LEGISLATIVE FISCAL ESTIMATE TO

[Second Reprint]

SENATE COMMITTEE SUBSTITUTE FOR
SENATE, No. 2012

STATE OF NEW JERSEY

DATED: JULY 9, 1997

Senate Bill No. 2012 SCS (2R) 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contributor to, or beneficiary of, the program with respect to earnings on contributions to the program until funds are withdrawn.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 parallel to the federal, but goes beyond the federal program in tax and non-tax savings incentives:

! earnings distributed from the program for "qualified educational expenses" will be excluded from the beneficiary's and contributor's New Jersey gross income;

! a dollar amount or account balance (not less than $25,000, as prescribed by the authority) will not be considered in evaluating a student's financial need and will not reduce any State scholarship or monetary assistance to which the student may be entitled; and

! the State will contribute an additional $500 to the account of a beneficiary who attends an institution of higher education located within the State and the contributor has participated in the program for at least four years.

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.

The lack of any information about, or that would allow a projection of, expected participation levels in the State program also precludes estimation of the expected cost of the $500 grants and the impact of the exclusion of program assets from financial need consideration; these financial benfits require a minimum of four years participation in the program, so their impacts will not commence until 4 years after the initiation of the program.

The bill further provides that the $500 grants and the impact of the exclusion of program assets from financial need may be extended to the (as yet uninacted) federal educational assistance accounts upon approval by the Higher Education Assistance Authority. Federal enactment and authority approval are too remote to consider for revenue impact purposes.

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.