

SENATE HIGHER EDUCATION COMMITTEE

STATEMENT TO

SENATE, No. 917

with committee amendments

STATE OF NEW JERSEY

DATED; JANUARY 30, 2020

The Senate Higher Education Committee reports favorably Senate Bill No. 917 with committee amendments.

As amended, this bill allows a gross income tax deduction for employees for amounts paid by employers for certain educational assistance programs for employees and for employees' student loans. Making these forms of employer-provided assistance tax free under the New Jersey gross income tax can incentivize employers and employees to establish programs that provide a personal "financial wellness" benefit to employees without actually raising taxable salaries and wages. These forms of tax-free assistance can aid employees in meeting their current costs of pursuing their higher education goals while they hold a job, and can also help address high student debt burdens facing the college-educated workforce.

The deduction for certain educational expenses incurred pursuant to an educational assistance program will have to meet the requirements under the federal income tax exclusion allowed under section 127 of the federal Internal Revenue Code. The New Jersey gross income deduction for employees will be limited to the \$5,250 annual limit under the federal income tax exclusion. Tax-free educational assistance provided by an employer includes payments for tuition, fees, textbooks, and equipment. To qualify, the courses need not be work-related or be part of a degree program but cannot involve sports, games, or hobbies. The educational assistance program must be set out in a written plan offered by the employer. Payments for educational assistance compensate the employee for costs of certain coursework undertaken by the employee while employed by the employer, as opposed to student loan debt that the employee had already accrued.

Amounts paid by an employer toward an employee's student loan debt are taxable compensation for federal income tax purposes, and are taxable under the New Jersey gross income tax as taxable "salaries, wages, tips, fees, commissions, bonuses, and other remuneration received for services rendered." The New Jersey gross income deduction under this bill for employer-provided student loan assistance is modeled on one of several pending congressional bills that address student loan debt and federal income taxation. Under

this gross income deduction, as under the federal legislation, this assistance includes the payment of principal or interest on student loan indebtedness incurred by an employee for higher education expenses. Under this bill, tax-free assistance will cover up to \$5,250 of assistance in a taxable year.

An employee is allowed to deduct both forms of assistance in a taxable year, up to their combined limits, along with other exemptions and deductions the taxpayer otherwise may be allowed to claim under other New Jersey gross income tax provisions.

The committee adopted minor technical amendments to the bill.