

113TH CONGRESS
1ST SESSION

H. R. 3437

To amend the Internal Revenue Code of 1986 to consolidate, with modifications, the Hope Scholarship Credit, the Lifetime Learning Credit, and the American Opportunity Tax Credit, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 30, 2013

Ms. SCHWARTZ introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Education and the Workforce, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To amend the Internal Revenue Code of 1986 to consolidate, with modifications, the Hope Scholarship Credit, the Lifetime Learning Credit, and the American Opportunity Tax Credit, and for other purposes.

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 “College Affordability
5 Act of 2013”.

1 **SEC. 2. CONSOLIDATION OF EDUCATION CREDITS WITH**
2 **MODIFICATIONS.**

3 (a) **IN GENERAL.**—Section 25A of the Internal Rev-
4 enue Code of 1986 is amended to read as follows:

5 **“SEC. 25A. AMERICAN OPPORTUNITY TAX CREDIT.**

6 “(a) **ALLOWANCE OF CREDIT.**—In the case of an in-
7 dividual, there shall be allowed as a credit against the tax
8 imposed by this chapter for the taxable year the amount
9 equal to 100 percent of so much of the qualified tuition
10 and related expenses paid by the taxpayer during the tax-
11 able year (for education furnished to the eligible student
12 during any academic period beginning in such taxable
13 year) as does not exceed \$2,500.

14 “(b) **LIFETIME LIMITATION ON AGGREGATE CRED-**
15 **IT.**—In the case of qualified tuition and related expenses
16 with respect to any individual, the aggregate amount of
17 the credits claimed under this section for all taxable years
18 shall not exceed \$10,000, determined without regard to
19 whether—

20 “(1) such credits are claimed on the return of
21 tax filed by the individual or by another taxpayer, or

22 “(2) such expenses are treated as paid by the
23 individual or by another taxpayer.

24 “(c) **LIMITATION BASED ON MODIFIED ADJUSTED**
25 **GROSS INCOME.**—

1 “(1) IN GENERAL.—The amount which would
2 (but for this subsection) be taken into account under
3 this section for the taxable year shall be reduced
4 (but not below zero) by the amount determined
5 under paragraph (2).

6 “(2) AMOUNT OF REDUCTION.—The amount
7 determined under this paragraph is the amount
8 which bears the same ratio to the amount which
9 would be so taken into account as—

10 “(A) the excess of—

11 “(i) the taxpayer’s modified adjusted
12 gross income for such taxable year, over

13 “(ii) \$80,000 (twice such amount in
14 the case of a joint return), bears to

15 “(B) \$10,000 (\$20,000 in the case of a
16 joint return).

17 “(3) MODIFIED ADJUSTED GROSS INCOME.—

18 For purposes of this subsection, the term ‘modified
19 adjusted gross income’ means the adjusted gross in-
20 come of the taxpayer for the taxable year increased
21 by any amount excluded from gross income under
22 section 911, 931, or 933.

23 “(d) OTHER LIMITATIONS.—

24 “(1) CREDIT ALLOWED FOR YEAR ONLY IF IN-
25 DIVIDUAL IS AT LEAST ½ TIME STUDENT FOR POR-

1 TION OF YEAR.—The credit under this section shall
2 not be allowed for a taxable year with respect to the
3 qualified tuition and related expenses of an indi-
4 vidual unless such individual is an eligible student
5 for at least one academic period which begins during
6 such year.

7 “(2) DENIAL OF CREDIT IF STUDENT CON-
8 VICTED OF A FELONY DRUG OFFENSE.—The credit
9 under subsection (a) shall not be allowed for quali-
10 fied tuition and related expenses for the enrollment
11 or attendance of a student for any academic period
12 if such student has been convicted of a Federal or
13 State felony offense consisting of the possession or
14 distribution of a controlled substance before the end
15 of the taxable year with or within which such period
16 ends.

17 “(e) DEFINITIONS.—For purposes of this section:

18 “(1) ELIGIBLE STUDENT.—The term ‘eligible
19 student’ means, with respect to any academic period,
20 a student who—

21 “(A) meets the requirements of section
22 484(a)(1) of the Higher Education Act of 1965
23 (20 U.S.C. 1091(a)(1)), as in effect on August
24 5, 1997, and

1 “(B) is carrying at least 1/2 the normal
2 full-time work load for the course of study the
3 student is pursuing.

4 “(2) QUALIFIED TUITION AND RELATED EX-
5 PENSES.—

6 “(A) IN GENERAL.—The term ‘qualified
7 tuition and related expenses’ means tuition,
8 fees, and course materials required for the en-
9 rollment or attendance of—

10 “(i) the taxpayer,

11 “(ii) the taxpayer’s spouse, or

12 “(iii) any dependent of the taxpayer
13 with respect to whom the taxpayer is al-
14 lowed a deduction under section 151,

15 at an eligible educational institution for courses
16 of instruction of such individual at such institu-
17 tion.

18 “(B) EXCEPTION FOR EDUCATION INVOLV-
19 ING SPORTS, ETC.—Such term does not include
20 expenses with respect to any course or other
21 education involving sports, games, or hobbies,
22 unless such course or other education is part of
23 the individual’s degree program.

24 “(C) EXCEPTION FOR NONACADEMIC
25 FEES.—Such term does not include student ac-

1 tivity fees, athletic fees, insurance expenses, or
2 other expenses unrelated to an individual's aca-
3 demic course of instruction.

4 “(3) ELIGIBLE EDUCATIONAL INSTITUTION.—
5 The term ‘eligible educational institution’ means an
6 institution—

7 “(A) which is described in section 481 of
8 the Higher Education Act of 1965, as in effect
9 on August 5, 1997, and

10 “(B) which is eligible to participate in a
11 program under title IV of such Act.

12 “(f) OTHER LIMITATIONS AND SPECIAL RULES.—
13 For purposes of this section:

14 “(1) IDENTIFICATION REQUIREMENT.—No
15 credit shall be allowed under this section to a tax-
16 payer with respect to the qualified tuition and re-
17 lated expenses of an individual unless the taxpayer
18 includes the name and taxpayer identification num-
19 ber of such individual on the return of tax for the
20 taxable year.

21 “(2) ADJUSTMENT FOR CERTAIN SCHOLAR-
22 SHIPS, ETC.—

23 “(A) IN GENERAL.—The amount of quali-
24 fied tuition and related expenses otherwise
25 taken into account under this section with re-

1 spect to an individual for an academic period
2 shall be reduced (before the application of sub-
3 sections (a) and (c)) by the sum of any
4 amounts paid for the benefit of such individual
5 which are allocable to such period as—

6 “(i) a qualified scholarship which is
7 excludable from gross income under section
8 117,

9 “(ii) an educational assistance allow-
10 ance under chapter 30, 31, 32, 34, or 35
11 of title 38, United States Code, or under
12 chapter 1606 of title 10, United States
13 Code, and

14 “(iii) a payment (other than a gift,
15 bequest, devise, or inheritance within the
16 meaning of section 102(a)) for such indi-
17 vidual’s educational expenses, or attrib-
18 utable to such individual’s enrollment at an
19 eligible educational institution, which is ex-
20 cludable from gross income under any law
21 of the United States.

22 “(B) COORDINATION WITH PELL GRANTS
23 NOT USED FOR QUALIFIED TUITION AND RE-
24 LATED EXPENSES.—Any amount determined
25 with respect to an individual under subpara-

1 graph (A) which is attributable to a Federal
2 Pell Grant under section 401 of the Higher
3 Education Act of 1965 shall be reduced (but
4 not below zero) by the amount of the expenses
5 (other than qualified tuition and related ex-
6 penses) which are taken into account in deter-
7 mining the cost of attendance (as defined in
8 section 472 of the Higher Education Act of
9 1965, as in effect on the date of the enactment
10 of this subparagraph) of such individual at an
11 eligible educational institution for the academic
12 period for which the credit under this section is
13 being determined.

14 “(3) TREATMENT OF EXPENSES PAID BY DE-
15 PENDENT.—If a deduction under section 151 with
16 respect to an individual is allowed to another tax-
17 payer for a taxable year beginning in the calendar
18 year in which such individual’s taxable year begins—

19 “(A) no credit shall be allowed under this
20 section to such individual for such individual’s
21 taxable year, and

22 “(B) qualified tuition and related expenses
23 paid by such individual during such individual’s
24 taxable year shall be treated for purposes of
25 this section as paid by such other taxpayer.

1 “(4) TREATMENT OF CERTAIN PREPAY-
2 MENTS.—If qualified tuition and related expenses
3 are paid by the taxpayer during a taxable year for
4 an academic period which begins during the first 3
5 months following such taxable year, such academic
6 period shall be treated for purposes of this section
7 as beginning during such taxable year.

8 “(5) DENIAL OF DOUBLE BENEFIT.—No credit
9 shall be allowed under this section for any expense
10 for which a deduction is allowed under any other
11 provision of this chapter.

12 “(6) NO CREDIT FOR MARRIED INDIVIDUALS
13 FILING SEPARATE RETURNS.—If the taxpayer is a
14 married individual (within the meaning of section
15 7703), this section shall apply only if the taxpayer
16 and the taxpayer’s spouse file a joint return for the
17 taxable year.

18 “(7) NONRESIDENT ALIENS.—If the taxpayer is
19 a nonresident alien individual for any portion of the
20 taxable year, this section shall apply only if such in-
21 dividual is treated as a resident alien of the United
22 States for purposes of this chapter by reason of an
23 election under subsection (g) or (h) of section 6013.

24 “(g) PORTION OF CREDIT REFUNDABLE.—

1 “(1) IN GENERAL.—80 percent of the amount
2 which would (but for this subsection and section 26)
3 be allowed as a credit allowed under this section for
4 the taxable year shall be treated as a credit allow-
5 able under subpart C (and not allowed under this
6 section). The preceding sentence shall not apply to
7 any taxpayer for any taxable year if such taxpayer
8 is a child to whom subsection (g) of section 1 applies
9 for such taxable year.

10 “(2) MAXIMUM AMOUNT REFUNDABLE.—The
11 amount treated by paragraph (1) as a credit allow-
12 able under subpart C for any taxable year shall not
13 exceed \$1,500.

14 “(h) INFLATION ADJUSTMENTS.—

15 “(1) IN GENERAL.—In the case of taxable years
16 beginning after 2014, the \$2,500 and \$3,000
17 amounts in subsection (a), the \$10,000 amount in
18 subsection (b), the \$80,000 amount in subsection
19 (c)(2)(A)(ii), and the \$1,500 in subsection (g)(2)
20 shall each be increased by an amount equal to—

21 “(A) such dollar amount, multiplied by

22 “(B) the cost-of-living adjustment deter-
23 mined under section 1(f)(3) for the calendar
24 year in which the taxable year begins, deter-
25 mined by substituting ‘calendar year 2013’ for

1 ‘calendar year 1992’ in subparagraph (B)
2 thereof.

3 “(2) ROUNDING.—

4 “(A) IN GENERAL.—If the \$1,500, \$2,500,
5 \$3,000, or \$10,000 amount as adjusted under
6 paragraph (1) is not a multiple of \$100, such
7 amount shall be rounded to the next lowest
8 multiple of \$100.

9 “(B) \$80,000 AMOUNT.—If the \$80,000
10 amount as adjusted under paragraph (1) is not
11 a multiple of \$1,000, such amount shall be
12 rounded to the next lowest multiple of \$1,000.

13 “(i) ELECTION NOT TO HAVE SECTION APPLY.—A
14 taxpayer may elect not to have this section apply with re-
15 spect to the qualified tuition and related expenses of an
16 individual for any taxable year.

17 “(j) REGULATIONS.—The Secretary may prescribe
18 such regulations as may be necessary or appropriate to
19 carry out this section, including regulations providing for
20 a recapture of the credit allowed under this section in
21 cases where there is a refund in a subsequent taxable year
22 of any amount which was taken into account in deter-
23 mining the amount of such credit.

24 “(k) PILOT PROGRAM TO MAKE PERIODIC PAY-
25 MENTS AS COLLEGE EXPENSES INCURRED.—

1 “(1) IN GENERAL.—The Secretary of the
2 Treasury and the Secretary of Education shall joint-
3 ly establish a program designed to make payments
4 periodically to or on behalf of an eligible student as
5 the student incurs qualified expenses during the tax-
6 able year. The total amount that may be so paid to
7 or on behalf of an eligible student through this pro-
8 gram shall not exceed the credit which would (but
9 for paragraph (2)) be allowable under this section if
10 subsection (c) were applied by using the taxpayer’s
11 modified adjusted gross income for the preceding
12 taxable year.

13 “(2) CREDIT REDUCED BY PILOT PROGRAM
14 PAYMENTS.—The credit allowable under this section
15 (without regard to this paragraph) for any taxable
16 year shall be reduced (but not below zero) by the
17 payments made with respect to a student under
18 paragraph (1) for expenses which would otherwise be
19 taken into account in determining the credit under
20 this section for such year.

21 “(3) PROGRAM PARTICIPATION.—Participation
22 in the program established under this subsection
23 shall be voluntary with respect to both students and
24 educational institutions; except that, institutions
25 which are taxable under this chapter (other than by

1 reason of section 511) may not participate in such
2 program.

3 “(4) PROGRAM PERIOD.—The program estab-
4 lished under this subsection shall apply to expenses
5 for academic periods beginning during the 5-year pe-
6 riod which begins on the date which is 1 year after
7 the date of the enactment of this subsection.

8 “(5) PAYMENTS NOT TREATED AS RESOURCES
9 FOR FINANCIAL AID.—Payments made under this
10 subsection shall not be treated as resources for pur-
11 poses of determining the amount of any financial aid
12 which is funded in whole or part with Federal funds.
13 Payments under the program shall not be made in
14 a manner that would reduce the State, private, or
15 institutional aid available to an eligible student.

16 “(6) NOTICE OF PROGRAM.—Educational insti-
17 tutions participating in the program established
18 under this subsection shall provide appropriate no-
19 tices to parents and students of the option of pay-
20 ments under such program. Such notices shall not
21 be considered tax advice for purposes of any Federal
22 law or regulation.

23 “(7) REPORTING.—The Secretary of the Treas-
24 ury and the Secretary of Education shall jointly sub-
25 mit annual reports to Congress on the program es-

1 tablished under this subsection, together with any
2 recommendations with respect to such program.”.

3 (b) CLERICAL AMENDMENT.—The item relating to
4 section 25A in the table of sections for subpart A of part
5 IV of subchapter A of chapter 1 of such Code is amended
6 to read as follows:

 “Sec. 25A. American Opportunity Tax Credit.”.

7 (c) CONFORMING AMENDMENTS.—

8 (1) Subparagraph (B) of section 72(t)(7) of
9 such Code is amended by striking “25A(g)(2)” and
10 inserting “25A(f)(2)”.

11 (2) Paragraph (2) of section 221(d) of such
12 Code is amended—

13 (A) by striking “25A(g)(2)” in subpara-
14 graph (B) and inserting “25A(f)(2)”, and

15 (B) by striking “25A(f)(2)” and inserting
16 “25A(e)(3)”.

17 (3) Paragraph (3) of section 221(d) of such
18 Code is amended by striking “25A(b)(3)” and in-
19 serting “25A(e)(1)”.

20 (4) Paragraph (1) of section 222(d) of such
21 Code is amended—

22 (A) by striking “25A(f)” and inserting
23 “25A(e)(2)”, and

24 (B) by striking “25A(g)(2)” and inserting
25 “25A(f)(2)”.

1 (5) Clause (v) of section 529(c)(3)(B) of such
2 Code is amended—

3 (A) by striking “25A(g)(2)” in subclause
4 (I) and inserting “25A(f)(2)”, and

5 (B) by striking “HOPE AND LIFETIME
6 LEARNING CREDITS” in the heading and insert-
7 ing “AMERICAN OPPORTUNITY TAX CREDIT”.

8 (6) Clause (i) of section 529(e)(3)(B) of such
9 Code is amended by striking “25A(b)(3)” and in-
10 sserting “25A(e)(1)”.

11 (7) Subparagraph (C) of section 530(d)(2) of
12 such Code is amended—

13 (A) by striking “25A(g)(2)” in clause (i)(I)
14 and inserting “25A(f)(2)”, and

15 (B) by striking “HOPE AND LIFETIME
16 LEARNING CREDITS” in the heading and insert-
17 ing “AMERICAN OPPORTUNITY TAX CREDIT”.

18 (8) Clause (iii) of section 530(d)(4)(B) of such
19 Code is amended by striking “25A(g)(2)” and in-
20 sserting “25A(f)(2)”.

21 (9) Section 14000 of such Code is amended—

22 (A) by striking “25A(f)(2)” and inserting
23 “25A(e)(3)”,

1 (B) by inserting “(as in effect on the date
2 of the enactment of this section)” after
3 “25A(b)(1)” in paragraph (2), and

4 (C) by inserting “(as in effect on the date
5 of the enactment of this section)” after
6 “25A(c)(1)” in paragraph (3).

7 (10) Subsection (e) of section 6050S of such
8 Code is amended by striking “subsection (g)(2)” and
9 inserting “subsection (f)(2)”.

10 (11) Subparagraph (A) of section 6211(b)(4) of
11 such Code is amended by striking “subsection
12 (i)(6)” and inserting “subsection (g)”.

13 (12) Subparagraph (J) of section 6213(g)(2) of
14 such Code is amended by striking “25A(g)(1)” and
15 inserting “25A(f)(1)”.

16 (d) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to taxable years beginning after
18 December 31, 2013.

19 **SEC. 3. EXPANSION OF PELL GRANT EXCLUSION FROM**
20 **GROSS INCOME.**

21 (a) IN GENERAL.—Paragraph (1) of section 117(b)
22 of the Internal Revenue Code of 1986 is amended by strik-
23 ing “received by an individual” and all that follows and
24 inserting “received by an individual—

1 “(A) as a scholarship or fellowship grant to the
2 extent the individual establishes that, in accordance
3 with the conditions of the grant, such amount was
4 used for qualified tuition and related expenses, or

5 “(B) as a Federal Pell Grant under section 401
6 of the Higher Education Act of 1965 (20 U.S.C.
7 1070a) (as in effect on the date of the enactment of
8 this subparagraph).”.

9 (b) **EFFECTIVE DATE.**—The amendment made by
10 this section shall apply to taxable years beginning after
11 December 31, 2013.

12 **SEC. 4. INCREASED PUBLIC AWARENESS OF AMERICAN OP-**
13 **PORTUNITY TAX CREDIT.**

14 The Secretary of the Treasury, or the Secretary’s del-
15 egate, in consultation with the Secretary of Education,
16 shall establish a taxpayer awareness program to inform
17 the taxpaying public of the availability of the American
18 Opportunity Tax Credit allowed under section 25A of the
19 Internal Revenue Code of 1986. Such public awareness
20 program shall be designed to assure that individuals who
21 may be eligible are informed of the availability of such
22 credit and filing procedures. The Secretary shall use ap-
23 propriate means of communication to carry out the provi-
24 sions of this section. The taxpayer awareness program
25 shall include, but not be limited to, prominent display of

1 information about the availability of the American Oppor-
2 tunity Tax Credit on information return forms specified
3 by such Secretary for use by educational institutions to
4 report qualified tuition and related expenses incurred.

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