

SENATE EDUCATION COMMITTEE

STATEMENT TO

SENATE COMMITTEE SUBSTITUTE FOR **SENATE, No. 2012**

STATE OF NEW JERSEY

DATED: JUNE 12, 1997

The Senate Education Committee reports favorably a Committee Substitute for Senate Bill No. 2012.

This committee substitute establishes the "New Jersey Better Educational Savings Trust (NJBEST) Program" in the Higher Education Assistance Authority. The program will provide a mechanism to allow families to plan ahead for the costs associated with college attendance and to save funds to meet those future costs. The program will be administered by the Office of Student Assistance.

The program will be operated as a trust through which the authority, as trustee, will hold accounts for designated beneficiaries. Contributors will be allowed to make contributions to an account established for beneficiaries for the purpose of meeting their qualified higher education expenses. The authority will select an investment manager or managers to invest the funds of the trust. The investment manager may be the Division of Investment in the Department of the Treasury or a private entity.

The program is designed so that it will qualify as a "qualified State tuition program" under the federal Internal Revenue Code. 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 any contribution to, or earnings under, the program. When amounts are distributed from the program for qualified educational expenses, the amount of earnings will be included in the taxable income of the beneficiary. The beneficiary, as a college student, will most likely be taxed at a lower rate than the contributor, who in many cases will be the student's parents.

In regard to treatment under New Jersey's gross income tax law, the substitute provides that no amount of investment earnings will be included in the taxable income of the contributor to, or earnings under, the program. Unlike the federal tax treatment, however, amounts distributed from the program for qualified educational expenses will not be included in either the beneficiary's or contributor's taxable income.

In regard to the principal amount which a contributor pays into the program, if the investment manager is the Division of Investment in

the Department of Treasury, the substitute stipulates that in order to assure the availability of the principal contribution, there shall be paid to the authority for deposit in the trust, at the time of distribution, such sums as shall be certified by the chairman of the authority as necessary to provide the principal amount. If the investor is a private entity, the investment of the principal amount contributed must be insured by the Federal Deposit Insurance Corporation or other similar entity.

In regard to a designated beneficiary's eligibility for financial aid, the substitute provides that the authority shall determine a dollar amount, of not less than \$25,000, which shall not be considered in evaluating a student's financial need. Also, the amount shall not reduce any State scholarship or monetary assistance to which the student may be entitled.

Finally, the substitute provides that the State will contribute an additional \$500 to the account of a beneficiary who attends an institution of higher education located within the State if the contributor or the beneficiary is a New Jersey resident and the contributor has participated in the program for at least four years.