

**ASSEMBLY, No. 2620**

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**STATE OF NEW JERSEY**

**219th LEGISLATURE**

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INTRODUCED FEBRUARY 13, 2020

**Sponsored by:**  
**Assemblywoman CAROL A. MURPHY**  
**District 7 (Burlington)**

**SYNOPSIS**

Establishes certain exclusions and credits under gross income and corporation business taxes for contributions to lifelong learning accounts.

**CURRENT VERSION OF TEXT**

As introduced.



1 AN ACT establishing certain exclusions and credits under the gross  
2 income and corporation business taxes for use of lifelong  
3 learning accounts, supplementing Title 54A of the New Jersey  
4 Statutes and P.L.1945, c.162.

5  
6 **BE IT ENACTED** by the Senate and General Assembly of the State  
7 of New Jersey:

8  
9 1. a. The gross income of an eligible taxpayer for a taxable  
10 year shall not include an amount of up to \$2,500 of employer  
11 contributions to a lifelong learning account of the eligible taxpayer.

12 b. Gross income shall not include earnings that accrue on the  
13 balance of a lifelong learning account to the eligible taxpayer for  
14 the taxable year, except as provided in subsection c. of this section.

15 c. (1) Gross income of a taxpayer shall include qualified and  
16 nonqualified distributions from a lifelong learning account of the  
17 taxpayer for the taxable year of distribution. Provided further, the  
18 exclusions allowed pursuant to N.J.S.54A:6-10 and N.J.S.54A:6-15  
19 shall not apply to any distributions from a lifelong learning account.

20 (2) Notwithstanding paragraph (1) of this subsection, gross  
21 income of an eligible taxpayer for a taxable year shall not include:

22 (a) a distribution of contributions for the taxable year made in  
23 excess of the annual \$2,500 limit for lifelong learning account  
24 contributions, provided that the earnings thereto are also distributed  
25 and reported as gross income, or

26 (b) a distribution from the lifelong learning account of a  
27 taxpayer that is contributed to a lifelong learning account of the  
28 taxpayer within 60 days of distribution, provided that this  
29 subparagraph shall not apply to a distribution occurring within 365  
30 days of a prior distribution which was excluded from gross income  
31 pursuant to this subparagraph.

32 d. If a taxpayer makes a nonqualified distribution from the  
33 taxpayer's lifelong learning account the taxpayer shall be subject to  
34 a penalty in the form of additional tax liability due pursuant to the  
35 "New Jersey Gross Income Tax Act," N.J.S.54A:1-1, for the taxable  
36 year of the distribution. The amount of the additional tax liability  
37 shall be five percent of the amount of the nonqualified distribution.

38 This subsection shall not apply to nonqualified distributions  
39 incident to death, disability, divorce, separation pursuant to a  
40 "qualified domestic relations order" as defined by subsection (p) of  
41 section 414 of the federal Internal Revenue Code of 1986  
42 (26 U.S.C. s.414), or a taxpayer who has attained the age of 71 as of  
43 the first day of the taxable year. Excluded employer contributions  
44 shall be allocated to the distribution on a pro rata basis between the  
45 amount of the distribution and the amount remaining in the account.

46 e. As used in this section:

47 "Disability" means becoming disabled and being unable to  
48 engage in any substantial gainful activity by reason of any

1 medically determinable physical or mental impairment which can  
2 be expected to result in death or to be of long-continued and  
3 indefinite duration.

4 “Eligible taxpayer” means a taxpayer that as of the first day of  
5 the taxable year has attained the age of 18 but not yet attained the  
6 age of 71 and is the beneficiary for whom the lifelong learning  
7 account has been established.

8 “Lifelong learning account” means an account created or  
9 organized, for the exclusive benefit of the taxpayer, in New Jersey  
10 as a lifelong learning account, which designation means that the  
11 account is to be used exclusively for the purpose of making  
12 qualified distributions. To qualify as a lifelong learning account the  
13 account shall be administered in adherence to the following  
14 requirements: all contributions shall be made in an amount of  
15 money; all contributions to lifelong learning accounts of a taxpayer  
16 for a taxable year shall not exceed \$2,500, except as to  
17 contributions which are made from funds distributed from a lifelong  
18 learning account of the taxpayer within 60 days of the contribution,  
19 provided that the distribution is not occurring within 365 days of a  
20 prior distribution excluded from gross income pursuant to  
21 subparagraph (b) of paragraph (2) of subsection c. of this section;  
22 the trustee of the lifelong learning account shall be a bank or other  
23 entity that demonstrates to the satisfaction of the director that the  
24 lifelong learning account shall be administered in adherence to the  
25 requirements of this section; an eligible taxpayer’s interest in the  
26 account balance is nonforfeitable; the trustee of the lifelong  
27 learning account shall not invest the account’s assets in life  
28 insurance contracts or “collectibles,” as that term is defined  
29 pursuant to subsection (m) of section 408 of the federal Internal  
30 Revenue Code of 1986 (26 U.S.C. s.408); lifelong learning account  
31 assets shall not be commingled with other property except in a  
32 common trust fund or common investment fund; and requirements  
33 that the director deems to be necessary to implement  
34 P.L. , c. (C. ) (pending before the Legislature as this  
35 bill), which the director shall adopt by regulation in accordance  
36 with the “Administrative Procedure Act,” P.L.1968, c.410  
37 (C.52:14B-1 et seq.).

38 “Nonqualified distribution” means a distribution from a lifelong  
39 learning account that is not used for qualified education expenses.  
40 A nonqualified distribution shall not include a distribution of  
41 contributions for the taxable year made in excess of the annual  
42 \$2,500 limit for lifelong learning account contributions, provided  
43 that the earnings thereto are also distributed and reported as gross  
44 income. A nonqualified distribution shall not include a distribution  
45 from the lifelong learning account of a taxpayer that is contributed  
46 to a lifelong learning account of the taxpayer within 60 days of  
47 distribution, provided that the distribution is not occurring within  
48 365 days of a prior distribution excluded from gross income

1 pursuant to subparagraph (b) of paragraph (2) of subsection c. of  
2 this section.

3 “Qualified distribution” means a distribution from a lifelong  
4 learning account that is used for qualified education expenses.

5 “Qualified education expense” means an amount paid by an  
6 eligible taxpayer for expenses incurred and required for  
7 instructional courses, training courses, and apprenticeship programs  
8 for the eligible taxpayer or the eligible taxpayer’s spouse. Qualified  
9 education expenses shall include, but are not limited to, expenses  
10 incurred and required for instructional courses, training courses, and  
11 apprenticeship programs which are paid on account of books,  
12 equipment, fees, information technology devices, supplies, tools,  
13 and tuition. Qualified education expenses shall not include amounts  
14 paid for any course or program taken for recreational or leisure  
15 purposes.  
16

17 2. a. (1) An eligible taxpayer shall be allowed a credit  
18 against the tax liability imposed pursuant to the “New Jersey Gross  
19 Income Tax Act,” N.J.S.54A:1-1, for the taxable year for  
20 contributions made by the eligible taxpayer to a lifelong learning  
21 account of the eligible taxpayer for the taxable year. Creditable  
22 contributions shall not include contributions to a lifelong learning  
23 account of the taxpayer of amounts distributed from a lifelong  
24 learning account of the taxpayer, as determined by the director.

25 (2) (a) For an eligible taxpayer filing as a married individual  
26 filing separately, or an unmarried individual, other than individuals  
27 filing as head of household or as a surviving spouse, pursuant to  
28 subsection b. of N.J.S.54A:2-1, for the first \$500 of contributions  
29 for the taxable year the credit shall be in an amount equal to 50  
30 percent of the contribution.

31 (b) For eligible taxpayers filing as married individuals jointly,  
32 individuals filing as a head of household, or individuals filing as a  
33 surviving spouse pursuant to subsection a. of N.J.S.54A:2-1, for the  
34 first \$1,000 of contributions for the taxable year the credit shall be  
35 in an amount equal to 50 percent of the contribution.

36 (3) (a) For an eligible taxpayer filing as a married individual  
37 filing separately, or an unmarried individual, other than individuals  
38 filing as head of household or as a surviving spouse, pursuant to  
39 subsection b. of N.J.S.54A:2-1, for contributions in excess of \$500  
40 for the taxable year the credit shall be in an amount equal to 25  
41 percent of the contribution.

42 (b) For eligible taxpayers filing as married individuals jointly,  
43 individuals filing as a head of household, or individuals filing as a  
44 surviving spouse pursuant to subsection a. of N.J.S.54A:2-1, for  
45 contributions in excess of \$1,000 for the taxable year the credit  
46 shall be in an amount equal to 25 percent of the contribution.

47 b. (1) The maximum amount of contributions of an eligible  
48 taxpayer taken into account for a taxable year as creditable pursuant

1 to subsection a. of this section shall be determined pursuant to  
2 paragraphs (2), (3), and (4) of this subsection.

3 (2) An eligible taxpayer filing as a married individual filing  
4 separately, or an unmarried individual, other than individuals filing  
5 as head of household or as a surviving spouse, pursuant to  
6 subsection b. of N.J.S.54A:2-1, with total gross income for a  
7 taxable year in excess of \$100,000 shall reduce a maximum  
8 creditable contribution limit of \$2,500 by the percentage calculated  
9 by dividing the amount of the eligible taxpayer's gross income for  
10 the taxable year that is in excess of \$100,000, but not exceeding  
11 \$120,000, by \$20,000. No credit shall be allowed for contributions  
12 made by an eligible taxpayer filing as a married individual filing  
13 separately, or an unmarried individual, other than individuals filing  
14 as head of household or as a surviving spouse, pursuant to  
15 subsection b. of N.J.S.54A:2-1, with total gross income for a  
16 taxable year in excess of \$120,000.

17 (3) Eligible taxpayers filing as married individuals jointly,  
18 individuals filing as a head of household, or individuals filing as a  
19 surviving spouse pursuant to subsection a. of N.J.S.54A:2-1, with  
20 total gross income for a taxable year in excess of \$200,000 shall: (a)  
21 in the case of married individuals filing jointly, each of whom has  
22 contributed to that individual's lifelong learning account reduce a  
23 maximum creditable contribution limit of \$5,000, (b) in the case of  
24 individuals filing as a head of household, or individuals filing as a  
25 surviving spouse pursuant to subsection a. of N.J.S.54A:2-1 reduce  
26 a maximum creditable contribution limit of \$2,500, by the  
27 percentage calculated by dividing the amount of the eligible  
28 taxpayer's gross income for the taxable year that is in excess of  
29 \$200,000, but not exceeding \$240,000, by \$40,000. No credit shall  
30 be allowed for contributions made by eligible taxpayers filing as  
31 married individuals jointly, individuals filing as a head of  
32 household, or individuals filing as a surviving spouse pursuant to  
33 subsection a. of N.J.S.54A:2-1, with total gross income for a  
34 taxable year in excess of \$240,000.

35 (4) The maximum creditable contribution limit determined  
36 pursuant to paragraphs (2) and (3) of this subsection shall be  
37 reduced by the amount of employer contributions made to an  
38 eligible taxpayer's lifelong learning account which are excluded  
39 from gross income pursuant to subsection a. of section 2 of  
40 P.L. , c. (C. ) (pending before the Legislature as this  
41 bill).

42 c. The order in which credits allowed pursuant to this section  
43 and any other credits shall be applied against the tax liability  
44 imposed pursuant to the "New Jersey Gross Income Tax Act,"  
45 N.J.S.54A:1-1 et seq., shall be determined by the director. If any  
46 amount of credit allowed pursuant to this section remains after the  
47 application of credit to tax liability imposed pursuant to the "New  
48 Jersey Gross Income Tax Act," N.J.S.54A:1-1 et seq., that amount

1 of credit shall be an overpayment for the purposes of N.J.S.54A:9-  
2 7, except that subsection (f) of N.J.S.54A:9-7 shall not apply.

3 d. As used in this section:

4 “Eligible taxpayer” means a taxpayer that as of the first day of  
5 the taxable year has attained the age of 18 but not yet attained the  
6 age of 71 and is the beneficiary for whom the lifelong learning  
7 account has been established.

8 “Lifelong learning account” means an account created or  
9 organized, for the exclusive benefit of the taxpayer, in New Jersey  
10 as a lifelong learning account, which designation means that the  
11 account is to be used exclusively for the purpose of making  
12 qualified distributions. To qualify as a lifelong learning account the  
13 account shall be administered in adherence to the following  
14 requirements: all contributions shall be made in an amount of  
15 money; all contributions to lifelong learning accounts of a taxpayer  
16 for a taxable year shall not exceed \$2,500, except as to  
17 contributions which are made from funds distributed from a lifelong  
18 learning account of the taxpayer within 60 days of the contribution,  
19 provided that the distribution is not occurring within 365 days of a  
20 prior distribution excluded from gross income pursuant to  
21 subparagraph (b) of paragraph (2) of subsection c. of section 1 of  
22 P.L. , c. (C. ) (pending before the Legislature as this  
23 bill); the trustee of the lifelong learning account shall be a bank or  
24 other entity that demonstrates to the satisfaction of the director that  
25 the lifelong learning account shall be administered in adherence to  
26 the requirements of this section; an eligible taxpayer’s interest in  
27 the account balance is nonforfeitable; the trustee of the lifelong  
28 learning account shall not invest the account’s assets in life  
29 insurance contracts or “collectibles,” as that term is defined  
30 pursuant to subsection (m) of section 408 of the federal Internal  
31 Revenue Code of 1986 (26 U.S.C. s.408); lifelong learning account  
32 assets shall not be commingled with other property except in a  
33 common trust fund or common investment fund; and requirements  
34 that the director deems to be necessary to implement  
35 P.L. , c. (C. ) (pending before the Legislature as this  
36 bill), which the director shall adopt by regulation in accordance  
37 with the “Administrative Procedure Act,” P.L.1968, c.410  
38 (C.52:14B-1 et seq.).

39 “Qualified distribution” means a distribution from a lifelong  
40 learning account that is used for qualified education expenses.

41 “Qualified education expense” means an amount paid by an  
42 eligible taxpayer for expenses incurred and required for  
43 instructional courses, training courses, and apprenticeship programs  
44 for the eligible taxpayer or the eligible taxpayer’s spouse. Qualified  
45 education expenses shall include, but are not limited to, expenses  
46 incurred and required for instructional courses, training courses, and  
47 apprenticeship programs which are paid on account of books,  
48 equipment, fees, information technology devices, supplies, tools,

1 and tuition. Qualified education expenses shall not include amounts  
2 paid for any course or program taken for recreational or leisure  
3 purposes.

4  
5 3. a. An eligible employer taxpayer shall be allowed a credit  
6 against the tax liability imposed for a privilege period pursuant to  
7 section 5 of P.L.1945, c.162 (C.54:10A-5), in an amount equal to 25  
8 percent of a contribution made by the eligible employer taxpayer to  
9 a lifelong learning account of a qualified employee.

10 b. Per qualified employee, the maximum amount of  
11 contribution that an eligible employer taxpayer shall be allowed as a  
12 creditable contribution per privilege period is \$2,500.

13 c. If an eligible employer taxpayer that is a small business is  
14 allowed a credit pursuant to subsection a. of this section for the  
15 privilege period, the eligible employer taxpayer shall be allowed an  
16 additional credit amount for qualified administrative costs  
17 associated with the credit allowed pursuant to subsection a. of this  
18 section for the privilege period. The additional credit amount shall  
19 be limited to an amount equal to 50 percent of qualified  
20 administrative costs for the privilege period, but not exceeding \$500  
21 of credit for the privilege period. An eligible employer taxpayer  
22 shall only qualify for an additional credit amount pursuant to this  
23 subsection for the first and second privilege periods for which the  
24 eligible employer taxpayer is allowed a credit pursuant to  
25 subsection a. of this section.

26 d. The order in which credits allowed pursuant to this section  
27 and any other credits shall be applied against the tax liability  
28 imposed pursuant to section 5 of P.L.1945, c.162 (C.54:10A-5),  
29 shall be determined by the director. If any amount of credit allowed  
30 pursuant to this section remains after the application of credit to tax  
31 liability imposed pursuant to section 5 of P.L.1945, c.162  
32 (C.54:10A-5) that amount of unused credit shall be allowed as a  
33 deduction against entire net income, as determined pursuant to  
34 section 4 of P.L.1945, c.162 (C.54:10A-4), for the privilege period  
35 immediately following the privilege period for which the credit was  
36 allowed.

37 e. As used in this section:

38 "Eligible employer taxpayer" means a taxpayer with one or more  
39 qualified employees.

40 "Lifelong learning account" means an account created or  
41 organized, for the exclusive benefit of the qualified employee, in  
42 New Jersey as a lifelong learning account, which designation means  
43 that the account is to be used exclusively for the purpose of making  
44 qualified distributions. To qualify as a lifelong learning account the  
45 account shall be administered in adherence to the following  
46 requirements: all contributions shall be made in an amount of  
47 money; all contributions to lifelong learning accounts of a qualified  
48 employee for a taxable year shall not exceed \$2,500, except as to

1 contributions which are made from funds distributed from a lifelong  
2 learning account of the qualified employee within 60 days of the  
3 contribution, provided that the distribution is not occurring within  
4 365 days of a prior distribution excluded from gross income  
5 pursuant to subparagraph (b) of paragraph (2) of subsection c. of  
6 section 1 of P.L. , c. (C. ) (pending before the  
7 Legislature as this bill); the trustee of the lifelong learning account  
8 shall be a bank or other entity that demonstrates to the satisfaction  
9 of the director that the lifelong learning account shall be  
10 administered in adherence to the requirements of this section; a  
11 qualified employee's interest in the account balance is  
12 nonforfeitable; the trustee of the lifelong learning account shall not  
13 invest the account's assets in life insurance contracts or  
14 "collectibles," as that term is defined pursuant to subsection (m) of  
15 section 408 of the federal Internal Revenue Code of  
16 1986 (26 U.S.C. s.408); lifelong learning account assets shall not be  
17 commingled with other property except in a common trust fund or  
18 common investment fund; and requirements that the director deems  
19 to be necessary to implement P.L. , c. (C. ) (pending  
20 before the Legislature as this bill), which the director shall adopt by  
21 regulation in accordance with the "Administrative Procedure Act,"  
22 P.L.1968, c.410 (C.52:14B-1 et seq.).

23 "Qualified distribution" means a distribution from a lifelong  
24 learning account that is used for qualified education expenses.

25 "Qualified education expense" means an amount paid by a  
26 qualified employee for expenses incurred and required for  
27 instructional courses, training courses, and apprenticeship programs  
28 for the qualified employee or the qualified employee's spouse.  
29 Qualified education expenses shall include, but are not limited to,  
30 expenses incurred and required for instructional courses, training  
31 courses, and apprenticeship programs which are paid on account of  
32 books, equipment, fees, information technology devices, supplies,  
33 tools, and tuition. Qualified education expenses shall not include  
34 amounts paid for any course or program taken for recreational or  
35 leisure purposes.

36 "Qualified employee" means an individual that as of the first day  
37 of the privilege period has attained the age of 18 but not yet attained  
38 the age of 71 and is the beneficiary for whom the lifelong learning  
39 account has been established.

40 "Small business" means a taxpayer that for the privilege period  
41 has no more than 100 employees, each of which receives no less  
42 than \$5,000 of annual compensation.

43  
44 4. a. An eligible employer taxpayer shall be allowed a credit  
45 against the tax liability imposed for a taxable year pursuant to the  
46 "New Jersey Gross Income Tax Act," N.J.S.54A:1-1 et seq., in an  
47 amount equal to 25 percent of a contribution made by the eligible



1 employer taxpayer to a qualified employee's lifelong learning  
2 account.

3 b. Per employee, the maximum amount of contribution that an  
4 eligible employer taxpayer shall be allowed as a creditable  
5 contribution per taxable year is \$2,500.

6 c. If an eligible employer taxpayer that is a small business is  
7 allowed a credit pursuant to subsection a. of this section for the  
8 taxable year, the eligible employer taxpayer shall be allowed an  
9 additional credit amount for qualified administrative costs  
10 associated with the credit allowed pursuant to subsection a. of this  
11 section for the taxable year. The additional credit amount shall be  
12 limited to an amount equal to 50 percent of qualified administrative  
13 costs for the taxable year, but not exceeding \$500 of credit for the  
14 taxable year. An eligible employer taxpayer shall only qualify for  
15 an additional credit amount pursuant to this subsection for the first  
16 and second taxable years for which the eligible employer taxpayer  
17 is allowed a credit pursuant to subsection a. of this section.

18 d. The order in which credits allowed pursuant to this section  
19 and any other credits shall be applied against the tax liability  
20 imposed pursuant to the "New Jersey Gross Income Tax Act,"  
21 N.J.S.54A:1-1 et seq., shall be determined by the director. If any  
22 amount of credit allowed pursuant to this section remains after the  
23 application of credit to tax liability imposed pursuant to the "New  
24 Jersey Gross Income Tax Act," N.J.S.54A:1-1 et seq., that amount  
25 of unused credit shall be allowed as a deduction against gross  
26 income, as determined pursuant to N.J.S.54A:5-1, for the taxable  
27 year immediately following the taxable year for which the credit  
28 was allowed.

29 e. An eligible employer taxpayer that is a business entity that is  
30 classified as a partnership for federal income tax purposes shall not  
31 be allowed a credit directly under the "New Jersey Gross Income  
32 Tax Act," N.J.S.54A:1-1 et seq., but the amount of credit of a  
33 taxpayer in respect of a distributive share of partnership income,  
34 shall be determined by allocating to the taxpayer that proportion of  
35 the credit acquired by the partnership that is equal to the taxpayer's  
36 share, whether or not distributed, of the total distributive income or  
37 gain of the partnership for its taxable year ending within or with the  
38 taxpayer's taxable year, except as otherwise provided by law.

39 An eligible employer taxpayer that is a New Jersey S  
40 Corporation shall not be allowed a credit directly under the "New  
41 Jersey Gross Income Tax Act," N.J.S.54A:1-1 et seq., but the  
42 amount of credit of a taxpayer in respect of a pro rata share of S  
43 Corporation income, shall be determined by allocating to the  
44 taxpayer that proportion of the credit acquired by the New Jersey S  
45 Corporation that is equal to the taxpayer's share, whether or not  
46 distributed, of the total pro rata share of S Corporation income of  
47 the New Jersey S Corporation for its privilege period ending within

1 or with the taxpayer's taxable year, except as otherwise provided by  
2 law.

3 f. As used in this section:

4 "Eligible employer taxpayer" means a taxpayer with one or more  
5 qualified employees.

6 "Lifelong learning account" means an account created or  
7 organized, for the exclusive benefit of the qualified employee, in  
8 New Jersey as a lifelong learning account, which designation means  
9 that the account is to be used exclusively for the purpose of making  
10 qualified distributions. To qualify as a lifelong learning account the  
11 account shall be administered in adherence to the following  
12 requirements: all contributions shall be made in an amount of  
13 money; all contributions to lifelong learning accounts of a qualified  
14 employee for a taxable year shall not exceed \$2,500, except as to  
15 contributions which are made from funds distributed from a lifelong  
16 learning account of the qualified employee within 60 days of the  
17 contribution, provided that the distribution is not occurring within  
18 365 days of a prior distribution excluded from gross income  
19 pursuant to subparagraph (b) of paragraph (2) of subsection c. of  
20 section 1 of P.L. , c. (C. ) (pending before the  
21 Legislature as this bill); the trustee of the lifelong learning account  
22 shall be a bank or other entity that demonstrates to the satisfaction  
23 of the director that the lifelong learning account shall be  
24 administered in adherence to the requirements of this section; a  
25 qualified employee's interest in the account balance is  
26 nonforfeitable; the trustee of the lifelong learning account shall not  
27 invest the account's assets in life insurance contracts or  
28 "collectibles," as that term is defined pursuant to subsection (m) of  
29 section 408 of the federal Internal Revenue Code of  
30 1986 (26 U.S.C. s.408); lifelong learning account assets shall not be  
31 commingled with other property except in a common trust fund or  
32 common investment fund; and requirements that the director deems  
33 to be necessary to implement P.L. , c. (C. ) (pending  
34 before the Legislature as this bill), which the director shall adopt by  
35 regulation in accordance with the "Administrative Procedure Act,"  
36 P.L.1968, c.410 (C.52:14B-1 et seq.).

37 "Qualified distribution" means a distribution from a lifelong  
38 learning account that is used for qualified education expenses.

39 "Qualified education expense" means an amount paid by an  
40 eligible taxpayer for expenses incurred and required for  
41 instructional courses, training courses, and apprenticeship programs  
42 for the eligible taxpayer or the eligible taxpayer's spouse. Qualified  
43 education expenses shall include, but are not limited to, expenses  
44 incurred and required for instructional courses, training courses, and  
45 apprenticeship programs which are paid on account of books,  
46 equipment, fees, information technology devices, supplies, tools,  
47 and tuition. Qualified education expenses shall not include amounts

1 paid for any course or program taken for recreational or leisure  
2 purposes.

3 “Qualified employee” means an individual that as of the first day  
4 of the taxable year has attained the age of 18 but not yet attained the  
5 age of 71 and is the beneficiary for whom the lifelong learning  
6 account has been established.

7 “Small business” means a taxpayer that for the taxable year has  
8 no more than 100 employees, each of which receives no less than  
9 \$5,000 of annual compensation.

10

11 5. This act shall take effect immediately and apply to privilege  
12 periods and taxable years beginning on or after the January 1 next  
13 following the date of enactment.

14

15

16

## STATEMENT

17

18 This bill establishes certain tax exclusions and credits for the use  
19 of lifelong learning accounts (account) in order to finance worker  
20 training and education. Generally, the bill consists of four parts:  
21 gross income tax (GIT) exclusions for employer-provided account  
22 contributions and account earnings; a GIT credit for personal  
23 account contributions; GIT and corporation business tax (CBT)  
24 credits for employers making account contributions for their  
25 employees; and administrative provisions concerning the  
26 maintenance of the accounts.

27 The bill allows a taxpayer to exclude from taxable gross income,  
28 employer contributions to the taxpayer’s account of up to \$2,500  
29 per year and earnings on account balances. Generally, distributions  
30 from an account are treated as taxable income under the GIT, except  
31 in the case of certain account rollovers and account adjustments  
32 made due to excess contributions.

33 The bill provides a GIT credit for a taxpayer’s own contributions  
34 to the taxpayer’s account. Generally, the credit is for 50 percent of  
35 a taxpayer’s first \$500 of account contributions, or \$1,000 for  
36 taxpayers filing jointly, and 25 percent for the taxpayer’s account  
37 contributions exceeding \$500, or \$1,000 for taxpayers filing jointly.  
38 The maximum creditable contribution amount varies based on the  
39 taxpayer’s filing status and annual income level. Generally,  
40 individual filers are allowed a maximum creditable contribution of  
41 \$2,500, which is reduced by \$1 for each \$8 earned over \$100,000.  
42 Creditable contributions are not allowed for individual filers with  
43 \$120,000 of annual income or more. Generally, joint filers are  
44 allowed a maximum creditable contribution of \$5,000 in the case of  
45 married individuals each of whom contributes to a lifelong learning  
46 account, which is reduced by \$1 for each \$8 earned over \$200,000.  
47 Creditable contributions are not allowed for joint filers with  
48 \$240,000 of annual income or more. Maximum creditable

1 contributions are reduced by the amount of any employer-provided  
2 account contributions, which are excluded from the taxpayer's  
3 taxable income by this bill. Generally, the maximum credit amount  
4 is \$750 for individuals and \$1,500 for joint filers. Depending upon  
5 a taxpayer's liability and order of application of other potential  
6 credits, the GIT credit for taxpayer account contributions is  
7 refundable. The bill grants the Director of the Division of Taxation  
8 the authority to preclude rollovers between accounts from  
9 qualifying for credit.

10 The bill allows GIT and CBT credits for employers making  
11 account contributions for their employees in an amount equal to 25  
12 percent of account contributions. Per employee and per tax year,  
13 annual account contributions may not exceed \$2,500.

14 Small business employers are allowed an additional credit  
15 amount for 50 percent of the administrative costs associated with  
16 the credit for the tax year, but not exceeding \$500 of credit for the  
17 tax year. The bill defines a small business as a taxpayer with no  
18 more than 100 employees, each with no less than \$5,000 of annual  
19 compensation. The small business administrative cost credit is  
20 allowed only for the first and second tax years for which the  
21 employer is allowed the employer-provided employee account  
22 contribution credit. Both the employer-provided employee account  
23 contribution credit and the small business administrative cost credit  
24 are nonrefundable, but the amount of an unused credit may be  
25 carried forward one tax year and used as a deduction.

26 The bill establishes certain requirements for the maintenance and  
27 use of the accounts. Accounts must be created or organized in New  
28 Jersey and for the exclusive benefit of the account beneficiary. For  
29 a tax year, total contributions, from whatever source, to lifelong  
30 learning accounts of a taxpayer may not exceed \$2,500, except as to  
31 account rollovers. Account trustees must be a bank or other entity  
32 that demonstrates to the Director of the Division of Taxation that  
33 accounts will be maintained in accordance with the bill. An  
34 account beneficiary's interest in the account balance is  
35 nonforfeitable. The bill prohibits a trustee from investing account  
36 assets in life insurance contracts or collectibles and prohibits  
37 account assets from being commingled with other property, except  
38 as to common trust or investment funds. The bill gives the Director  
39 of the Division of Taxation rulemaking authority with regard to  
40 further account requirements.

41 Generally, the bill restricts qualified use of accounts to taxpayers  
42 that are 18 to 70 years of age. Account funds are to be distributed  
43 for qualified education expenses incurred by the taxpayer or the  
44 taxpayer's spouse. Qualified education expenses are amounts paid  
45 and required for instructional courses, training courses, and  
46 apprenticeship programs, which include, but are not limited to,  
47 books, equipment, fees, information technology devices, supplies,  
48 tools, and tuition. Qualified education expenses do not include

1 amounts paid for courses or programs taken for recreational or  
2 leisure purposes.

3 The bill includes a penalty for nonqualified distributions in the  
4 form of additional tax liability in the amount of five percent of the  
5 nonqualified distribution. The bill's nonqualified distribution  
6 penalty does not apply to distributions on account of death,  
7 disability, divorce, or attaining the age of 71 as of the first day of  
8 the taxable year. The bill also contains exemptions from the  
9 nonqualified distribution penalties for distributions that are  
10 rollovers between accounts and account adjustments made due to  
11 excess annual account contributions.