

106TH CONGRESS
1ST SESSION

H. R. 3120

To amend the Internal Revenue Code of 1986 to provide additional tax incentives for education.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 21, 1999

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

A BILL

To amend the Internal Revenue Code of 1986 to provide additional tax incentives for education.

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. AMENDMENT OF 1986 CODE.**

4 Except as otherwise expressly provided, whenever in
5 this Act an amendment or repeal is expressed in terms
6 of an amendment to, or repeal of, a section or other provi-
7 sion, the reference shall be considered to be made to a
8 section or other provision of the Internal Revenue Code
9 of 1986.

1 **SEC. 2. ELIMINATION OF 60-MONTH LIMIT AND INCREASE**
2 **IN INCOME LIMITATION ON STUDENT LOAN**
3 **INTEREST DEDUCTION.**

4 (a) **ELIMINATION OF 60-MONTH LIMIT.—**

5 (1) **IN GENERAL.**—Section 221 (relating to in-
6 terest on education loans) is amended by striking
7 subsection (d) and by redesignating subsections (e),
8 (f), and (g) as subsections (d), (e), and (f), respec-
9 tively.

10 (2) **CONFORMING AMENDMENT.**—Section
11 6050S(e) is amended by striking “section 221(e)(1)”
12 and inserting “section 221(d)(1)”.

13 (3) **EFFECTIVE DATE.**—The amendments made
14 by this subsection shall apply with respect to any
15 loan interest paid during the period after December
16 31, 1999, and before January 1, 2005, in taxable
17 years ending after such period.

18 (b) **INCREASE IN INCOME LIMITATION.—**

19 (1) **IN GENERAL.**—Section 221(b)(2)(B) (relat-
20 ing to amount of reduction) is amended by striking
21 clauses (i) and (ii) and inserting the following:

22 “(i) the excess of—

23 “(I) the taxpayer’s modified ad-
24 justed gross income for such taxable
25 year, over

1 “(II) \$45,000 (\$90,000 in the
 2 case of a joint return), bears to
 3 “(ii) \$15,000.”.

4 (2) CONFORMING AMENDMENT.—Section
 5 221(g)(1) is amended by striking “\$40,000 and
 6 \$60,000 amounts” and inserting “\$45,000 and
 7 \$90,000 amounts”.

8 (3) EFFECTIVE DATE.—The amendments made
 9 by this subsection shall apply to taxable years end-
 10 ing after December 31, 1999, and before January 1,
 11 2005.

12 **SEC. 3. MODIFICATIONS TO QUALIFIED TUITION PRO-**
 13 **GRAMS.**

14 (a) SHORT TITLE.—This section may be cited as the
 15 “Collegiate Learning and Student Savings (CLASS) Act”.

16 (b) ELIGIBLE EDUCATIONAL INSTITUTIONS PER-
 17 Mitted To Maintain Qualified Tuition Programs.—

18 (1) IN GENERAL.—Section 529(b)(1) (defining
 19 qualified State tuition program) is amended by in-
 20 serting “or by one or more eligible educational insti-
 21 tutions” after “maintained by a State or agency or
 22 instrumentality thereof”.

23 (2) PRIVATE QUALIFIED TUITION PROGRAMS
 24 LIMITED TO BENEFIT PLANS.—Clause (ii) of section
 25 529(b)(1)(A) is amended by inserting “in the case of

a program established and maintained by a State or agency or instrumentality thereof,” before “may make”.

(3) CONFORMING AMENDMENTS.—

(A) Sections 72(e)(9), 135(c)(2)(C), 135(d)(1)(D), 529, 530(b)(2)(B), 4973(e), and 6693(a)(2)(C) are each amended by striking “qualified State tuition” each place it appears and inserting “qualified tuition”.

(B) The headings for sections 72(e)(9) and 135(c)(2)(C) are each amended by striking “QUALIFIED STATE TUITION” and inserting “QUALIFIED TUITION”.

(C) The headings for sections 529(b) and 530(b)(2)(B) are each amended by striking “QUALIFIED STATE TUITION” and inserting “QUALIFIED TUITION”.

(D) The heading for section 529 is amended by striking “**STATE**”.

(E) The item relating to section 529 in the table of sections for part VIII of subchapter F of chapter 1 is amended by striking “State”.

(c) EXCLUSION FROM GROSS INCOME OF EDUCATION DISTRIBUTIONS FROM QUALIFIED TUITION PROGRAMS.—

1 (1) IN GENERAL.—Section 529(c)(3)(B) (relat-
2 ing to distributions) is amended to read as follows:

3 “(B) DISTRIBUTIONS FOR QUALIFIED
4 HIGHER EDUCATION EXPENSES.—For purposes
5 of this paragraph—

6 “(i) IN-KIND DISTRIBUTIONS.—No
7 amount shall be includible in gross income
8 under subparagraph (A) by reason of a
9 distribution which consists of providing a
10 benefit to the distributee which, if paid for
11 by the distributee, would constitute pay-
12 ment of a qualified higher education ex-
13 pense.

14 “(ii) CASH DISTRIBUTIONS.—In the
15 case of distributions not described in
16 clause (i), if—

17 “(I) such distributions do not ex-
18 ceed the qualified higher education ex-
19 penses (reduced by expenses described
20 in clause (i)), no amount shall be in-
21 cludible in gross income, and

22 “(II) in any other case, the
23 amount otherwise includible in gross
24 income shall be reduced by an amount
25 which bears the same ratio to such

1 amount as such expenses bear to such
2 distributions.

3 “(iii) EXCEPTION FOR INSTITUTIONAL
4 PROGRAMS.—In the case of any taxable
5 year beginning before January 1, 2004,
6 clauses (i) and (ii) shall not apply with re-
7 spect to any distribution during such tax-
8 able year under a qualified tuition program
9 established and maintained by one or more
10 eligible educational institutions.

11 “(iv) TREATMENT AS DISTRIBUTIONS.—Any benefit furnished to a des-
12 ignated beneficiary under a qualified tui-
13 tion program shall be treated as a distribu-
14 tion to the beneficiary for purposes of this
15 paragraph.

16
17 “(v) COORDINATION WITH HOPE AND
18 LIFETIME LEARNING CREDITS.—The total
19 amount of qualified higher education ex-
20 penses with respect to an individual for the
21 taxable year shall be reduced—

22 “(I) as provided in section
23 25A(g)(2), and

24 “(II) by the amount of such ex-
25 penses which were taken into account

1 in determining the credit allowed to
 2 the taxpayer or any other person
 3 under section 25A.

4 “(vi) COORDINATION WITH EDU-
 5 CATION INDIVIDUAL RETIREMENT AC-
 6 COUNTS.—If, with respect to an individual
 7 for any taxable year—

8 “(I) the aggregate distributions
 9 to which clauses (i) and (ii) and sec-
 10 tion 530(d)(2)(A) apply, exceed

11 “(II) the total amount of quali-
 12 fied higher education expenses other-
 13 wise taken into account under clauses
 14 (i) and (ii) (after the application of
 15 clause (v)) for such year,

16 the taxpayer shall allocate such expenses
 17 among such distributions for purposes of
 18 determining the amount of the exclusion
 19 under clauses (i) and (ii) and section
 20 530(d)(2)(A).”.

21 (2) CONFORMING AMENDMENTS.—

22 (A) Section 135(d)(2)(B) is amended by
 23 striking “the exclusion under section
 24 530(d)(2)” and inserting “the exclusions under
 25 sections 529(c)(3)(B)(i) and 530(d)(2)”.

1 (B) Section 221(e)(2)(A) is amended by
 2 inserting “529,” after “135,”.

3 (d) ROLLOVER TO DIFFERENT PROGRAM FOR BEN-
 4 EFIT OF SAME DESIGNATED BENEFICIARY.—Section
 5 529(e)(3)(C) (relating to change in beneficiaries) is
 6 amended—

7 (1) by striking “transferred to the credit” in
 8 clause (i) and inserting “transferred—

9 “(I) to another qualified tuition
 10 program for the benefit of the des-
 11 ignated beneficiary, or

12 “(II) to the credit”,

13 (2) by adding at the end the following new
 14 clause:

15 “(iii) LIMITATION ON CERTAIN ROLL-
 16 OVERS.—Clause (i)(I) shall not apply to
 17 any amount transferred with respect to a
 18 designated beneficiary if, at any time dur-
 19 ing the 1-year period ending on the day of
 20 such transfer, any other amount was
 21 transferred with respect to such beneficiary
 22 which was not includible in gross income
 23 by reason of clause (i)(I).”, and

24 (3) by inserting “OR PROGRAMS” after “BENE-
 25 FICIARIES” in the heading.

1 (e) MEMBER OF FAMILY INCLUDES FIRST COUS-
2 IN.—Section 529(e)(2) (defining member of family) is
3 amended by striking “and” at the end of subparagraph
4 (B), by striking the period at the end of subparagraph
5 (C) and by inserting “; and”, and by adding at the end
6 the following new subparagraph:

7 “(D) any first cousin of such beneficiary.”.

8 (f) DEFINITION OF QUALIFIED HIGHER EDUCATION
9 EXPENSES.—

10 (1) IN GENERAL.—Subparagraph (A) of section
11 529(e)(3) (relating to definition of qualified higher
12 education expenses) is amended to read as follows:

13 “(A) IN GENERAL.—The term ‘qualified
14 higher education expenses’ means—

15 “(i) tuition and fees required for the
16 enrollment or attendance of a designated
17 beneficiary at an eligible educational insti-
18 tution for courses of instruction of such
19 beneficiary at such institution, and

20 “(ii) expenses for books, supplies, and
21 equipment which are incurred in connec-
22 tion with such enrollment or attendance,
23 but not to exceed the allowance for books
24 and supplies included in the cost of attend-
25 ance (as defined in section 472 of the

1 Higher Education Act of 1965 (20 U.S.C.
 2 10871l), as in effect on the date of the en-
 3 actment of the Taxpayer Refund and Re-
 4 lief Act of 1999) as determined by the eli-
 5 gible educational institution.”.

6 (2) EXCEPTION FOR EDUCATION INVOLVING
 7 SPORTS, ETC.—Paragraph (3) of section 529(e) (re-
 8 lating to qualified higher education expenses) is
 9 amended by adding at the end the following new
 10 subparagraph:

11 “(C) EXCEPTION FOR EDUCATION INVOLV-
 12 ING SPORTS, ETC.—The term ‘qualified higher
 13 education expenses’ shall not include expenses
 14 with respect to any course or other education
 15 involving sports, games, or hobbies unless such
 16 course or other education is part of the bene-
 17 ficiary’s degree program or is taken to acquire
 18 or improve job skills of the beneficiary.”.

19 (g) EFFECTIVE DATES.—

20 (1) IN GENERAL.—The amendments made by
 21 this section shall apply to taxable years beginning
 22 after December 31, 1999, and before January 1,
 23 2005.

24 (2) QUALIFIED HIGHER EDUCATION EX-
 25 PENSES.—The amendments made by subsection (f)

1 shall apply to amounts paid for courses beginning
2 after December 31, 1999, and before January 1,
3 2005.

4 **SEC. 4. EXCLUSION OF CERTAIN AMOUNTS RECEIVED**
5 **UNDER THE NATIONAL HEALTH SERVICE**
6 **CORPS SCHOLARSHIP PROGRAM, THE F. ED-**
7 **WARD HEBERT ARMED FORCES HEALTH PRO-**
8 **FESIONS SCHOLARSHIP AND FINANCIAL AS-**
9 **SISTANCE PROGRAM, AND CERTAIN OTHER**
10 **PROGRAMS.**

11 (a) IN GENERAL.—Section 117(c) (relating to the ex-
12 clusion from gross income amounts received as a qualified
13 scholarship) is amended—

14 (1) by striking “Subsections (a)” and inserting
15 the following:

16 “(1) IN GENERAL.—Except as provided in para-
17 graph (2), subsections (a)”, and

18 (2) by adding at the end the following new
19 paragraph:

20 “(2) EXCEPTIONS.—Paragraph (1) shall not
21 apply to any amount received by an individual
22 under—

23 “(A) the National Health Service Corps
24 Scholarship program under section

1 338A(g)(1)(A) of the Public Health Service
2 Act,

3 “(B) the Armed Forces Health Professions
4 Scholarship and Financial Assistance program
5 under subchapter I of chapter 105 of title 10,
6 United States Code,

7 “(C) the National Institutes of Health Un-
8 dergraduate Scholarship program under section
9 487D of the Public Health Service Act, or

10 “(D) any State program determined by the
11 Secretary to have substantially similar objec-
12 tives as such programs.”.

13 (b) EFFECTIVE DATES.—

14 (1) IN GENERAL.—Except as provided in para-
15 graph (2), the amendments made by subsection (a)
16 shall apply to amounts received in taxable years be-
17 ginning after December 31, 1993, and before Janu-
18 ary 1, 2005.

19 (2) STATE PROGRAMS.—Section 117(c)(2)(D)
20 of the Internal Revenue Code of 1986 (as added by
21 the amendments made by subsection (a)) shall apply
22 to amounts received in taxable years beginning after
23 December 31, 1999, and before January 1, 2005.

1 **SEC. 5. EXTENSION OF EXCLUSION FOR EMPLOYER-PRO-**
 2 **VIDED EDUCATIONAL ASSISTANCE.**

3 Section 127(d) (relating to termination of exclusion
 4 for educational assistance programs) is amended by strik-
 5 ing “May 31, 2000” and inserting “December 31, 2004”.

6 **SEC. 6. MODIFICATION OF ARBITRAGE REBATE RULES AP-**
 7 **PLICABLE TO PUBLIC SCHOOL CONSTRUC-**
 8 **TION BONDS.**

9 (a) IN GENERAL.—Subparagraph (C) of section
 10 148(f)(4) is amended by adding at the end the following
 11 new clause:

12 “(xviii) 4-YEAR SPENDING REQUIRE-
 13 MENT FOR PUBLIC SCHOOL CONSTRUCTION
 14 ISSUE.—

15 “(I) IN GENERAL.—In the case
 16 of a public school construction issue,
 17 the spending requirements of clause
 18 (ii) shall be treated as met if at least
 19 10 percent of the available construc-
 20 tion proceeds of the construction issue
 21 are spent for the governmental pur-
 22 poses of the issue within the 1-year
 23 period beginning on the date the
 24 bonds are issued, 30 percent of such
 25 proceeds are spent for such purposes
 26 within the 2-year period beginning on

1 such date, 60 percent of such pro-
2 ceeds are spent for such purposes
3 within the 3-year period beginning on
4 such date, and 100 percent of such
5 proceeds are spent for such purposes
6 within the 4-year period beginning on
7 such date.

8 “(II) PUBLIC SCHOOL CON-
9 STRUCTION ISSUE.—For purposes of
10 this clause, the term ‘public school
11 construction issue’ means any con-
12 struction issue if no bond which is
13 part of such issue is a private activity
14 bond and all of the available construc-
15 tion proceeds of such issue are to be
16 used for the construction (as defined
17 in clause (iv)) of public school facili-
18 ties to provide education or training
19 below the postsecondary level or for
20 the acquisition of land that is func-
21 tionally related and subordinate to
22 such facilities.

23 “(III) OTHER RULES TO
24 APPLY.—Rules similar to the rules of
25 the preceding provisions of this sub-

1 paragraph which apply to clause (ii)
2 also apply to this clause.”.

3 (b) EFFECTIVE DATE.—The amendment made by
4 this section shall apply to obligations issued after Decem-
5 ber 31, 1999, and before January 1, 2005.

6 **SEC. 7. 2-PERCENT FLOOR ON MISCELLANEOUS ITEMIZED**
7 **DEDUCTIONS NOT TO APPLY TO QUALIFIED**
8 **PROFESSIONAL DEVELOPMENT EXPENSES OF**
9 **ELEMENTARY AND SECONDARY SCHOOL**
10 **TEACHERS.**

11 (a) IN GENERAL.—Section 67(b) (defining miscella-
12 neous itemized deductions) is amended by striking “and”
13 at the end of paragraph (11), by striking the period at
14 the end of paragraph (12) and inserting “, and”, and by
15 adding at the end the following new paragraph:

16 “(13) any deduction allowable for the qualified
17 professional development expenses of an eligible
18 teacher.”.

19 (b) DEFINITIONS.—Section 67 (relating to 2-percent
20 floor on miscellaneous itemized deductions) is amended by
21 adding at the end the following new subsection:

22 “(g) QUALIFIED PROFESSIONAL DEVELOPMENT EX-
23 PENSES OF ELIGIBLE TEACHERS.—For purposes of sub-
24 section (b)(13)—

1 “(1) QUALIFIED PROFESSIONAL DEVELOPMENT
2 EXPENSES.—

3 “(A) IN GENERAL.—The term ‘qualified
4 professional development expenses’ means ex-
5 penses in an amount not to exceed \$1,000 for
6 any taxable year—

7 “(i) for tuition, fees, books, supplies,
8 equipment, and transportation required for
9 the enrollment or attendance of an indi-
10 vidual in a qualified course of instruction,
11 and

12 “(ii) with respect to which a deduction
13 is allowable under section 162 (determined
14 without regard to this section).

15 “(B) QUALIFIED COURSE OF INSTRUCC-
16 TION.—The term ‘qualified course of instruc-
17 tion’ means a course of instruction which—

18 “(i) is—

19 “(I) at an institution of higher
20 education (as defined in section 481
21 of the Higher Education Act of 1965
22 (20 U.S.C. 1088), as in effect on the
23 date of the enactment of this sub-
24 section), or

1 “(II) a professional conference,
2 and

3 “(ii) is part of a program of profes-
4 sional development which is approved and
5 certified by the appropriate local edu-
6 cational agency as furthering the individ-
7 ual’s teaching skills.

8 “(C) LOCAL EDUCATIONAL AGENCY.—The term
9 ‘local educational agency’ has the meaning given
10 such term by section 14101 of the Elementary and
11 Secondary Education Act of 1965, as so in effect.

12 “(2) ELIGIBLE TEACHER.—

13 “(A) IN GENERAL.—The term ‘eligible
14 teacher’ means an individual who is a kinder-
15 garten through grade 12 classroom teacher, in-
16 structor, counselor, aide, or principal in an ele-
17 mentary or secondary school.

18 “(B) ELEMENTARY OR SECONDARY
19 SCHOOL.—The terms ‘elementary school’ and
20 ‘secondary school’ have the meanings given
21 such terms by section 14101 of the Elementary
22 and Secondary Education Act of 1965 (20
23 U.S.C. 8801), as so in effect.”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 1999, and ending before January 1, 2005.

○