall not include qualified distributions as
32 defined in paragraph (3) of subsection c. of this section.

33 c. For purposes of this section:

34 (1) "Coverdell education savings account" means a Coverdell
35 education savings account as defined pursuant to paragraph (1) of
36 subsection (b) of section 530 of the federal Internal Revenue Code
37 of 1986, 26 U.S.C. s.530.

38 (2) **【"Qualified State】** "Eligible tuition program account" means
39 an account established pursuant to the "New Jersey Better
40 Educational Savings Trust (NJBEST) Program," (N.J.S.18A:71B-35
41 et seq.) or an account established pursuant to any **【qualified State】**
42 tuition program **【,** as defined pursuant to **】** established in
43 compliance with subsection (b) of section 529 of the federal
44 Internal Revenue Code of 1986, 26 U.S.C. s.529 or a tuition credit
45 or certificate purchased pursuant to any such program.

EXPLANATION – Matter enclosed in bold-faced brackets **【thus】** in the above bill is
not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

1 (3) "Qualified distribution" means any of the following:

2 (a) a distribution from **【a qualified State】** an eligible tuition
3 program account that is used for qualified higher education
4 expenses as defined pursuant to paragraph (3) of subsection (e) of
5 section 529 or a distribution from a qualified ABLE account that is
6 used for qualified disability expenses as defined pursuant to
7 paragraph (5) of subsection (e) of section 529A of the federal
8 Internal Revenue Code of 1986, 26 U.S.C. s.529 or 529A;

9 (b) a rollover from one account to another account as described
10 in clause (i) of subparagraph (C) of paragraph (3) of subsection (c)
11 of section 529 if applicable, clause (i) of subparagraph (C) of
12 paragraph (1) of subsection (c) of section 529A, or paragraph (5) of
13 subsection (d) of section 530 of the federal Internal Revenue Code
14 of 1986, 26 U.S.C. s.529, 529A, or 530; or

15 (c) a change in designated beneficiaries of an account as
16 described in clause (ii) of subparagraph (C) of paragraph (3) of
17 subsection (c) of section 529, clause (ii) of subparagraph (C) of
18 paragraph (1) of subsection (c) of section 529A, or paragraph (6) of
19 subsection (d) of section 530 of the federal Internal Revenue Code
20 of 1986, 26 U.S.C. s.529, 529A, or 530; and

21 (d) any other transfer involving a qualified ABLE account
22 which is a qualified distribution for the purposes of section 529A of
23 the federal Internal Revenue Code, 26 U.S.C. s.529A.

24 (4) "Qualified ABLE account" means an account established
25 pursuant to P.L.2015, c.185 (C.52:18A-250 et al.) or an account
26 established pursuant to any qualified State ABLE Program
27 established pursuant to section 529A of the federal Internal
28 Revenue Code of 1986, 26 U.S.C. s.529A.

29 d. The portion of a distribution from a Coverdell education
30 savings account, a qualified ABLE account, or **【a qualified State】**
31 an eligible tuition program account that is attributable to earnings
32 and the amount of the distribution attributable to contributions
33 allowed as a deduction pursuant to section 1 of
34 P.L. , c. (C.) (pending before the Legislature as this bill)
35 shall be determined in accordance with the principles of section 72
36 of the federal Internal Revenue Code of 1986, 26 U.S.C. s.72, as
37 applied for purposes of sections 529, 529A, and 530 of the federal
38 Internal Revenue Code of 1986, 26 U.S.C. ss.529, 529A, and 530.
39 (cf: P.L.2015, c.185, s.1)

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41 3. This act shall take effect immediately and section 1 shall
42 apply to contributions made or costs incurred for taxable years
43 beginning after enactment.

44

45 STATEMENT

46

47 This bill allows a gross income tax deduction for amounts
48 contributed to the tuition savings programs and tuition credit

1 purchase programs that are managed by states and institutions of
2 higher education.

3 Federal Internal Revenue code section 529 allows states to
4 establish "qualified tuition programs," which can take either the
5 form of tuition credit advance purchases (the form used, for
6 example, by Pennsylvania) or of savings accounts for college costs
7 (the form used by New Jersey under the NJ BEST program). The
8 bill applies to both forms of plan, and will also apply to the savings
9 and credit purchase plans that were authorized to be established by
10 institutions of higher education under the federal "Economic
11 Growth and Tax Relief Reconciliation Act of 2001" (Pub.L.107-
12 16).

13 Under federal tax law, contributors make contributions of
14 federally taxed income to accounts established for beneficiaries for
15 the beneficiaries' qualified higher education expenses. Account
16 investment earnings, when earned, are not federally taxed. When
17 amounts are distributed from the program, the amount of earnings is
18 included in the federal taxable income of the beneficiary unless
19 amounts are expended for qualified educational expenses.

20 Currently, New Jersey allows the distributions from qualified
21 state tuition program accounts, whether from the New Jersey
22 program or the program of any other state, to be excluded from
23 taxation if used for valid higher education purposes.

24 This bill provides further tax incentives for higher education
25 savings by allowing taxpayers to deduct from taxable income all of
26 their contributions to a tuition savings program or a tuition credit
27 purchase program, whether from the New Jersey program, the
28 program of any other state, or a program managed by a higher
29 educational institution.