

107TH CONGRESS
1ST SESSION

H. R. 538

To amend the Internal Revenue Code of 1986 to provide tax incentives
for education.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 8, 2001

Ms. GRANGER (for herself, Mr. BURR of North Carolina, Mr. PITTS, Mr. FORD, Mr. SESSIONS, Mr. BONILLA, Mr. WATKINS, Mr. HINCHEY, Mr. BLUNT, Mr. PAUL, Mr. MCHUGH, Mr. COMBEST, Mr. DOOLITTLE, and Mrs. KELLY) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide
tax incentives for education.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Higher Education Af-
5 fordability Act”.

1 **SEC. 2. EXCLUSION FROM GROSS INCOME OF EDUCATION**
2 **DISTRIBUTIONS FROM QUALIFIED TUITION**
3 **PROGRAMS; COVERAGE OF PRIVATE PRO-**
4 **GRAMS.**

5 (a) EXCLUSION.—

6 (1) IN GENERAL.—Subparagraph (B) of section
7 529(c)(3) of the Internal Revenue Code of 1986 (re-
8 lating to distributions) is amended to read as fol-
9 lows:

10 “(B) DISTRIBUTIONS FOR QUALIFIED
11 HIGHER EDUCATION EXPENSES.—If a dis-
12 tributee elects the application of this subpara-
13 graph for any taxable year—

14 “(i) no amount shall be includible in
15 gross income by reason of a distribution
16 which consists of providing a benefit to the
17 distributee which, if paid for by the dis-
18 tributee, would constitute payment of a
19 qualified higher education expense, and

20 “(ii) the amount which (but for the
21 election) would be includible in gross in-
22 come by reason of any other distribution
23 shall not be so includible in an amount
24 which bears the same ratio to the amount
25 which would be so includible as the amount
26 of the qualified higher education expenses

1 of the distributee bears to the amount of
2 the distribution.”

3 (2) ADDITIONAL TAX ON AMOUNTS NOT USED
4 FOR HIGHER EDUCATION EXPENSES.—Section 529
5 of such Code is amended by adding at the end the
6 following new subsection:

7 “(f) ADDITIONAL TAX FOR DISTRIBUTIONS NOT
8 USED FOR EDUCATIONAL EXPENSES.—

9 “(1) IN GENERAL.—The tax imposed by section
10 530(d)(4) shall apply to payments and distributions
11 from qualified tuition programs in the same manner
12 as such tax applies to education individual retire-
13 ment accounts.

14 “(2) EXCESS CONTRIBUTIONS RETURNED BE-
15 FORE DUE DATE OF RETURN.—Paragraph (1) shall
16 not apply to the distribution to a contributor of any
17 contribution paid during a taxable year to a quali-
18 fied tuition program to the extent that such con-
19 tribution exceeds the limitation in section 4973(e) if
20 such distribution (and the net income with respect
21 to such excess contribution) meets requirements
22 comparable to the requirements of clauses (i) and
23 (ii) of section 530(d)(4)(C).”

1 (3) COORDINATION WITH EDUCATION CRED-
2 ITS.—Section 25A(e)(2) of such Code is amended by
3 inserting “529(e)(3)(B) or” before “530(d)(2)”.

4 (4) CONFORMING AMENDMENT.—Paragraph (2)
5 of section 26(b) of such Code is amended by redesignig-
6 nating subparagraphs (E) through (Q) as subpara-
7 graphs (F) through (R), respectively, and by insert-
8 ing after subparagraph (D) the following new sub-
9 paragraph:

10 “(E) section 529(f) (relating to additional
11 tax on certain distributions from qualified tui-
12 tion programs),”.

13 (5) EFFECTIVE DATE.—The amendments made
14 by this subsection shall apply to distributions after
15 December 31, 2000, for education furnished in aca-
16 demic periods beginning after such date.

17 (b) ELIGIBLE EDUCATIONAL INSTITUTIONS PER-
18 MITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.—

19 (1) IN GENERAL.—Paragraph (1) of section
20 529(b) of such Code (defining qualified State tuition
21 program) is amended by inserting “or by one or
22 more eligible educational institutions” after “main-
23 tained by a State or agency or instrumentality there-
24 of”.

1 (2) PRIVATE QUALIFIED TUITION PROGRAMS
2 LIMITED TO BENEFIT PLANS.—Clause (ii) of section
3 529(b)(1)(A) of such Code is amended by inserting
4 “in the case of a program established and main-
5 tained by a State or agency or instrumentality there-
6 of,” before “may make”.

7 (3) CONFORMING AMENDMENTS.—

8 (A) Sections 72(e)(9), 135(c)(2)(C),
9 135(d)(1)(D), 529, 530(b)(2)(B), 4973(e), and
10 6693(a)(2)(C) of such Code are each amended
11 by striking “qualified State tuition” each place
12 it appears and inserting “qualified tuition”.

13 (B) The headings for sections 72(e)(9) and
14 135(c)(2)(C) of such Code are each amended by
15 striking “QUALIFIED STATE TUITION” and in-
16 serting “QUALIFIED TUITION”.

17 (C) The headings for sections 529(b) and
18 530(b)(2)(B) of such Code are each amended
19 by striking “QUALIFIED STATE TUITION” and
20 inserting “QUALIFIED TUITION”.

21 (D) The heading for section 529 of such
22 Code is amended by striking “**STATE**”.

23 (E) The item relating to section 529 in the
24 table of sections for part VIII of subchapter F

1 of chapter 1 of such Code is amended by strik-
2 ing “State”.

3 (4) EFFECTIVE DATE.—The amendments made
4 by this subsection shall apply to taxable years begin-
5 ning after December 31, 2000.

6 (c) CHANGE OF QUALIFIED TUITION PROGRAM OR
7 OF DESIGNATED BENEFICIARY.—

8 (1) IN GENERAL.—Clause (i) of section
9 529(c)(3)(C) of such Code is amended by inserting
10 “to another qualified tuition program for the benefit
11 of the designated beneficiary or” after “trans-
12 ferred”.

13 (2) INCLUSION OF SIBLINGS AS MEMBER OF
14 FAMILY.—Paragraph (2) of section 529(e) of such
15 Code is amended by striking “and” at the end of
16 subparagraph (B), by striking the period at the end
17 of subparagraph (C) and inserting “; and”, and by
18 adding at the end the following new subparagraph:

19 “(D) any sibling (whether by the whole or
20 half blood) of the designated beneficiary.”.

21 (3) EFFECTIVE DATE.—The amendments made
22 by this subsection shall apply to taxable years begin-
23 ning after December 31, 2000.

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