

[First Reprint]

SENATE COMMITTEE SUBSTITUTE FOR
SENATE, No. 2012

STATE OF NEW JERSEY

ADOPTED JUNE 12, 1997

Sponsored by Senators KYRILLOS, DiFRANCESCO, Kosco,
Bubba, Sinagra, Matheussen, Scott and MacInnes

1 AN ACT establishing a college savings program and supplementing
2 Titles 18A and 54A of the New Jersey Statutes.

3

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

6

7 1. Sections 1 through 12 of this act establish a college savings
8 plan and shall be known and may be cited as the "New Jersey Better
9 Educational Savings Trust (NJBEST) Act."

10

11 2. The Legislature finds and declares that:

12 a. This State is committed to making world-class education
13 accessible and affordable for all New Jersey students;

14 b. When families save for college education, they are making an
15 important investment in the future for themselves and the young
16 people of this State;

17 c. Incentives are needed to encourage families to save for college
18 education;

19 d. The "Small Business Job Protection Act of 1996," Pub.L.104-
20 188, amended the federal Internal Revenue Code to provide for
21 favorable tax treatment for qualified college savings programs and
22 participants in the programs; and

23 e. In addition to favorable federal tax treatment for a college
24 savings program and its participants, it is desirable to provide
25 favorable State tax treatment, as a special incentive for student
26 beneficiaries to attend college in this State.

EXPLANATION - Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and intended to be omitted in the law.

Matter underlined thus is new matter.

Matter enclosed in superscript numerals has been adopted as follows:

¹ Senate SBA committee amendments adopted June 16, 1997.

1 3. As used in this act:

2 "Account" means an individual trust account or savings account
3 established in accordance with this act;

4 "Authority" means the New Jersey Higher Education Assistance
5 Authority;

6 "Contributor" means the person or organization contributing to and
7 maintaining an account and having the right to withdraw funds from
8 the account before the account is disbursed to or for the benefit of the
9 designated beneficiary;

10 "Designated beneficiary" means: a. the individual designated at the
11 time the account is opened as the individual whose higher education
12 expenses are expected to be paid from the account; b. the replacement
13 beneficiary if the change in designated beneficiary would not result in
14 a distribution that is included in federal gross income under section
15 529 of the federal Internal Revenue Code of 1986, 26 U.S.C.§529; and
16 c. in the case of an interest in the program purchased by a state or
17 local government or an organization described in paragraph (3) of
18 subsection (c) of section 501 of the federal Internal Revenue Code of
19 1986, 26 U.S.C.§501 and exempt from taxation under subsection (a)
20 of section 501 of the federal Internal Revenue Code of 1986, 26
21 U.S.C.§501, as a part of a scholarship program operated by the
22 government or organization, the individual receiving the interest as a
23 scholarship;

24 "Higher education institution" means an eligible educational
25 institution as defined in or for purposes of section 529 of the federal
26 Internal Revenue Code of 1986, 26 U.S.C.§529. Higher education
27 institution shall include a proprietary institution if expenses for tuition
28 at the institution would be considered qualified higher education
29 expenses under section 529 of the federal Internal Revenue Code of
30 1986, 26 U.S.C.§529, but only for degree granting programs licensed
31 or approved by the Commission on Higher Education or for other
32 proprietary institutions as determined by the authority;

33 "Investment Manager" means the Division of Investment in the
34 Department of the Treasury or the private entities authorized to do
35 business in this State that may be designated by the authority to invest
36 the funds of the trust pursuant to the terms of this act;

37 "Member of the family" means a member of the family as defined
38 in or for purposes of section 529 of the federal Internal Revenue Code
39 of 1986, 26 U.S.C.§529;

40 "Nonqualified withdrawal" means a withdrawal from an account
41 other than: a. a qualified withdrawal; b. a withdrawal made as the
42 result of the death or disability of the designated beneficiary of an
43 account; c. a withdrawal made on account of a scholarship (or
44 allowance or payment described in subparagraphs (B) or (C) of
45 paragraph (1) of subsection (d) of section 135 of the federal Internal

1 Revenue Code of 1986, 26 U.S.C.§135) received by the designated
2 beneficiary, but only to the extent of the amount of that scholarship,
3 allowance or payment; d. a rollover or change in designated
4 beneficiary which would not result in a distribution includible in
5 federal gross income under section 529 of the federal Internal
6 Revenue Code of 1986, 26 U.S.C.§529; or e. any other withdrawal if
7 the failure of the program to impose a more than de minimis penalty
8 on the withdrawal would cause the program not to be a qualified State
9 tuition program under section 529 of the federal Internal Revenue
10 Code of 1986, 26 U.S.C.§529;

11 "Program" means the "New Jersey Better Educational Savings
12 Trust (NJBEST) Program" established pursuant to this act;

13 "Qualified higher education expenses" means expenses described
14 in paragraph (3) of subsection (e) of section 529 of the federal Internal
15 Revenue Code of 1986, 26 U.S.C.§529 incurred in connection with the
16 enrollment of a designated beneficiary at a higher education institution;

17 "Qualified withdrawal" means a withdrawal from an account to pay
18 the qualified higher education expenses of the designated beneficiary
19 of the account; but a withdrawal shall not be considered a qualified
20 withdrawal if the failure of the program to impose a more than de
21 minimis penalty on the withdrawal would cause the program not to
22 qualify as a qualified State tuition program under section 529 of the
23 federal Internal Revenue Code of 1986, U.S.C.§529;

24 "Trust" means the "New Jersey Better Educational Savings Trust"
25 established pursuant to section 4 of this act.

26

27 4. There is created within the New Jersey Higher Education
28 Assistance Authority the New Jersey Better Educational Savings
29 (NJBEST) Trust. The trust shall provide a mechanism through which
30 the authority, as trustee, holds accounts established and maintained
31 pursuant to the provisions of this act to finance the cost of qualified
32 higher education expenses.

33

34 5. The Office of Student Assistance shall administer the NJBEST
35 Program established in the authority. The authority shall have the
36 power to:

37 a. serve as trustee of the trust;

38 b. adopt rules and regulations pursuant to the "Administrative
39 Procedures Act," P.L.1968, c.410 (C.52:14B-1 et seq.), necessary to
40 carry out the provisions of this act;

41 c. prescribe and provide appropriate forms for participation in the
42 program;

43 d. select an investment manager and any other contractors needed
44 to manage and market the program;

45 e. monitor the investment manager and any other contractors by

1 audits and other reports;

2 f. collect reasonable administrative fees in connection with any
3 contract or transaction relating to the program;

4 g. impose penalties for nonqualified withdrawals;

5 h. take all actions required so that the program is treated as a
6 qualified State tuition program under section 529 of the federal
7 Internal Revenue Code of 1986, 26 U.S.C. §529; and

8 i. perform any other acts which may be deemed necessary or
9 appropriate to carry out the objects and purposes of this act.

10

11 6. Neither the members of the authority, nor any officer or
12 employee of the authority shall be liable personally for the debts,
13 liabilities or obligations of the program established pursuant to this
14 act.

15

16 7. a. The authority shall select an investment manager or
17 managers to invest the funds of the trust or the funds in accounts. In
18 making this selection, ¹any investment manager shall be subject to the
19 "prudent person" standard of care applicable to the Division of
20 Investment in the Department of the Treasury pursuant to subsection
21 b. of section 11 of P.L.1950, c.270 (C.52:18A-89), and¹ the authority
22 shall ¹[promote an investment policy, the objectives of which include
23 minimization of risk, liquidity, and maximization of yield] consider the
24 impact of fees and costs imposed by the manager or managers on yield
25 to contributors¹.

26 b. The authority may select more than one investment manager
27 and investment instrument for the program if it is in the best interest
28 of contributors and will not interfere with the administration of the
29 program.

30 c. The authority may provide a contributor with a choice of
31 investment managers or investment instruments or both for the
32 program if both of the following conditions exist:

33 (1) the federal Internal Revenue Service has provided guidance
34 that providing a contributor with a choice of investment managers or
35 instruments under a State tuition program will not cause the program
36 to fail to qualify for favorable tax treatment under section 529 of the
37 federal Internal Revenue Code of 1986, 26 U.S.C. §529; and

38 (2) the authority concludes that a choice of ¹investment managers
39 or of¹ investment instruments is in the best interest of contributors
40 and will not interfere with the administration of the program.

41 d. If the authority terminates the designation of an investment
42 manager to hold accounts, and accounts must be moved from that
43 investment manager to another investment manager, the authority shall
44 select the investment manager and type of investment instrument to
45 which the balance of the account is moved, unless the federal Internal

1 Revenue Service provides guidance that allowing the contributor to
2 select among several investment managers or investment instruments
3 that have been selected by the authority would not cause a program to
4 cease to be a qualified State tuition program for the purposes of
5 section 529 of the federal Internal Revenue Code, 26 U.S.C. §529.

6

7 8. a. The program shall be operated as a trust through the use of
8 accounts for designated beneficiaries. An account may be opened by
9 any person who desires to save to pay the qualified higher education
10 expenses of an individual by satisfying each of the following
11 requirements:

12 (1) completing an application in the form prescribed by the
13 authority;

14 (2) paying the one-time application fee established by the
15 authority;

16 (3) making the minimum contribution required by the authority for
17 opening an account;

18 (4) designating the account or accounts to be opened; and

19 (5) in the case of an account to which subsection a. of section 11
20 of this act would apply, demonstrating to the satisfaction of the
21 authority that either the contributor, if an individual, or the designated
22 beneficiary is a New Jersey resident. The requirement of New Jersey
23 residency for either the contributor or the designated beneficiary
24 would not apply to an account to which subsection b. of section 11 of
25 this act would apply unless otherwise determined by the authority;

26 b. Except as provided under section 9 of this act, only the
27 contributor may make contributions to an account after the account is
28 opened.

29 c. Contributions to accounts shall be made only in cash, as defined
30 by the authority pursuant to regulations, in accordance with section
31 529 of the federal Internal Revenue Code of 1986, 26 U.S.C. §529.

32 d. Contributors may withdraw all or part of the balance from an
33 account on sixty days' notice or a shorter period, as may be authorized
34 by the authority pursuant to regulations.

35 e. A contributor may change the designated beneficiary of an
36 account or rollover all or a portion of an account to another account
37 if the change or rollover would not result in a distribution includible
38 in gross income under section 529 of the federal Internal Revenue
39 Code of 1986, 26 U.S.C. §529, in accordance with procedures
40 established by the authority.

41 f. In the case of any nonqualified withdrawal, a penalty at a level
42 established by the authority and sufficient to be considered a more than
43 de minimis penalty for purposes of section 529 of the federal Internal
44 Revenue Code of 1986, 26 U.S.C. §529, shall be withheld and paid to
45 the authority for use in operating and marketing the program. The

1 authority may elect not to impose a penalty if that section ceases to
2 include a provision requiring more than de minimis penalties for a
3 program to qualify as a qualified State tuition program.

4 g. If a contributor makes a nonqualified withdrawal and a penalty
5 amount is not withheld pursuant to subsection f. of this section or the
6 amount withheld is less than the amount required to be withheld under
7 that subsection, the contributor shall pay the unpaid portion of the
8 penalty to the authority at the same time that the contributor files a
9 State income tax return for the taxable year of the withdrawal, or if the
10 contributor does not file a return, the unpaid portion of the penalty
11 shall be paid on or before the due date for the filing of that income tax
12 return.

13 h. Each account shall be maintained separately from each other
14 account under the program.

15 i. Separate records and accounting shall be maintained for each
16 account for each designated beneficiary.

17 j. A contributor to or designated beneficiary of any account shall
18 not direct the investment of any contributions to an account or the
19 earnings from the account, except as permitted under section 529 of
20 the federal Internal Revenue Code of 1986, 26 U.S.C. §529.

21 k. A contributor or a designated beneficiary shall not use an
22 interest in an account as security for a loan. Any pledge of an interest
23 in an account is of no force and effect.

24 l. The maximum contribution for any designated beneficiary shall
25 be determined by the authority pursuant to regulations, in accordance
26 with section 529 of the federal Internal Revenue Code of 1986, 26
27 U.S.C. §529.

28 m. Statements, reports on distributions and information returns
29 relating to accounts shall be prepared, distributed, and filed to the
30 extent required by section 529 of the federal Internal Revenue Code
31 of 1986, 26 U.S.C. §529, or regulations issued thereunder.

32 n. The authority may charge, impose and collect reasonable
33 administrative fees and service charges in connection with any
34 agreement, contract or transaction relating to the program. These fees
35 and charges may be imposed directly on contributors or may be taken
36 as a percentage of the investment earnings on accounts.

37
38 9. a. An amount of no less than \$500 shall be provided by the
39 State for the qualified higher education expenses of a designated
40 beneficiary at the time of a qualified withdrawal provided that:

41 (1) the contributor demonstrates, to the satisfaction of the
42 authority, that the contributor participated in the program for at least
43 four years by making a qualifying minimum initial deposit or qualifying
44 minimum annual contributions, or both, as shall be determined by the
45 authority, for a designated beneficiary;

1 (2) the designated beneficiary demonstrates, to the satisfaction of
2 the authority, attendance or enrollment in a higher education
3 institution in this State, at the time of initial attendance or enrollment
4 in the higher education institution; and

5 (3) either the contributor, if an individual, or the designated
6 beneficiary demonstrates, to the satisfaction of the authority, that the
7 contributor or designated beneficiary is a New Jersey resident.

8 b. The amount provided under subsection a. of this section shall
9 meet the requirements of a qualified scholarship within the meaning of
10 section 117 of the federal Internal Revenue Code of 1986, 26
11 U.S.C. §117, for a designated beneficiary satisfying the requirements
12 of subsection a. of this section.

13 c. A designated beneficiary shall not receive more than one State
14 scholarship provided pursuant to subsection a. of this section.

15
16 10. Annually, the authority shall determine a dollar amount of an
17 account, which shall not be less than \$25,000, which shall not be
18 considered in evaluating the financial needs of a student enrolled in an
19 institution of higher education located in the State of New Jersey, or
20 be deemed a financial resource or a form of financial aid or assistance
21 to a student, for purposes of determining the eligibility of a student for
22 any scholarship, grant, or monetary assistance awarded by the State;
23 nor shall the amount of any account as determined by the authority
24 provided for a designated beneficiary under this act reduce the amount
25 of any scholarship grant or monetary assistance which the student is
26 entitled to be awarded by the State.

27
28 11. a. If the investment manager is the Division of Investment in
29 the Department of the Treasury, in order to assure the availability of
30 principal of any amount contributed under this act, there shall be paid
31 to the authority for deposit in the trust, at the time of distribution,
32 subject to appropriation, such sum, if any, as shall be certified by the
33 chairman of the authority as necessary to provide that amount at the
34 time of distribution. The chairman shall make and deliver to the
35 Governor, or his designee, the certificate stating the sums, if any,
36 required to make available in the trust the amount aforesaid, and the
37 sums so certified shall be appropriated and paid to the authority during
38 the then current State fiscal year.

39 b. If the investment manager is a private entity, the investment of
40 the principal of any amount contributed under this act shall be ¹fully¹
41 insured by the Federal Deposit Insurance Corporation or other similar
42 insurer backed by the full faith and credit of the United States ¹[up to
43 the maximum amount of insurance normally provided by the insurer].
44 No account balance shall exceed \$100,000. No investment is
45 permitted in derivatives of eligible securities, and any investment must

1 be designed to balance prospective payments according to the
2 guidelines established¹.

3

4 12. a. Nothing in this act shall be construed to:

5 (1) guarantee that a designated beneficiary will be admitted to a
6 higher education institution or be allowed to continue enrollment at or
7 graduate from a higher education institution after admission;

8 (2) establish State residency for a person merely because the
9 person is a designated beneficiary; or

10 (3) guarantee that amounts saved pursuant to the program will be
11 sufficient to cover the qualified higher education expenses of a
12 designated beneficiary.

13 b. Nothing in this act establishes any obligation of this State or
14 any agency or instrumentality of this State to guarantee for the benefit
15 of any contributor or designated beneficiary any of the following:

16 (1) the rate of interest or other return on any account; or

17 (2) the payment of interest or other return on any account.

18 c. Nothing in this act establishes any obligation or liability of this
19 State or any agency or instrumentality of this State with respect to any
20 federal or State tax liability of any contributor or designated
21 beneficiary in this program.

22 d. Under regulations promulgated by the authority, every contract
23 and application that may be used in connection with a contribution to
24 an account shall clearly indicate that the account is not insured by this
25 State nor is the investment return guaranteed by this State.

26

27 13. a. Gross income shall not include the earnings on or
28 distribution from an individual trust account or savings account
29 established pursuant to the "New Jersey Better Educational Savings
30 Trust Program" established pursuant to P.L. , c. (C.)(now
31 pending before the Legislature as this bill).

32 b. "Distribution" means a withdrawal which pays the designated
33 beneficiary's qualified higher education expenses described in section
34 529 of the federal Internal Revenue Code of 1986, 26 U.S.C. §529 or
35 which represents contributions net of earnings thereon.

36

37 14. If the Congress of the United States enacts legislation that
38 exempts educational savings accounts from federal income taxation,
39 sections 9 and 10 of this act shall apply with respect to such
40 educational savings accounts as if they were accounts established
41 under this act and the beneficiaries of the accounts were designated
42 beneficiaries subject to the approval of the New Jersey Higher
43 Education Assistance Authority.

44

45 15. This act shall take effect immediately.

1

2

3 "New Jersey Better Educational Savings Trust (NJBEST) Act."