

ASSEMBLY, No. 681

STATE OF NEW JERSEY

PRE-FILED FOR INTRODUCTION IN THE 1996 SESSION

By Assemblyman BAGGER

1 AN ACT concerning affordable higher education access for dependents
2 (AHEAD) bonds, supplementing Titles 18A and 54A of the New
3 Jersey Statutes and amending P.L.1991, c.272 and N.J.S.54A:5-8.

4
5 **BE IT ENACTED** *by the Senate and General Assembly of the State*
6 *of New Jersey:*

7
8 1. (New section) The Legislature finds and declares that:

9 a. The availability of a higher education is essential to the welfare,
10 economic development and prosperity of the people of New Jersey.

11 b. The State can make higher education more available by
12 providing future students and their families with investment vehicles
13 that make savings practical and tax incentives that help make savings
14 affordable, while also allowing savers to invest in New Jersey.

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16 2 (New section) a. As used in this section:

17 "AHEAD bonds" means affordable higher education access for
18 dependents bonds issued pursuant to the provisions of this act.

19 "Issuing officials" means the Governor, the State Treasurer, the
20 Director of the Division of Budget and Accounting in the Department
21 of the Treasury in the case of bonds of the State of New Jersey or the
22 issuing authority or agency in the case of bonds of an authority or
23 agency of this State.

24 b. The State shall set aside, from the bonds of the State of New
25 Jersey authorized to be issued or from the bonds of any authority or
26 agency authorized to be issued, an amount to be determined by the
27 State Treasurer of the total aggregate original principal amount of
28 such bonds. These bonds shall be issued as determined by the issuing
29 officials and shall be known as "AHEAD Bonds," in addition to any
30 other name by which they may be known.

31 c. AHEAD Bonds may be issued in low denominations and in the
32 form or forms, whether coupon, fully-registered or book entry, and
33 with or without provisions for interchangeability thereof, as may be
34 determined by the issuing officials, and in such amounts as will allow

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 a large number of New Jersey families to participate in the program,
2 and with the maturity dates that will make funds available to
3 purchasers at the time when such funds are needed for educational and
4 home purchase purposes. The State Treasurer shall evaluate the
5 feasibility of staggered or periodic forms of payments for AHEAD
6 Bonds, and advise the issuing officials regarding such evaluation.

7 d. When AHEAD Bonds are issued from time to time, the bonds
8 of each issue shall constitute a separate series to be designated by the
9 issuing officials. Each series of bonds so designated shall bear the rate
10 or rates of interest as may be determined by the issuing officials, which
11 interest shall be payable as may be determined by the issuing officials.

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13 3. (New section) A taxpayer who is an individual shall be allowed
14 a deduction from gross income in an amount equal to the taxpayer's
15 purchase cost of an AHEAD bond issued pursuant to section 2 of
16 P.L. , c. (now pending before the Legislature as this bill),
17 purchased from the issuer or the issuer's agent in the taxable year.

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19 4. (New section) a. In the taxable year in which a taxpayer
20 redeems or sells an AHEAD bond issued pursuant to section 2 of
21 P.L. , c. (now pending before the Legislature as this bill), the
22 taxpayer's gross income shall include in gross income pursuant to
23 subsection a. of N.J.S.54A:5-1 an amount equal to the amounts, if any,
24 taken by the taxpayer as a deduction pursuant to section 3 of P.L. ,
25 c. (now pending before the Legislature as this bill), in the taxable
26 year of the bond's purchase, except as provided in subsection b. of this
27 section.

28 b. Gross income shall not include amounts otherwise includable in
29 gross income pursuant to subsection a. of this section in a year in
30 which the taxpayer has redeemed an AHEAD bond and has qualified
31 higher education expenses or qualified home purchase expenses,
32 provided that the amount excluded for a taxable year pursuant to this
33 subsection shall not exceed the taxpayer's qualified higher education
34 expenses and qualified home purchase expenses for the taxable year,
35 and provided further that the amount excluded from gross income shall
36 be subject to the limits of subsection c. of this section.

37 c. If the gross income of the taxpayer for the taxable year,
38 measured after the application of N.J.S.54A:3-2 and the exclusions
39 provided by chapter 6 of Title 54A of the New Jersey Statutes but
40 before the allowance of any other deductions or application of this
41 section exceeds:

42 (1) \$65,000 in the case of a single individual determining tax
43 pursuant to subsection b. of N.J.S.54A:2-1, the amount otherwise
44 excludable from gross income pursuant to subsection b. shall be
45 reduced, but not below zero, by the amount which bears the same ratio
46 to the amount which would otherwise be excludable pursuant to this

1 section as that gross income in excess of \$65,000 bears to \$35,000; or

2 (2) \$100,000 in the case of a taxpayer determining tax pursuant to
3 subsection a. of N.J.S.54A:2-1, the amount otherwise excludable from
4 gross income pursuant to subsection b. shall be reduced, but not below
5 zero, by the amount which bears the same ratio to the amount which
6 would otherwise be excludable pursuant to this section as that gross
7 income in excess of \$100,000 bears to \$50,000.

8 d. For purposes of this section:

9 "Eligible educational institution" means an institution described in
10 section 1201(a) (20 U.S.C. §1141) or subparagraph (C) or (D) of
11 section 481(a)(1) (20 U.S.C. §1088) of the federal Higher Education
12 Act of 1965 as in effect on October 21, 1988 and an "area vocational
13 education school" as defined in subparagraph (C) or (D) if section
14 521(3) (20 U.S.C. §2471) of the federal Carl D. Perkins Vocational
15 Education Act which is in any "state," as defined in clause 27 of 20
16 U.S.C. §2471, as in effect on October 21, 1988.

17 "Principal residence" means a unit of residential property, including
18 the land on which the unit of residential property is situated, a
19 condominium unit, a unit in a horizontal property regime pursuant to
20 P.L.1963, c.168 (C.46:8A-1 et seq.), or a unit in a cooperative or
21 mutual housing corporation that constitutes or will constitute the place
22 of the taxpayer's domicile and is or will be actually and continually
23 occupied by the taxpayer as the taxpayer's permanent residence.
24 Principal residence does not include a vacation home, property owned
25 and rented or offered for rent by the taxpayer, or other secondary real
26 property holdings.

27 "Qualified higher education expenses" means tuition and fees
28 required for the enrollment or attendance of the taxpayer, the
29 taxpayer's spouse, or a dependent of the taxpayer at an eligible
30 educational institution, not including expenses with respect to any
31 course or other education involving sports, games, or hobbies other
32 than as part of a degree program, reduced by amounts received with
33 respect to that individual for the taxable year as a scholarship, an
34 educational assistance allowance, or a payment for educational
35 expenses, or attributable to attendance at an eligible educational
36 institution, which is exempt from income taxation by any law of the
37 United States.

38 "Qualified home purchase expense" means the broker's fees,
39 mortgage fees, inspection fees, closing costs and down payment, but
40 excluding mortgage payments, paid for the taxpayer's first purchase of
41 a principal residence in New Jersey.

42 e. No amount shall be excluded from gross income pursuant to
43 subsection b. of this section for married individuals filing separate
44 returns. If the taxpayer is a married individual, this section shall apply
45 only if the taxpayer and the taxpayer's spouse file a joint return for the
46 taxable year.

1 5. N.J.S.54A:5-8 is amended to read as follows:

2 54A:5-8. Income from sources within this State for a nonresident
3 individual, estate or trust means the same as compensation, net profits,
4 gains, dividends, interest or income enumerated and classified under
5 chapter 5 of this act to the extent that it is earned, received or
6 acquired from sources within this State:

7 (1) By reason of ownership or disposition of any interest in real or
8 tangible personal property in this State; or

9 (2) In connection with a trade, profession, occupation carried on
10 in this State or for the rendition of personal services performed in this
11 State; or

12 (3) As a distributive share of the income of an unincorporated
13 business, profession, enterprise, undertaking or other activity as the
14 result of work done, services rendered or other business activities
15 conducted in this State except as allocated to another state pursuant
16 to regulations promulgated by the director under this act; or

17 (4) From intangible personal property employed in a trade,
18 profession, occupation or business carried on in this State; or

19 (5) As a result of any lottery or wagering transaction in this State
20 other than that excluded from taxation pursuant to N.J.S.54A:6-11; or

21 (6) As S corporation income allocated to this State of a New
22 Jersey S corporation.

23 (7) From the redemption or sale of an AHEAD bond, resulting in
24 income includable in gross income pursuant to section 4 of P.L. , c.
25 (C.)(now pending before the legislature as this bill).

26 Income from sources within this State for a nonresident individual
27 shall not include income from pensions and annuities as set forth in
28 subsection j. of N.J.S.54A:5-1.

29 (cf: P.L.1993, c.173, s.10)

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31 6. Section 4 of P.L.1991, c.272 (C.18A:71-90) is amended to read
32 as follows:

33 4. a. In furtherance of the public policy of this act, the State shall
34 set aside, from the bonds of the State of New Jersey authorized to be
35 issued and issued before the effective date of P.L. , c.
36 (C.)(now pending before the Legislature as this bill), or from the
37 bonds of any authority or agency authorized to be issued and issued
38 before the effective date of P.L. , c. (C.)(now pending before
39 the Legislature as this bill), an amount to be determined by the
40 Treasurer of the total aggregate original principal amount of such
41 bonds. These bonds shall be issued as determined by the issuing
42 officials and shall be known as "Garden State Savings Bonds," in
43 addition to any other name they may be known as.

44 b. Garden State Savings Bonds may be issued in low
45 denominations and in the form or forms, whether coupon,
46 fully-registered or book entry, and with or without provisions for

1 interchangeability thereof, as may be determined by the issuing
2 officials, and in such amounts as will allow a large number of New
3 Jersey families to participate in the program, and with the maturity
4 dates which will make funds available to purchasers at the time when
5 such funds are needed for educational purposes.

6 c. When Garden State Savings Bonds are issued from time to time,
7 the bonds of each issue shall constitute a separate series to be
8 designated by the issuing officials. Each series of bonds so designated
9 shall bear the rate or rates of interest as may be determined by the
10 issuing officials, which interest shall be payable as may be determined
11 by the issuing officials.

12 (cf: P.L.1991, c.272,s.4)

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14 7. This act shall take effect immediately, and sections 3 and 4 shall
15 apply to taxable years beginning on and after the January 1 next
16 following enactment.

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STATEMENT

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21 This bill implements a program of affordable higher education
22 access for dependents (AHEAD). The program provides special tax
23 incentives, similar those provided under federal law to encourage
24 retirement savings, to people who invest in AHEAD bonds and then
25 use the bond redemption proceeds for higher education expenses or
26 the purchase of a first home in New Jersey. The funds that savers put
27 into AHEAD bonds will be applied to a variety of State public
28 purposes, allowing investors in AHEAD bonds to invest in New Jersey
29 while saving for their own futures.

30 Under the AHEAD program, bonds already approved for issuance
31 under New Jersey and New Jersey public authority programs will be
32 designated AHEAD bonds. AHEAD bonds will be issued in dollar
33 value denominations that will permit a large number of New Jersey
34 families to invest in the bonds, with maturity dates that will make
35 funds available to bond purchasers at the time when such funds are
36 needed for educational and home purchase purposes. Taxpayers will
37 be allowed a deduction from New Jersey taxable income for the
38 amount of their AHEAD bond purchases. The interest on New Jersey
39 and New Jersey public authority bonds is exempt from federal and
40 State income taxes.

41 If taxpayers who meet income qualifications use their AHEAD bond
42 proceeds for the qualified higher education expenses of themselves or
43 their dependents or for the purchase of a first home in New Jersey, the
44 bond proceeds will be excluded from New Jersey taxable income. This
45 exclusion for bond proceeds (but none of the other tax advantages) is
46 subject to a phase-out for higher income taxpayers. The phase-out

1 begins when the gross income of married individuals filing a joint
2 return, or individuals filing as head of household or surviving spouse
3 for federal purposes, exceeds \$100,000 in the year a bond is redeemed
4 (\$65,000 for other single individuals). The phase-out is complete
5 when gross income exceeds \$150,000 (\$100,000 for single
6 individuals).

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11 Concerns affordable higher education access for dependents (AHEAD)
12 bonds, provides gross income tax deduction for AHEAD bond
13 purchases and exclusion for certain redemption uses.