

105TH CONGRESS  
1ST SESSION

# H. R. 1632

To amend the Internal Revenue Code of 1986 to permanently extend the exclusion for employer-provided educational assistance programs, to restore such exclusion for graduate level courses, and to allow a deduction for interest on education loans.

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## IN THE HOUSE OF REPRESENTATIVES

MAY 15, 1997

Mr. PAYNE introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to permanently extend the exclusion for employer-provided educational assistance programs, to restore such exclusion for graduate level courses, and to allow a deduction for interest on education loans.

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. EMPLOYER-PROVIDED EDUCATIONAL ASSIST-**  
4       **ANCE.**

5       (a) PERMANENT EXTENSION.—Section 127 of the  
6       Internal Revenue Code of 1986 (relating to exclusion for  
7       educational assistance programs) is amended by striking

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1 subsection (d) and by redesignating subsection (e) as sub-  
 2 section (d).

3 (b) RESTORATION OF EXCLUSION FOR GRADUATE  
 4 EDUCATION.—The last sentence of paragraph (1) of sec-  
 5 tion 127(c) of such Code is amended by striking “, and  
 6 such term also does not include any payment for, or the  
 7 provision of any benefits with respect to, any graduate  
 8 level course of a kind normally taken by an individual pur-  
 9 suing a program leading to a law, business, medical, or  
 10 other advanced academic or professional degree”.

11 (c) EFFECTIVE DATES.—

12 (1) EXTENSION.—The amendments made by  
 13 subsection (a) shall apply to taxable years beginning  
 14 after December 31, 1996.

15 (2) GRADUATE EDUCATION.—The amendment  
 16 made by subsection (b) shall apply with respect to  
 17 expenses relating to courses beginning after Decem-  
 18 ber 31, 1996.

19 **SEC. 2. DEDUCTION FOR INTEREST ON EDUCATION LOANS.**

20 (a) IN GENERAL.—Part VII of subchapter B of chap-  
 21 ter 1 of the Internal Revenue Code of 1986 (relating to  
 22 additional itemized deductions for individuals) is amended  
 23 by redesignating section 221 as section 222 and by insert-  
 24 ing after section 220 the following new section:

1 **“SEC. 221. INTEREST ON EDUCATION LOANS.**

2       “(a) ALLOWANCE OF DEDUCTION.—In the case of an  
3 individual, there shall be allowed as a deduction for the  
4 taxable year an amount equal to the interest paid by the  
5 taxpayer during the taxable year on any qualified edu-  
6 cation loan.

7       “(b) LIMITATION BASED ON MODIFIED ADJUSTED  
8 GROSS INCOME.—

9           “(1) IN GENERAL.—The amount allowed as a  
10 deduction under subsection (a) shall be reduced (but  
11 not below zero) by the amount determined under  
12 paragraph (2).

13           “(2) AMOUNT OF REDUCTION.—The amount  
14 determined under this paragraph equals the amount  
15 which bears the same ratio to the deduction (deter-  
16 mined without regard to this subsection) as—

17           “(A) the excess of—

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

20                   “(ii) \$50,000 (\$80,000 in the case of  
21 a joint return), bears to

22           “(B) \$20,000.

23           “(3) MODIFIED ADJUSTED GROSS INCOME.—

24       For purposes of paragraph (2), the term ‘modified  
25 adjusted gross income’ means the adjusted gross in-

1       come of the taxpayer for the taxable year deter-  
2       mined—

3               “(A) without regard to this section and  
4       sections 911, 931, and 933, and

5               “(B) after the application of sections 86,  
6       135, 137, 219, and 469.

7       For purposes of sections 86, 135, 219, and 469, ad-  
8       justed gross income shall be determined without re-  
9       gard to the deduction allowed under this section.

10              “(4) INFLATION ADJUSTMENT.—

11              “(A) IN GENERAL.—In the case of a tax-  
12       able year beginning after 1997, the \$50,000  
13       and \$80,000 amounts in paragraph (2)(A)(ii)  
14       shall each be increased by an amount equal  
15       to—

16              “(i) such dollar amounts, multiplied  
17       by

18              “(ii) the cost-of-living adjustment de-  
19       termined under section 1(f)(3) for the cal-  
20       endar year in which the taxable year be-  
21       gins, determined by substituting ‘calendar  
22       year 1996’ for ‘calendar year 1992’ in sub-  
23       paragraph (B) thereof.

24              “(B) ROUNDING.—If any amount as ad-  
25       justed under subparagraph (A) is not a multiple

1 of \$5,000, such amount shall be rounded to the  
 2 next lowest multiple of \$5,000.

3 “(c) DEPENDENTS NOT ELIGIBLE FOR DEDUC-  
 4 TION.—No deduction shall be allowed by this section to  
 5 an individual for the taxable year if a deduction under sec-  
 6 tion 151 with respect to such individual is allowed to an-  
 7 other taxpayer for the taxable year beginning in the cal-  
 8 endar year in which such individual’s taxable year begins.

9 “(d) DEFINITIONS.—For purposes of this section—

10 “(1) QUALIFIED EDUCATION LOAN.—The term  
 11 ‘qualified education loan’ means any indebtedness  
 12 incurred to pay qualified higher education ex-  
 13 penses—

14 “(A) which are incurred on behalf of the  
 15 taxpayer or the taxpayer’s spouse,

16 “(B) which are paid or incurred within a  
 17 reasonable period of time before or after the in-  
 18 debtedness is incurred, and

19 “(C) which are attributable to education  
 20 furnished during a period during which the re-  
 21 cipient was at least a half-time student.

22 Such term includes indebtedness used to refinance  
 23 indebtedness which qualifies as a qualified education  
 24 loan. The term ‘qualified education loan’ shall not  
 25 include any indebtedness owed to a person who is re-

1       lated (within the meaning of section 267(b) or  
2       707(b)(1)) to the taxpayer.

3               “(2) QUALIFIED HIGHER EDUCATION EX-  
4       PENSES.—

5               “(A) IN GENERAL.—The term ‘qualified  
6       higher education expenses’ means the excess  
7       of—

8               “(i) tuition and fees required for the  
9       enrollment or attendance of—

10               “(I) the taxpayer,

11               “(II) the taxpayer’s spouse, or

12               “(III) any dependent of the tax-  
13       payer with respect to whom the tax-  
14       payer is allowed a deduction under  
15       section 151,

16       as an eligible student at an institution of  
17       higher education, over

18               “(ii) the sum of—

19               “(I) the amount excluded from  
20       gross income under section 135 by  
21       reason of such tuition and fees, and

22               “(II) the amount of the reduction  
23       described in section 135(d)(1).

24               “(B) EXCEPTIONS.—Such term does not  
25       include—

1 “(i) expenses with respect to any  
 2 course or other education involving sports,  
 3 games, or hobbies, unless such course or  
 4 other education is part of the student’s de-  
 5 gree program, and

6 “(ii) student activity fees, athletic  
 7 fees, insurance expenses, or other expenses  
 8 unrelated to a student’s academic course of  
 9 instruction.

10 “(C) ELIGIBLE STUDENT.—The term ‘eli-  
 11 gible student’ means, with respect to any aca-  
 12 demic period, a student who—

13 “(i) meets the requirements of section  
 14 484(a)(1) of the Higher Education Act of  
 15 1965 (20 U.S.C. 1091(a)(1)), as in effect  
 16 on the date of the enactment of this sec-  
 17 tion, and

18 “(ii) is carrying at least  $\frac{1}{2}$  the normal  
 19 full-time work load for the course of study  
 20 the student is pursuing, as reasonably de-  
 21 termined by the institution of higher edu-  
 22 cation.

23 “(3) INSTITUTION OF HIGHER EDUCATION.—  
 24 The term ‘institution of higher education’ means an  
 25 institution—

1           “(A) which is described in section 481 of  
 2           the Higher Education Act of 1965 (20 U.S.C.  
 3           1088), as in effect on the date of the enactment  
 4           of this section, and

5           “(B) which is eligible to participate in pro-  
 6           grams under title IV of such Act.

7           Such term includes an institution conducting an in-  
 8           ternship or residency program leading to a degree or  
 9           certificate awarded by an institution of higher edu-  
 10          cation, a hospital, or a health care facility which of-  
 11          fers postgraduate training.

12          “(4) FULL-TIME STUDENT.—The term ‘full-  
 13          time student’ means any student who is carrying at  
 14          least the normal full-time work load for the course  
 15          of study the student is pursuing, as reasonably de-  
 16          termined by the institution of higher education.

17          “(5) HALF-TIME STUDENT.—The term ‘half-  
 18          time student’ means any individual who would be a  
 19          student as defined in section 151(c)(4) if ‘half-time’  
 20          were substituted for ‘full-time’ each place it appears  
 21          in such section.

22          “(6) DEPENDENT.—The term ‘dependent’ has  
 23          the meaning given such term by section 152.

24          “(e) SPECIAL RULES.—



1           “(1) DENIAL OF DOUBLE BENEFIT.—No deduc-  
 2           tion shall be allowed under this section for any  
 3           amount for which a deduction is allowable under any  
 4           other provision of this chapter.

5           “(2) MARRIED COUPLES MUST FILE JOINT RE-  
 6           TURN.—If the taxpayer is married at the close of  
 7           the taxable year, the deduction shall be allowed  
 8           under subsection (a) only if the taxpayer and the  
 9           taxpayer’s spouse file a joint return for the taxable  
 10          year.

11          “(3) MARITAL STATUS.—Marital status shall be  
 12          determined in accordance with section 7703.”

13          (b) DEDUCTION ALLOWED WHETHER OR NOT TAX-  
 14          PAYER ITEMIZES OTHER DEDUCTIONS.—Subsection (a)  
 15          of section 62 of such Code is amended by inserting after  
 16          paragraph (16) the following new paragraph:

17                 “(17) INTEREST ON EDUCATION LOANS.—The  
 18                 deduction allowed by section 221.”

19          (c) REPORTING REQUIREMENT.—

20                 (1) IN GENERAL.—Subpart B of part III of  
 21                 subchapter A of chapter 61 of such Code (relating  
 22                 to information concerning transactions with other  
 23                 persons) is amended by inserting after section  
 24                 6050R the following new section:

1 **“SEC. 6050S. RETURNS RELATING TO EDUCATION LOAN IN-**  
2 **TEREST RECEIVED IN TRADE OR BUSINESS**  
3 **FROM INDIVIDUALS.**

4 “(a) EDUCATION LOAN INTEREST OF \$600 OR  
5 MORE.—Any person—

6 “(1) who is engaged in a trade or business, and

7 “(2) who, in the course of such trade or busi-  
8 ness, receives from any individual interest aggregat-  
9 ing \$600 or more for any calendar year on 1 or  
10 more qualified education loans,

11 shall make the return described in subsection (b) with re-  
12 spect to each individual from whom such interest was re-  
13 ceived at such time as the Secretary may by regulations  
14 prescribe.

15 “(b) FORM AND MANNER OF RETURNS.—A return  
16 is described in this subsection if such return—

17 “(1) is in such form as the Secretary may pre-  
18 scribe,

19 “(2) contains—

20 “(A) the name, address, and TIN of the  
21 individual from whom the interest described in  
22 subsection (a)(2) was received,

23 “(B) the amount of such interest received  
24 for the calendar year, and

25 “(C) such other information as the Sec-  
26 retary may prescribe.

1       “(c) APPLICATION TO GOVERNMENTAL UNITS.—For  
2 purposes of subsection (a)—

3               “(1) TREATED AS PERSONS.—The term ‘per-  
4 son’ includes any governmental unit (and any agency  
5 or instrumentality thereof).

6               “(2) SPECIAL RULES.—In the case of a govern-  
7 mental unit or any agency or instrumentality there-  
8 of—

9                       “(A) subsection (a) shall be applied with-  
10 out regard to the trade or business requirement  
11 contained therein, and

12                      “(B) any return required under subsection  
13 (a) shall be made by the officer or employee ap-  
14 propriately designated for the purpose of mak-  
15 ing such return.

16       “(d) STATEMENTS TO BE FURNISHED TO INDIVID-  
17 UALS WITH RESPECT TO WHOM INFORMATION IS RE-  
18 QUIRED.—Every person required to make a return under  
19 subsection (a) shall furnish to each individual whose name  
20 is required to be set forth in such return a written state-  
21 ment showing—

22               “(1) the name and address of the person re-  
23 quired to make such return, and

24               “(2) the aggregate amount of interest described  
25 in subsection (a)(2) received by the person required

1 to make such return from the individual to whom  
 2 the statement is required to be furnished.

3 The written statement required under the preceding sen-  
 4 tence shall be furnished on or before January 31 of the  
 5 year following the calendar year for which the return  
 6 under subsection (a) was required to be made.

7 “(e) QUALIFIED EDUCATION LOAN DEFINED.—For  
 8 purposes of this section, except as provided in regulations  
 9 prescribed by the Secretary, the term ‘qualified education  
 10 loan’ has the meaning given such term by section  
 11 221(d)(1).

12 “(f) RETURNS WHICH WOULD BE REQUIRED TO BE  
 13 MADE BY 2 OR MORE PERSONS.—Except to the extent  
 14 provided in regulations prescribed by the Secretary, in the  
 15 case of interest received by any person on behalf of an-  
 16 other person, only the person first receiving such interest  
 17 shall be required to make the return under subsection  
 18 (a).”

19 (2) ASSESSABLE PENALTIES.—Section 6724(d)  
 20 of such Code (relating to definitions) is amended—

21 (A) by redesignating clauses (x) through  
 22 (xv) as clauses (xi) through (xvi), respectively,  
 23 in paragraph (1)(B) and by inserting after  
 24 clause (ix) of such paragraph the following new  
 25 clause:

1 “(x) section 6050S (relating to re-  
 2 turns relating to education loan interest re-  
 3 ceived in trade or business from individ-  
 4 uals),”, and

5 (B) by striking “or” at the end of the next  
 6 to last subparagraph, by striking the period at  
 7 the end of the last subparagraph and inserting  
 8 “, or”, and by adding at the end the following  
 9 new subparagraph:

10 “(Z) section 6050R (relating to returns re-  
 11 lating to education loan interest received in  
 12 trade or business from individuals).”

13 (d) CLERICAL AMENDMENTS.—

14 (1) The table of sections for part VII of sub-  
 15 chapter B of chapter 1 of such Code is amended by  
 16 striking the last item and inserting the following  
 17 new items:

“Sec. 221. Interest on education loans.

“Sec. 222. Cross reference.”

18 (2) The table of sections for subpart B of part  
 19 III of subchapter A of chapter 61 of such Code is  
 20 amended by inserting after the item relating to sec-  
 21 tion 6050R the following new item:

“Sec. 6050S. Returns relating to education loan interest received  
 in trade or business from individuals.”

22 (e) EFFECTIVE DATE.—The amendments made by  
 23 this section shall apply to any qualified education loan (as

1 defined in section 221(d)(1) of the Internal Revenue Code  
2 of 1986, as added by this section) incurred on, before, or  
3 after the date of the enactment of this Act, but only with  
4 respect to any loan interest payment due after December  
5 31, 1996.

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