

105TH CONGRESS
1ST SESSION

S. 594

To amend the Internal Revenue Code of 1986 to modify the tax treatment of qualified State tuition programs.

IN THE SENATE OF THE UNITED STATES

APRIL 16, 1997

Mr. McCONNELL (for himself, Mr. GRAHAM, Mr. SHELBY, Mr. BREAUX, Mr. COVERDELL, Mr. GLENN, Mr. COCHRAN, Mr. MURKOWSKI, Mr. DEWINE, Mr. MACK, Mr. ROBB, Mr. SPECTER, Mrs. HUTCHISON, Mr. BENNETT, Mr. D'AMATO, Ms. LANDRIEU, and Mr. WARNER) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to modify the tax treatment of qualified State tuition programs.

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. MODIFICATIONS OF TAX TREATMENT OF**
4 **QUALIFIED STATE TUITION PROGRAMS.**

5 (a) EXCLUSION OF DISTRIBUTIONS USED FOR EDU-
6 CATIONAL PURPOSES.—Subparagraph (B) of section
7 529(c)(3) of the Internal Revenue Code of 1986 (relating
8 to treatment of distributions) is amended to read as
9 follows:

1 “(B) DISTRIBUTIONS FOR QUALIFIED
 2 HIGHER EDUCATION EXPENSES.—Subpara-
 3 graph (A) shall not apply to any distribution to
 4 the extent—

5 “(i) the distribution is used exclusively
 6 to pay qualified higher education expenses
 7 of the distributee, or

8 “(ii) the distribution consists of pro-
 9 viding a benefit to the distributee which, if
 10 paid for by the distributee, would con-
 11 stitute payment of a qualified higher edu-
 12 cation expense.”

13 (b) QUALIFIED HIGHER EDUCATION EXPENSES TO
 14 INCLUDE ROOM AND BOARD.—Section 529(e)(3) of the
 15 Internal Revenue Code of 1986 (defining qualified higher
 16 education expenses) is amended by adding at the end the
 17 following: “Such term shall also include reasonable costs
 18 (as determined under the qualified State tuition program)
 19 incurred by the designated beneficiary for room and board
 20 while attending such institution.”

21 (c) ADDITIONAL MODIFICATIONS.—

22 (1) MEMBER OF FAMILY.—Paragraph (2) of
 23 section 529(e) of the Internal Revenue Code of 1986
 24 (relating to other definitions and special rules) is
 25 amended to read as follows:

1 “(2) MEMBER OF FAMILY.—The term ‘member
2 of family’ means—

3 “(A) an individual who bears a relationship
4 to another individual which is a relationship de-
5 scribed in paragraphs (1) through (8) of section
6 152(a), and

7 “(B) a spouse of any individual described
8 in subparagraph (A).”

9 (2) ELIGIBLE EDUCATIONAL INSTITUTION.—
10 Section 529(e) of such Code is amended—

11 (A) in paragraph (3), by striking “(as de-
12 fined in section 135(c)(3))” and inserting
13 “(within the meaning of paragraph (5))”, and

14 (B) by adding at the end the following:

15 “(5) ELIGIBLE EDUCATIONAL INSTITUTION.—
16 The term ‘eligible educational institution’ means an
17 institution—

18 “(A) which is described in section 481 of
19 the Higher Education Act of 1965 (20 U.S.C.
20 1088), as in effect on the date of the enactment
21 of this paragraph, and

22 “(B) which is eligible to participate in a
23 program under title IV of such Act.”

24 (3) TECHNICAL AMENDMENTS.—

1 (A) Subparagraph (B) of section 529(e)(1)
 2 of such Code is amended by striking “sub-
 3 section (c)(2)(C)” and inserting “subsection
 4 (c)(3)(C)”.

5 (B) Subparagraph (C) of section 529(e)(1)
 6 of such Code is amended by inserting “(or
 7 agency or instrumentality thereof)” after “State
 8 or local government”.

9 (C) Paragraph (2) of section 1806(c) of
 10 the Small Business Job Protection Act of 1996
 11 is amended by striking so much of the first sen-
 12 tence as follows subparagraph (B)(ii) and in-
 13 serting the following:

14 “then such program (as in effect on August 20,
 15 1996) shall be treated as a qualified State tuition
 16 program with respect to contributions (and earnings
 17 allocable thereto) pursuant to contracts entered into
 18 under such program before the first date on which
 19 such program meets such requirements (determined
 20 without regard to this paragraph) and the provisions
 21 of such program (as so in effect) shall apply in lieu
 22 of section 529(b) of the Internal Revenue Code of
 23 1986 with respect to such contributions and
 24 earnings.”

1 (d) COORDINATION WITH EDUCATION SAVINGS
 2 BOND.—Section 135(c)(2) of the Internal Revenue Code
 3 of 1986 (defining qualified higher education expenses) is
 4 amended by adding at the end the following:

5 “(C) CONTRIBUTIONS TO QUALIFIED
 6 STATE TUITION PROGRAM.—Such term shall in-
 7 clude any contribution to a qualified State tui-
 8 tion program (as defined in section 529) on be-
 9 half of a designated beneficiary (as so defined)
 10 who is an individual described in subparagraph
 11 (A).”

12 (e) EFFECTIVE DATES.—

13 (1) IN GENERAL.—Except as provided in para-
 14 graph (2), the amendments made by this section
 15 shall apply to taxable years beginning after Decem-
 16 ber 31, 1996.

17 (2) ADDITIONAL MODIFICATIONS.—The amend-
 18 ments made by subsection (c) shall take effect as if
 19 included in the amendments made by, and the provi-
 20 sions of, section 1806 of the Small Business Job
 21 Protection Act of 1996.

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