

105TH CONGRESS  
1ST SESSION

# H. R. 1819

To amend the Internal Revenue Code of 1986 to provide for the establishment of lifetime learning accounts for the purpose of accumulating funds to pay the qualified expenses related to higher education and job training of the taxpayer and the taxpayer's family.

---

## IN THE HOUSE OF REPRESENTATIVES

JUNE 5, 1997

Mr. ROTHMAN (for himself, Mr. FROST, and Ms. CHRISTIAN-GREEN) 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 provide for the establishment of lifetime learning accounts for the purpose of accumulating funds to pay the qualified expenses related to higher education and job training of the taxpayer and the taxpayer's family.

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 “Lifetime Learning Af-  
5       fordability Act of 1997”.

1 **SEC. 2. FINDINGS AND PURPOSE.**

2 (a) FINDINGS.—The Congress finds that—

3 (1) the rising costs of higher education are put-  
4 ting lifetime learning and training opportunities out  
5 of reach for millions of Americans;

6 (2) individuals who complete at least 2 years of  
7 college generally earn more than those with only a  
8 high school diploma;

9 (3) offering tax incentives to help American  
10 families save for education expenses will lead to  
11 more Americans going to college; and

12 (4) ensuring the American workforce is well  
13 educated and well trained throughout their lifetime  
14 will give our Nation a significant competitive advan-  
15 tage in the global marketplace.

16 (b) PURPOSE.—The purpose of this Act is to ensure  
17 that all Americans are given an opportunity to obtain the  
18 education and job training they need to compete in the  
19 world’s rapidly changing marketplace.

20 **TITLE I—LIFETIME LEARNING**  
21 **ACCOUNTS**

22 **SEC. 101. DEDUCTION FOR CONTRIBUTIONS TO LIFETIME**  
23 **LEARNING ACCOUNTS.**

24 (a) IN GENERAL.—Part VII of subchapter B of chap-  
25 ter 1 of the Internal Revenue Code of 1986 (relating to  
26 additional itemized deductions for individuals) is amended

1 by redesignating section 221 as section 222 and by insert-  
2 ing after section 220 the following new section:

3 **“SEC. 221. LIFETIME LEARNING ACCOUNTS.**

4       “(a) DEDUCTION ALLOWED.—In the case of an indi-  
5 vidual, there shall be allowed as a deduction an amount  
6 equal to the amount paid in cash for the taxable year by  
7 the taxpayer to a lifetime learning account established for  
8 the purpose of accumulating funds to pay the qualified  
9 expenses related to higher education or job training of the  
10 taxpayer or any family member of the taxpayer.

11       “(b) LIMITATIONS.—

12               “(1) MAXIMUM DEDUCTION.—The amount al-  
13 lowable as a deduction under subsection (a) to the  
14 taxpayer for any taxable year shall not exceed  
15 \$4,000 (\$2,000 in the case of a married individual  
16 filing a separate return) for amounts paid for the  
17 benefit of the taxpayer and each family member of  
18 the taxpayer.

19               “(2) DEDUCTION NOT TO EXCEED COMPENSA-  
20 TION.—The amount allowable as a deduction under  
21 subsection (a) shall not exceed the amount of the  
22 taxpayer’s gross income for the taxable year.

23               “(3) MAXIMUM AMOUNT OF DEPOSIT FOR  
24 WHICH DEDUCTION IS ALLOWABLE IN CASE OF MUL-  
25 TIPLE CONTRIBUTORS.—With respect to a lifetime

learning account of a beneficiary who has not attained age 22 before the close of the calendar year in which such payment is made, the total amount allowable as a deduction under subsection (a) for the taxable year of the beneficiary is \$4,000 (\$2,000 in the case of a married individual filing a separate return). The allocation of such deduction among contributors shall be in accordance with regulations prescribed by the Secretary.

“(4) DEDUCTIONS AFTER BENEFICIARY ATTAINS AGE 22.—

“(A) LIMITED TO DEPOSITS BY BENEFICIARY; MAXIMUM AMOUNT.—In the case of a beneficiary of a lifetime learning account who has attained age 22 before the close of the calendar year—

“(i) no deduction for any payment in that calendar year shall be allowed under subsection (a) to any individual other than the beneficiary or the spouse of the beneficiary (where a joint return is filed), and

“(ii) the amount allowable as such deduction for any taxable year shall not exceed \$2,000.

1           “(B) NO DEDUCTION AFTER BENEFICIARY  
2           ATTAINS AGE 40.—No deduction shall be al-  
3           lowed for any payment to a lifetime learning ac-  
4           count established for the benefit of an individ-  
5           ual who has attained age 40 before the close of  
6           the calendar year in which such payment is  
7           made.

8           “(5) ACCOUNT MAY NOT BE ESTABLISHED FOR  
9           BENEFIT OF MORE THAN 1 INDIVIDUAL.—A lifetime  
10          learning account may not be established for the ben-  
11          efit of more than 1 individual.

12          “(6) INCOME LIMITATION BASED ON INCOME  
13          OF PARENTS OR LEGAL GUARDIAN OF BENE-  
14          FICIARY.—No deduction shall be allowed under sub-  
15          section (a) for a payment by a taxpayer to the life-  
16          time learning account of a beneficiary if the adjusted  
17          gross income of the parents or legal guardian of  
18          such beneficiary (other than a beneficiary described  
19          by paragraph (4)(A)) exceeds \$85,000 (\$125,000 in  
20          the case of a joint return and \$62,500 in the case  
21          of a married individual filing a separate return). For  
22          purposes of the preceding sentence, rules similar to  
23          rules of section 152(e) (relating to support test in  
24          case of child of divorced parents, etc.).

1           “(7) NO CONTRIBUTION IF BALANCE IN AC-  
2           COUNT EXCEEDS \$100,000.—No amount may be con-  
3           tributed, or rolled over under clause (ii) of sub-  
4           section (c)(1)(E), to a lifetime learning account if  
5           the balance of such account exceeds \$100,000.

6           “(c) DEFINITIONS AND SPECIAL RULES.—For pur-  
7           poses of this section—

8           “(1) LIFETIME LEARNING ACCOUNT.—The  
9           term ‘lifetime learning account’ means a trust cre-  
10          ated or organized in the United States exclusively  
11          for the purpose of paying the qualified expenses of  
12          the account holder related to higher education or job  
13          training, but only if the written governing instru-  
14          ment creating the trust meets the following require-  
15          ments:

16               “(A) No contribution will be accepted un-  
17               less it is in cash, and contributions will not be  
18               accepted for the taxable year in excess of an ag-  
19               gregate of \$4,000 (\$2,000 in the case of a ben-  
20               eficiary who has attained the age of 22).

21               “(B) The trustee is a bank (as defined in  
22               section 408(n)) or another person who dem-  
23               onstrates to the satisfaction of the Secretary  
24               that the manner in which that person will ad-

1 minister the trust will be consistent with the re-  
2 quirements of this section.

3 “(C) No part of the trust assets will be in-  
4 vested in life insurance contracts.

5 “(D) The assets of the trust shall not be  
6 commingled with other property except in a  
7 common trust fund or common investment  
8 fund.

9 “(E) On the termination date—

10 “(i) the balance in the account shall  
11 be distributed to the individual for whose  
12 benefit the account is established, or

13 “(ii) at the election of such individual,  
14 from amounts in the account, not to exceed  
15 \$50,000 in the aggregate—

16 “(I) shall be treated for purposes  
17 of this title as a lifetime learning ac-  
18 count for each of those designated  
19 family members of such individual  
20 who does not have a lifetime learning  
21 account and who has not attained the  
22 age of 18 before the close of the cal-  
23 endar year in which such date occurs,

24 “(II) shall be rolled over in ac-  
25 cordance with subsection (d)(4) into

1 the lifetime learning account of each  
2 of those designated family members of  
3 such individual who has a lifetime  
4 learning account and who has not at-  
5 tained the age of 18 before the close  
6 of the calendar year in which such  
7 date occurs,

8 “(III) shall be contributed to an  
9 eligible educational institution, or

10 “(IV) shall be contributed to an  
11 organization described in section  
12 501(c) that is exempt from taxation  
13 under section 501(a) whose purpose is  
14 providing scholarships at eligible edu-  
15 cational institutions.

16 Amounts contributed under subclause (III)  
17 or (IV) shall not be treated as a charitable  
18 contribution (as defined in section 170(c).

19 “(2) FAMILY MEMBER.—The term ‘family  
20 member’ means—

21 “(A) any individual with a relationship to  
22 the taxpayer specified in section 267(c)(4),

23 “(B) with respect to only to contributions  
24 for which a deduction is allowed by subsection



1 (a), any sibling of either parent of the account  
 2 holder and the spouse of any such sibling, and

3 “(C) in the case of lifetime learning ac-  
 4 count of a minor, or of an individual who is  
 5 mentally incompetent or under other legal dis-  
 6 ability adjudged by a court of competent juris-  
 7 diction, such term includes the person who is  
 8 constituted guardian or other fiduciary by the  
 9 law of the State of residence of such minor or  
 10 individual or is otherwise legally vested with the  
 11 care of the minor or individual, or the estate  
 12 thereof.

13 “(3) TERMINATION DATE.—The term ‘termi-  
 14 nation date’ means—

15 “(A) the date the beneficiary attains age  
 16 59½, or

17 “(B) the date of the beneficiary’s death.

18 “(4) QUALIFIED EXPENSES.—The term ‘quali-  
 19 fied expenses’ means—

20 “(A) educational expenses, and

21 “(B) job training expenses.

22 “(5) EDUCATIONAL EXPENSES.—

23 “(A) IN GENERAL.—

24 “(i) EDUCATIONAL EXPENSES.—The  
 25 term ‘educational expenses’ means—

1 “(I) tuition and fees required for  
2 the enrollment or attendance of a stu-  
3 dent at an eligible educational institu-  
4 tion,

5 “(II) fees, books, supplies, and  
6 equipment required for courses of in-  
7 struction at an eligible educational in-  
8 stitution, and

9 “(III) a reasonable allowance for  
10 meals and lodging while attending an  
11 eligible educational institution (not to  
12 exceed the amounts specified in regu-  
13 lations prescribed by the Secretary).

14 “(ii) EXCEPTION FOR EDUCATION IN-  
15 VOLVING SPORTS, ETC.—Such term does  
16 not include expenses with respect to any  
17 course or other education involving sports,  
18 games, or hobbies, unless such course or  
19 other education is part of the individual’s  
20 degree program.

21 “(iii) EXCEPTION FOR NONACADEMIC  
22 FEES.—Such term does not include stu-  
23 dent activity fees, athletic fees, insurance  
24 expenses, or other expenses unrelated to

1 the individual's academic course of instruc-  
2 tion.

3 “(B) ELIGIBLE EDUCATIONAL INSTITU-  
4 TION.—The term ‘eligible educational institu-  
5 tion’ means—

6 “(i) an institution of higher education,  
7 or

8 “(ii) a vocational school.

9 “(C) INSTITUTION OF HIGHER EDU-  
10 CATION.—The term ‘institution of higher edu-  
11 cation’ means the institutions described in sec-  
12 tion 1201(a) or 481(a) of the Higher Education  
13 Act of 1965.

14 “(D) VOCATIONAL SCHOOL.—The term  
15 ‘vocational school’ means an area vocational  
16 education school as defined in subparagraph  
17 (C) or (D) of section 521(4) of the Carl D. Per-  
18 kins Vocational and Applied Technology Edu-  
19 cation Act to the extent such school is located  
20 within any State (as defined in such section).

21 “(6) JOB TRAINING EXPENSES.—

22 “(A) IN GENERAL.—The term ‘job training  
23 expenses’ means—

24 “(i) tuition and fees required for the  
25 enrollment or attendance of—

1 “(I) a student at an eligible edu-  
2 cational institution, or

3 “(II) a worker in an applicable  
4 training program,

5 “(ii) fees, books, supplies, and equip-  
6 ment required for—

7 “(I) courses of instruction at an  
8 eligible educational institution, or

9 “(II) for an applicable training  
10 program, and

11 “(iii) a reasonable allowance for meals  
12 and lodging while attending an eligible  
13 educational institution or an applicable  
14 training program (not to exceed the  
15 amounts specified in regulations prescribed  
16 by the Secretary).

17 “(B) EXCEPTION FOR EDUCATION INVOLV-  
18 ING SPORTS, ETC.—Such term does not include  
19 expenses with respect to any job training involv-  
20 ing sports, games, or hobbies, unless such train-  
21 ing is to improve the individual’s job skills or  
22 for the individual to acquire new job skills.

23 “(C) EXCEPTION FOR NONACADEMIC  
24 FEES.—Such term does not include student ac-  
25 tivity fees, athletic fees, insurance expenses, or

1 other expenses unrelated to the individual's job  
2 training.

3 “(D) APPLICABLE TRAINING PROGRAM.—

4 The term ‘applicable training program’  
5 means—

6 “(i) any applicable program (as de-  
7 fined in section 314(g) of the Job Training  
8 Partnership Act), and

9 “(ii) any training program approved  
10 under section 236 of the Trade Act of  
11 1974.

12 “(7) DENIAL OF DEDUCTION FOR AMOUNTS  
13 PAID FROM ACCOUNT.—If any amount paid or dis-  
14 tributed from a lifetime learning account is not in-  
15 cluded in gross income by reason of being used to  
16 pay any qualified expense, such expense shall not be  
17 taken into account in determining the amount of any  
18 deduction under section 212, 217, or any other pro-  
19 vision of this chapter.

20 “(8) TIME WHEN CONTRIBUTIONS DEEMED  
21 MADE.—A taxpayer shall be deemed to have made a  
22 contribution on the last day of the preceding taxable  
23 year if the contribution is made on account of such  
24 taxable year and is made not later than the time

1 prescribed by law for filing the return for such tax-  
2 able year (including extensions thereof).

3 “(d) TAX TREATMENT OF DISTRIBUTIONS.—

4 “(1) IN GENERAL.—Except as otherwise pro-  
5 vided in this subsection, any amount paid from a  
6 lifetime learning account shall be included in the  
7 gross income of the beneficiary of such account for  
8 the taxable year in which the payment is received.

9 “(2) AMOUNTS USED FOR EDUCATION, JOB  
10 TRAINING, OR EXPENSES.—If any payment from a  
11 lifetime learning account is used to pay the qualified  
12 expenses of the beneficiary of such account—

13 “(A) paragraph (1) shall not apply, but

14 “(B) such amount shall be included in  
15 gross income of the beneficiary of such account  
16 for—

17 “(i) the 8th taxable year beginning  
18 after the taxable year in which the pay-  
19 ment is received, or

20 “(ii) at the election of, and in the  
21 amounts allocated by, the beneficiary, any  
22 of the first eight taxable years beginning  
23 after the taxable year in which the pay-  
24 ment is received.

1           “(3) EXCESS CONTRIBUTIONS RETURNED BE-  
2       FORE DUE DATE OF RETURN.—Paragraph (1) shall  
3       not apply to the distribution of any contribution  
4       made during a taxable year to a lifetime learning ac-  
5       count to the extent that such contribution exceeds  
6       the amount allowable as a deduction under sub-  
7       section (a) if—

8           “(A) such distribution is received on or be-  
9       fore the day prescribed by law (including exten-  
10      sions of time) for filing such individual’s return  
11      for such taxable year,

12          “(B) no deduction is allowed under sub-  
13      section (a) with respect to such excess contribu-  
14      tion, and

15          “(C) such distribution is accompanied by  
16      the amount of net income attributable to such  
17      excess contribution.

18      Any net income described in subparagraph (C) shall  
19      be included in the gross income of the individual for  
20      the taxable year in which such excess contribution  
21      was made.

22          “(4) TREATMENT AS OTHER LIFETIME LEARN-  
23      ING ACCOUNTS AND NONTAXABLE CONTRIBUTIONS  
24      THAT ARE NOT SUBJECT TO INCOME TAX INCLU-  
25      SION.—The treatment described in subsection

(c)(1)(E)(ii) shall not be treated as a distribution for purposes of this subsection. The preceding sentence shall apply in the case of a rollover under subclause (II) of such subsection to any amount (not to exceed \$50,000) paid or distributed on the termination date out of a lifetime learning account to an individual for whose benefit the account is maintained if the entire amount received (including money and any other property) is paid into the lifetime learning account for the benefit of a family member of such individual not later than the 60th day after the day on which he received the payment or distribution.

“(e) TAX TREATMENT OF ACCOUNTS.—

“(1) EXEMPTION FROM TAX.—A lifetime learning account is exempt from taxation under this subtitle unless such account has ceased to be a lifetime learning account by reason of paragraph (2) or (3). Notwithstanding the preceding sentence, any such account is subject to the taxes imposed by section 511 (relating to imposition of tax on unrelated business income of charitable, etc. organizations).

“(2) LOSS OF EXEMPTION OF ACCOUNT WHERE INDIVIDUAL ENGAGES IN PROHIBITED TRANSACTION OR FAILS TO MAKE REQUIRED PAYMENT.—

“(A) IN GENERAL.—



1           “(i) PROHIBITED TRANSACTION.—If  
2           the individual for whose benefit a lifetime  
3           learning account is established or any indi-  
4           vidual who contributes to such account en-  
5           gages in any transaction prohibited by sec-  
6           tion 4975 with respect to the account, the  
7           account shall cease to be a lifetime learn-  
8           ing account as of the first day of the tax-  
9           able year (of the individual so engaging in  
10          such transaction) during which such trans-  
11          action occurs.

12          “(ii) FAILURE TO MAKE REQUIRED  
13          PAYMENT.—

14               “(I) IN GENERAL.—In the case  
15               of a beneficiary who incurs qualified  
16               expenses (reduced by amounts de-  
17               scribed in subclause (II)) but who  
18               fails to make a payment for such ex-  
19               penses from the beneficiary’s lifetime  
20               learning account, the account shall  
21               cease to be a lifetime learning account  
22               as of the first day of the taxable year  
23               of the beneficiary during which such  
24               failure occurs.

1                   “(II) SCHOLARSHIPS AND EDU-  
2                   CATIONAL BENEFITS.—The amounts  
3                   described in this clause are amounts  
4                   received by, or on behalf of, the bene-  
5                   ficiary that are described in section  
6                   135(c)(1) (relating to qualified United  
7                   States savings bond) and subpara-  
8                   graphs (A), (B), and (D) of section  
9                   135(d)(1) (relating to certain scholar-  
10                  ships and veterans benefits).

11                 “(B) ACCOUNT TREATED AS DISTRIBUTING  
12                 ALL ITS ASSETS.—In any case in which any ac-  
13                 count ceases to be a lifetime learning account  
14                 by reason of subparagraph (A) as of the first  
15                 day of any taxable year, paragraph (1) of sub-  
16                 section (d) shall apply as if there was a dis-  
17                 tribution on such first day in an amount equal  
18                 to the fair market value (on such first day) of  
19                 all assets in the account (on such first day).

20                 “(3) EFFECT OF PLEDGING ACCOUNT AS SECU-  
21                 RITY.—If, during any taxable year, the individual for  
22                 whose benefit a lifetime learning account is estab-  
23                 lished, or any individual who contributes to such ac-  
24                 count, uses the account or any portion thereof as se-  
25                 curity for a loan, the portion so used shall be treated

1 as distributed to the individual so using such por-  
2 tion.

3 “(f) ADDITIONAL TAX ON CERTAIN DISTRIBUTIONS.—  
4

5 “(1) DISTRIBUTION NOT USED FOR EDUCATIONAL OR JOB TRAINING EXPENSES.—If any  
6 payment from a lifetime learning account is used for  
7 any purpose other than the payment of the qualified  
8 expenses of the beneficiary of such account, the tax  
9 liability under this chapter of such beneficiary for  
10 the taxable year in which the payment is received  
11 shall be increased by an amount equal to 20 percent  
12 of such payment.  
13

14 “(2) DISTRIBUTIONS ON TERMINATION OF ACCOUNT.—  
15

16 “(A) IN GENERAL.—Paragraph (1) shall  
17 be applied by substituting ‘10 percent’ for ‘20  
18 percent’ in the case of any distribution made on  
19 the termination date to the beneficiary of the  
20 account.

21 “(B) TERMINATION OF SUBSEQUENT ACCOUNT.—If—  
22

23 “(i) the election under subsection  
24 (c)(1)(E)(ii) is made with respect to any  
25 account, and

1                   “(ii) the termination date occurs other  
2                   than by reason of the death of the account  
3                   beneficiary,  
4                   the tax liability under this chapter of such ben-  
5                   eficiary for the taxable year which includes the  
6                   termination date shall be increased by an  
7                   amount equal to 20 percent of the balance in  
8                   such account on such date.

9                   “(3) DISABILITY CASES.—Paragraphs (1) and  
10                  (2)(A) shall not apply if the distribution is made  
11                  after the account beneficiary becomes disabled with-  
12                  in the meaning of section 72(m)(7).

13                  “(4) DISQUALIFICATION CASES.—Any amount  
14                  treated under paragraph (2) or (3) of subsection (e)  
15                  as distributed from a lifetime learning account shall  
16                  be treated as a distribution to which the tax imposed  
17                  by paragraph (1) applies.

18                  “(g) COMMUNITY PROPERTY LAWS.—This section  
19                  shall be applied without regard to any community property  
20                  laws.

21                  “(h) REPORTS.—The trustee of a lifetime learning  
22                  account shall make such reports regarding such account  
23                  to the Secretary and to the individual for whose benefit  
24                  the account is maintained with respect to contributions,  
25                  distributions, and such other matters as the Secretary

1 may require under regulations. The reports required by  
 2 this subsection shall be filed at such time and in such  
 3 manner and furnished to such individuals at such time and  
 4 in such manner as may be required by those regulations.”

5 (b) DEDUCTION ALLOWED IN ARRIVING AT AD-  
 6 JUSTED GROSS INCOME.—Subsection (a) of section 62 of  
 7 such Code (relating to retirement savings) is amended by  
 8 inserting after paragraph (16) the following new para-  
 9 graph:

10 “(17) EDUCATION AND JOB TRAINING SAV-  
 11 INGS.—The deduction allowed by section 221 (relat-  
 12 ing to lifetime learning accounts).”

13 (c) TAX ON EXCESS CONTRIBUTIONS.—Section 4973  
 14 of such Code (relating to tax on excess contributions to  
 15 individual retirement accounts, certain section 403(b) con-  
 16 tracts, and certain individual retirement annuities) is  
 17 amended—

18 (1) by inserting “**LIFETIME LEARNING AC-**  
 19 **COUNTS,**” after “**SAVINGS ACCOUNTS,**” in the  
 20 heading of such section,

21 (2) by striking “or” at the end of paragraph  
 22 (2) of subsection (a),

23 (3) by redesignating paragraph (3) of sub-  
 24 section (a) as paragraph (4) and by inserting after  
 25 paragraph (2) the following new paragraph:

1           “(3) a lifetime learning account (within the  
2           meaning of section 221(c)(1)), or”, and

3           (4) by adding at the end the following new sub-  
4           section:

5           “(e) EXCESS CONTRIBUTIONS TO LIFETIME LEARN-  
6           ING ACCOUNTS.—For purposes of this section, in the case  
7           of a lifetime learning account, the term ‘excess contribu-  
8           tions’ means the amount by which the amount contributed  
9           for the taxable year to the account exceeds the amount  
10          allowable as a deduction under section 221 for such tax-  
11          able year. For purposes of this subsection, any contribu-  
12          tion which is distributed out of the lifetime learning ac-  
13          count in a distribution to which section 221(d)(3) applies  
14          shall be treated as an amount not contributed.”

15          (d) TAX ON PROHIBITED TRANSACTIONS.—

16                 (1) Subsection (c) of section 4975 of such Code  
17                 (relating to prohibited transactions) is amended by  
18                 adding at the end the following new paragraph:

19                 “(5) SPECIAL RULE FOR LIFETIME LEARNING  
20                 ACCOUNTS.—An individual for whose benefit a life-  
21                 time learning account is established and any contrib-  
22                 utor to such account shall be exempt from the tax  
23                 imposed by this section with respect to any trans-  
24                 action concerning such account (which would other-  
25                 wise be taxable under this section) if, with respect

1 to such transaction, the account ceases to be a life-  
 2 time learning account by reason of the application of  
 3 section 221(e)(2)(A) to such account.”

4 (2) Paragraph (1) of section 4975(e) of such  
 5 Code is amended by striking “or” at the end of sub-  
 6 paragraph (D), by redesignating subparagraph (E)  
 7 as subparagraph (F), and by inserting after sub-  
 8 paragraph (D) the following new subparagraph:

9 “(E) a lifetime learning account described  
 10 in section 221(c)(1), or”.

11 (e) FAILURE TO PROVIDE REPORTS ON LIFETIME  
 12 LEARNING ACCOUNTS.—

13 (1) Paragraph (2) of section 6693(a) of such  
 14 Code (relating to failure to provide reports on indi-  
 15 vidual retirement accounts or annuities) is amended  
 16 by striking “and” at the end of subparagraph (A),  
 17 by striking the period at the end of subparagraph  
 18 (B) and inserting “, and”, and by adding at the end  
 19 the following new subparagraph:

20 “(C) section 221(i) (relating to lifetime  
 21 learning accounts).”.

22 (2) The heading for section 6693 of such Code  
 23 is amended to read as follows:

1 **“SEC. 6693. FAILURE TO PROVIDE REPORTS ON INDIVIDUAL**  
 2 **RETIREMENT PLANS AND CERTAIN OTHER**  
 3 **SAVINGS PLANS.”**

4 (f) CLERICAL AMENDMENTS.—

5 (1) The table of sections for part VII of sub-  
 6 chapter B of chapter 1 of such Code is amended by  
 7 striking the item relating to section 221 and insert-  
 8 ing the following new items:

“Sec. 221. Lifetime learning accounts.

“Sec. 222. Cross reference.”

9 (2) The table of sections for chapter 43 of such  
 10 Code is amended by striking the item relating to sec-  
 11 tion 4973 and inserting the following new item:

“Sec. 4973. Tax on excess contributions to individual retirement  
 accounts, medical savings accounts, lifetime learn-  
 ing accounts, certain 403(b) contracts, and certain  
 individual retirement annuities.”

12 (3) The table of sections for subchapter B of  
 13 chapter 68 of such Code is amended by striking the  
 14 item relating to section 6693 and inserting the fol-  
 15 lowing new item:

“Sec. 6693. Failure to provide reports on individual retirement  
 plans and certain other savings plans.”

16 (g) TREATMENT OF LIFETIME LEARNING ACCOUNTS  
 17 UNDER FEDERAL STUDENT FINANCIAL AID.—Subpara-  
 18 graph (A) of sections 475(d)(2), 476(c)(2), and 477(c)(2)  
 19 of the Higher Education Act of 1965 (20 U.S.C.  
 20 1087oo(d)(2)(A), 1087pp(c)(2)(A), 1087rr(c)(2)(A)) are  
 21 each amended by inserting before the semicolon at the end



1 thereof the following: “, excluding any amounts held in  
 2 a lifetime learning account established in accordance with  
 3 section 221 of the Internal Revenue Code of 1986 (26  
 4 U.S.C. 221)”.

5 (h) EFFECTIVE DATES.—

6 (1) IN GENERAL.—The amendments made by  
 7 this section shall apply to contributions made in tax-  
 8 able years beginning after December 31, 1997.

9 (2) EFFECTIVE DATE.—The amendments made  
 10 by subsection (g) shall apply to determinations of  
 11 need under title IV of the Higher Education Act of  
 12 1965 for periods of enrollment beginning on or after  
 13 July 1, 1998.

## 14 **TITLE II—INCREASE IN MAXI-** 15 **MUM PELL GRANT AWARDS.**

### 16 **SEC. 201. INCREASE IN MAXIMUM PELL GRANTS.**

17 (a) MAXIMUM PELL AMOUNTS.—Paragraph (2)(A)  
 18 of section 401(b) of the Higher Education Act of 1965  
 19 (20 U.S.C. 1070a(b)(2)(A)) is amended to read as follows:

20 “(2)(A) The amount of the basic grant for a student  
 21 eligible under this part shall be \$3,500, less an amount  
 22 equal to the amount determined to be the expected family  
 23 contribution with respect to that student for that year.”.

24 (b) FUNDING OF PELL GRANTS.—Section 401 of the  
 25 Higher Education Act of 1965 (20 U.S.C. 1070a) is fur-

1 ther amended by striking subsections (g) and (h) and in-  
 2 serting the following:

3 “(g) FUNDS FOR EXPENSES.—There shall be avail-  
 4 able to the Secretary, from funds not otherwise appro-  
 5 priated, such sums as may be necessary to provide funds  
 6 to be obligated for the costs of the grants under this sec-  
 7 tion in the maximum amounts authorized by this sec-  
 8 tion.”.

9 (c) CONFORMING AMENDMENTS.—Section 401 of the  
 10 Higher Education Act of 1965 (20 U.S.C. 1070a) is fur-  
 11 ther amended—

12 (1) in paragraph (7) of subsection (b), by strik-  
 13 ing “the appropriate Appropriation Act for this sub-  
 14 part for such year” and inserting “subsection (g)”;

15 (2) by striking paragraph (3) of such subsection  
 16 and redesignating paragraphs (4) through (8) of  
 17 such subsection as paragraphs (3) through (7), re-  
 18 spectively; and

19 (3) by redesignating subsection (i) as subsection  
 20 (h).

1 **TITLE III—RESTORATION OF DE-**  
 2 **DUCTION FOR INTEREST ON**  
 3 **EDUCATIONAL LOANS**

4 **SEC. 301. RESTORATION OF DEDUCTION FOR INTEREST ON**  
 5 **EDUCATIONAL LOANS.**

6 (a) IN GENERAL.—Paragraph (2) of section 163(h)  
 7 of the Internal Revenue Code of 1986 (defining personal  
 8 interest) is amended by striking “and” at the end of sub-  
 9 paragraph (D), by redesignating subparagraph (E) as sub-  
 10 paragraph (F), and by inserting after subparagraph (D)  
 11 the following new subparagraph:

12 “(E) any interest on a qualified edu-  
 13 cational loan, and”.

14 (b) QUALIFIED EDUCATIONAL LOAN DEFINED.—  
 15 Subsection (h) of section 163 of such Code is amended  
 16 by adding at the end the following new paragraph:

17 “(6) QUALIFIED EDUCATIONAL LOAN.—

18 “(A) IN GENERAL.—For purposes of this  
 19 subsection, the term ‘qualified educational loan’  
 20 means any indebtedness incurred to pay quali-  
 21 fied educational expenses which are paid or in-  
 22 curred within a reasonable period of time before  
 23 or after the indebtedness is incurred.

24 “(B) QUALIFIED EDUCATIONAL EX-  
 25 PENSES.—For purposes of this paragraph—

1                   “(i) IN GENERAL.—The term ‘quali-  
 2                   fied educational expenses’ means qualified  
 3                   tuition and related expenses of the tax-  
 4                   payer, his spouse, or a dependent for at-  
 5                   tendance at an educational institution de-  
 6                   scribed in section 170(b)(1)(A)(ii).

7                   “(ii) QUALIFIED TUITION AND RELAT-  
 8                   ED EXPENSES.—The term ‘qualified tui-  
 9                   tion and related expenses’ means—

10                   “(I) tuition and fees required for  
 11                   enrollment or attendance at an edu-  
 12                   cational institution described in sec-  
 13                   tion 170(b)(1)(A)(ii),

14                   “(II) fees, books, supplies, and  
 15                   equipment required for courses of in-  
 16                   struction at such an institution, and

17                   “(III) reasonable living expenses  
 18                   while away from home.

19                   “(C) DEPENDENT.—For purposes of this  
 20                   paragraph, the term ‘dependent’ has the mean-  
 21                   ing given such term by section 152.

22                   “(D) COORDINATION WITH PARAGRAPH  
 23                   (3)(C)(ii).—Any qualified educational loan shall  
 24                   not be taken into account for purposes of apply-  
 25                   ing the limitation of paragraph (3)(C)(ii).”

1       (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years ending after the  
3 date of the enactment of this Act.

○