

105TH CONGRESS  
1ST SESSION

# S. 50

To amend the Internal Revenue Code of 1986 to provide a nonrefundable tax credit for the expenses of an education at a 2-year college.

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IN THE SENATE OF THE UNITED STATES

JANUARY 21, 1997

Mr. FAIRCLOTH (for himself and Mr. CRAIG) introduced the following bill;  
which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to provide a nonrefundable tax credit for the expenses of an education at a 2-year college.

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. TAX CREDIT FOR EDUCATION EXPENSES AT 2-**  
4 **YEAR COLLEGES.**

5 (a) IN GENERAL.—Subpart A of part IV of sub-  
6 chapter A of chapter 1 of the Internal Revenue Code of  
7 1986 (relating to nonrefundable personal credits) is  
8 amended by adding at the end the following:

1 **“SEC. 25A. EDUCATION EXPENSES AT 2-YEAR COLLEGES.**

2       “(a) ALLOWANCE OF CREDIT.—In the case of an in-  
3 dividual, there shall be allowed as a credit against the tax  
4 imposed by this chapter an amount equal to the qualified  
5 higher education expenses paid by the taxpayer during the  
6 taxable year.

7       “(b) LIMITATIONS.—

8               “(1) AMOUNT OF CREDIT.—The amount al-  
9 lowed as a credit under subsection (a) for any tax-  
10 able year with respect to any student shall not ex-  
11 ceed \$1,500.

12               “(2) CREDIT REDUCED BY NONTAXABLE FED-  
13 ERAL ASSISTANCE.—The amount of the credit al-  
14 lowed under subsection (a) (determined without re-  
15 gard to this paragraph) shall be reduced by any  
16 scholarship or grant provided by the Federal Gov-  
17 ernment which is exempt from tax under this chap-  
18 ter.

19       “(c) QUALIFIED HIGHER EDUCATION EXPENSES.—  
20 For purposes of this section—

21               “(1) QUALIFIED HIGHER EDUCATION EX-  
22 PENSES.—

23                       “(A) IN GENERAL.—The term ‘qualified  
24 higher education expenses’ means tuition and  
25 fees required for the enrollment or attendance  
26 of—

1 “(i) the taxpayer,  
 2 “(ii) the taxpayer’s spouse, or  
 3 “(iii) any dependent of the taxpayer  
 4 with respect to whom the taxpayer is al-  
 5 lowed a deduction under section 151,  
 6 in a 2-year degree program at an institution of  
 7 higher education.

8 “(B) EXCEPTION FOR EDUCATION INVOLV-  
 9 ING SPORTS, INC.—Such term does not include  
 10 expenses with respect to any course or other  
 11 education involving sports, games, or hobbies  
 12 unless such expenses—

13 “(i) are part of a 2-year degree pro-  
 14 gram, or

15 “(ii) are deductible under this chap-  
 16 ter.

17 “(C) INCLUSION OF REASONABLE LIVING  
 18 EXPENSES.—Such term shall include reasonable  
 19 living expenses while away from home.

20 “(D) EXCEPTION FOR NONACADEMIC  
 21 FEES.—Such term does not include any student  
 22 activity fees, athletic fees, insurance expenses,  
 23 or other expenses unrelated to a student’s aca-  
 24 demic course of instruction.

25 “(2) INFLATION ADJUSTMENT.—

“(A) IN GENERAL.—In the case of any taxable year beginning in a calendar year after 1997, the \$1,500 amount contained in subsection (b)(1) shall be increased by an amount equal to—

“(i) such dollar amount, multiplied by

“(ii) the cost-of-living adjustment under section 1(f)(3) for the calendar year in which the taxable year begins, except that section 1(f)(3)(B) shall be applied by substituting ‘1996’ for ‘1992’.

“(B) ROUNDING.—If any amount as adjusted under subparagraph (A) is not a multiple of \$50, such amount shall be rounded to the nearest multiple of \$50 (or if such amount is a multiple of \$25, such amount shall be rounded to the next highest multiple of \$50).

“(3) INSTITUTION OF HIGHER EDUCATION.—

The term ‘institution of higher education’ means an institution which—

“(A) is described in section 1201(a) of the Higher Education Act of 1965 (20 U.S.C. 1141), as in effect on the date of enactment of this section, and

1           “(B) an area vocational education school  
 2           (as defined in subparagraph (C) or (D) of sec-  
 3           tion 521(4) of the Carl D. Perkins Vocational  
 4           Education Act) which is in any State (as de-  
 5           fined in section 521(33) of such Act), as such  
 6           sections are in effect on the date of enactment  
 7           of this section.

8           “(d) NO DOUBLE BENEFIT.—No credit shall be al-  
 9           lowed under subsection (a) for qualified higher education  
 10          expenses with respect to which a deduction is allowed  
 11          under any other provision of this chapter.

12          “(e) SPECIAL RULES.—

13               “(1) LIMITATION ON TAXABLE YEAR OF CRED-  
 14          IT.—

15               “(A) IN GENERAL.—A credit shall be al-  
 16               lowed under subsection (a) for any taxable year  
 17               only to the extent the qualified higher education  
 18               expenses are in connection with attendance at  
 19               an institution of higher education during the  
 20               taxable year.

21               “(B) CERTAIN PREPAYMENTS ALLOWED.—  
 22               Subparagraph (A) shall not apply to qualified  
 23               higher education expenses paid during a taxable  
 24               year which are in connection with attendance at  
 25               an institution of higher education which begins

1           during the first 2 months of the following tax-  
2           able year.

3           “(2) ADJUSTMENT FOR CERTAIN SCHOLAR-  
4           SHIPS AND VETERANS’ BENEFITS.—The amount of  
5           qualified higher education expenses otherwise taken  
6           into account under subsection (a) with respect to the  
7           education of an individual shall be reduced (before  
8           the application of subsection (b)) by the sum of the  
9           amounts received with respect to such individual for  
10          the taxable year as—

11               “(A) a qualified scholarship which under  
12               section 117 is not includable in gross income,

13               “(B) an educational assistance allowance  
14               under chapter 30, 31, 32, 34, or 35 of title 38,  
15               United States Code, or

16               “(C) a payment (other than a gift, be-  
17               quest, devise, or inheritance within the meaning  
18               of section 102(a)) for educational expenses, or  
19               attributable to attendance at an eligible edu-  
20               cational institution, which is exempt from in-  
21               come taxation by any law of the United States.

1           “(3) REGULATIONS.—The Secretary may pre-  
 2       scribe such regulations as may be necessary or ap-  
 3       propriate to carry out this section, including regula-  
 4       tions requiring recordkeeping and information re-  
 5       porting.”.

6       (b) CONFORMING AMENDMENT.—The table of sec-  
 7       tions for subpart A of part IV of subchapter A of chapter  
 8       1 of the Internal Revenue Code of 1986 is amended by  
 9       inserting after the item relating to section 25 the follow-  
 10      ing:

“Sec. 25A. Education expenses at 2-year colleges.”.

11       (c) EFFECTIVE DATE.—The amendments made by  
 12       this section apply to taxable years beginning after Decem-  
 13       ber 31, 1996.

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