

LEGISLATIVE FISCAL ESTIMATE TO  
**ASSEMBLY, No. 2865**  
**STATE OF NEW JERSEY**

DATED: JUNE 24, 1997

Assembly Bill No. 2865 of 1997 establishes a program for college tuition savings to be administered by the Office of Student Assistance. The program is designed so that it will qualify as a "qualified State tuition program" under the section 529 of the federal Internal Revenue Code, 26 U.S.C. §529. No amount of investment earnings will be included in the federal taxable income of a contributor to, or beneficiary of, the program with respect to earnings on contributions to the program until funds are withdrawn. If amounts are distributed from the program for "qualified educational expenses," defined by reference to federal law as tuition, fees, books and supplies required for enrollment at qualified higher educational institutions, federal law includes earnings in the taxable income of the beneficiary.

The bill provides a deferral of income recognition and for taxation of funds on withdrawal in parallel to the federal program.

The Office of Student Assistance (OSA) reports that the Governor's recommended FY1998 budget includes an appropriation of \$350,000 to OSA for the initial administrative costs of program implementation. The bill provides fee authority for program support. No information is available on projected administrative operating costs or fee levels.

Sheltering of earnings will have immediate implications for gross income tax revenues; however, without any information that would allow projection of participation rates and expected investment levels, the extent of income recognition cannot be predicted. This State tax sheltered savings program would seem to have some competition from the current federal EE series savings bond program, which offers similar State and federal tax deferral on investment and the potential of federal tax exclusion on funds used for higher education (an exclusion that is, however, limited to lower and middle income participants). To the extent that college savers continue in the federal program, reductions in gross income tax revenues due to the State program will be reduced.

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67.