

Calendar No. 97

114TH CONGRESS
1ST SESSION**S. 335****[Report No. 114–56]**

To amend the Internal Revenue Code of 1986 to improve 529 plans.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 2, 2015

Mr. GRASSLEY (for himself, Mr. CASEY, Mr. BURR, Mr. WARNER, Mr. ROBERTS, Mr. CARDIN, Mr. SCOTT, Ms. AYOTTE, Mr. ISAKSON, Mr. McCONNELL, Ms. COLLINS, Mr. SCHUMER, Mrs. FISCHER, Mr. GARDNER, Mr. MORAN, Mr. WICKER, Mr. KING, Mr. PORTMAN, Mr. TOOMEY, and Ms. MURKOWSKI) introduced the following bill; which was read twice and referred to the Committee on Finance

MAY 21, 2015

Reported by Mr. HATCH, with an amendment

[Strike out all after the enacting clause and insert the part printed in *italie*]**A BILL**

To amend the Internal Revenue Code of 1986 to improve
529 plans.

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

1 **SECTION 1. COMPUTER TECHNOLOGY AND EQUIPMENT AL-**
 2 **LOWED AS A QUALIFIED HIGHER EDUCATION**
 3 **EXPENSE FOR SECTION 529 ACCOUNTS.**

4 (a) **MADE PERMANENT.**—Clause (iii) of section
 5 529(e)(3)(A) of the Internal Revenue Code of 1986 is
 6 amended by striking “in 2009 or 2010”.

7 (b) **ONLY FOR USE PRIMARILY BY THE BENE-**
 8 **FICIARY.**—Clause (iii) of section 529(e)(3)(A) of such
 9 Code is amended by striking “used by the beneficiary and
 10 the beneficiary’s family” and inserting “used primarily by
 11 the beneficiary”.

12 (c) **EFFECTIVE DATE.**—The amendments made by
 13 this section shall apply to expenses paid or incurred after
 14 December 31, 2014.

15 **SEC. 2. ELIMINATION OF DISTRIBUTION AGGREGATION RE-**
 16 **QUIREMENTS.**

17 (a) **IN GENERAL.**—Clause (ii) of section
 18 529(e)(3)(D) of the Internal Revenue Code of 1986 is
 19 amended by inserting before the comma at the end the
 20 following: “, except for purposes of calculating the earn-
 21 ings portion of any distribution.”.

22 (b) **EFFECTIVE DATE.**—The amendment made by
 23 this section shall apply to distributions after December 31,
 24 2014.

1 **SEC. 3. CONTRIBUTION OF AMOUNTS PREVIOUSLY DIS-**
 2 **TRIBUTED IN CASE OF WITHDRAWAL FROM**
 3 **SCHOOL.**

4 (a) IN GENERAL.—Paragraph (3) of section 529(e)
 5 of the Internal Revenue Code of 1986 is amended by add-
 6 ing at the end the following new subparagraph:

7 “(E) SPECIAL RULE FOR CONTRIBUTIONS
 8 RELATING TO WITHDRAWAL FROM SCHOOL.—In
 9 the case of a beneficiary who receives a refund
 10 of any qualified higher education expenses from
 11 an eligible educational institution in connection
 12 with withdrawal from enrollment at such insti-
 13 tution, subparagraph (A) shall not apply to that
 14 portion of any distribution for the taxable year
 15 which is recontributed to a qualified tuition pro-
 16 gram of which such individual is a beneficiary,
 17 but only to the extent such retribution is
 18 made not later than 60 days after the date of
 19 such refund and does not exceed the refunded
 20 amount.”.

21 (b) EFFECTIVE DATE.—The amendment made by
 22 this section shall apply with respect to distributions after
 23 December 31, 2014.

24 **SECTION 1. FINDINGS AND PURPOSE.**

25 (a) FINDINGS.—Congress finds the following:

1 (1) *When the Economic Growth and Tax Relief*
2 *Reconciliation Act of 2001 became law, the tax treat-*
3 *ment of section 529 college savings plans was changed*
4 *so that qualified distributions were no longer taxed as*
5 *income. The favorable tax treatment of college savings*
6 *plans was made permanent with the passage of the*
7 *Pension Protection Act of 2006.*

8 (2) *Section 529 college savings plans empower*
9 *middle-class families to accumulate savings to offset*
10 *the rising costs of attending college.*

11 (3) *The latest data from the College Savings*
12 *Plan Network shows that there are 11.83 million 529*
13 *accounts open throughout all 50 states, which rep-*
14 *resent \$244.5 billion in total assets. The average 529*
15 *account size is \$20,671.*

16 (4) *States that sponsor 529 college savings plans*
17 *have taken steps to ensure these plans are a tool that*
18 *all families can use to save for college, including set-*
19 *ting minimum contributions as low as \$25 per month*
20 *to encourage participation by families of all income*
21 *levels.*

22 (5) *The President's fiscal year 2016 Budget pro-*
23 *poses raising taxes by taxing certain future distribu-*
24 *tions made from 529 college savings plans.*

1 (6) *The tax proposed by the President would dis-*
 2 *courage the use of 529 college savings plans, requiring*
 3 *families and students to take on more debt.*

4 (7) *Purchase of a computer represents a signifi-*
 5 *cant higher education expense and therefore should be*
 6 *eligible for qualified distributions under 529 college*
 7 *savings plans.*

8 (b) *PURPOSE.—It is the purpose of this Act to—*

9 (1) *enact policies that strengthen 529 college sav-*
 10 *ings plans; and*

11 (2) *make 529 plans more modern, consumer-*
 12 *friendly, and responsive to the realities faced by stu-*
 13 *dents today.*

14 **SEC. 2. COMPUTER TECHNOLOGY AND EQUIPMENT PERMA-**
 15 **NENTLY ALLOWED AS A QUALIFIED HIGHER**
 16 **EDUCATION EXPENSE FOR SECTION 529 AC-**
 17 **COUNTS.**

18 (a) *IN GENERAL.—Section 529(e)(3)(A)(iii) of the In-*
 19 *ternal Revenue Code of 1986 is amended to read as follows:*

20 *“(iii) expenses for the purchase of com-*
 21 *puter or peripheral equipment (as defined*
 22 *in section 168(i)(2)(B)), computer software*
 23 *(as defined in section 197(e)(3)(B)), or*
 24 *Internet access and related services, if such*
 25 *equipment, software, or services are to be*

1 *used primarily by the beneficiary during*
 2 *any of the years the beneficiary is enrolled*
 3 *at an eligible educational institution.”.*

4 **(b) EFFECTIVE DATE.**—*The amendment made by this*
 5 *section shall apply to taxable years beginning after Decem-*
 6 *ber 31, 2014.*

7 **SEC. 3. ELIMINATION OF DISTRIBUTION AGGREGATION RE-**
 8 **QUIREMENTS.**

9 **(a) IN GENERAL.**—*Section 529(c)(3) of the Internal*
 10 *Revenue Code of 1986 is amended by striking subparagraph*
 11 *(D).*

12 **(b) EFFECTIVE DATE.**—*The amendment made by this*
 13 *section shall apply to distributions after December 31, 2014.*

14 **SEC. 4. RECONTRIBUTION OF REFUNDED AMOUNTS.**

15 **(a) IN GENERAL.**—*Section 529(c)(3) of the Internal*
 16 *Revenue Code of 1986, as amended by section 3, is amended*
 17 *by adding at the end the following new subparagraph:*

18 **“(D) SPECIAL RULE FOR CONTRIBUTIONS**
 19 **OF REFUNDED AMOUNTS.**—*In the case of a bene-*
 20 *ficiary who receives a refund of any qualified*
 21 *higher education expenses from an eligible edu-*
 22 *cational institution, subparagraph (A) shall not*
 23 *apply to that portion of any distribution for the*
 24 *taxable year which is recontributed to a qualified*
 25 *tuition program of which such individual is a*

1 *beneficiary, but only to the extent such recon-*
 2 *tribution is made not later than 60 days after*
 3 *the date of such refund and does not exceed the*
 4 *refunded amount.”.*

5 ***(b) EFFECTIVE DATE.—***

6 ***(1) IN GENERAL.—****The amendment made by this*
 7 *section shall apply with respect to refunds of qualified*
 8 *higher education expenses after December 31, 2014.*

9 ***(2) TRANSITION RULE.—****In the case of a refund*
 10 *of qualified higher education expenses received after*
 11 *December 31, 2014, and before the date of the enact-*
 12 *ment of this Act, section 529(c)(3)(D) of the Internal*
 13 *Revenue Code of 1986 (as added by this section) shall*
 14 *be applied by substituting “not later than 60 days*
 15 *after the date of the enactment of this subparagraph”*
 16 *for “not later than 60 days after the date of such re-*
 17 *fund”.*

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