

106TH CONGRESS
1ST SESSION

S. 387

To amend the Internal Revenue Code of 1986 to provide an exclusion from gross income for distributions from qualified State tuition programs which are used to pay education expenses.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 8, 1999

Mr. McCONNELL (for himself, Mr. GRAHAM, Mr. BUNNING, Mr. MACK, Mr. BREAUX, Mr. DEWINE, Mr. SMITH of Oregon, Mr. ROBB, Mr. LUGAR, Mr. COCHRAN, Ms. LANDRIEU, Mr. MURKOWSKI, Mr. STEVENS, Mr. COVERDELL, Mr. WARNER, Mr. SMITH of New Hampshire, Mr. BAYH, Mr. BYRD, and Mr. KERREY) 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 provide an exclusion from gross income for distributions from qualified State tuition programs which are used to pay education expenses.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. EXCLUSION FROM GROSS INCOME OF EDU-**
2 **CATION DISTRIBUTIONS FROM QUALIFIED**
3 **STATE TUITION PROGRAMS.**

4 (a) IN GENERAL.—Section 529(c)(3)(B) of the Inter-
5 nal Revenue Code of 1986 (relating to distributions) is
6 amended to read as follows:

7 “(B) DISTRIBUTIONS FOR QUALIFIED
8 HIGHER EDUCATION EXPENSES.—

9 “(i) IN GENERAL.—No amount shall
10 be includible in gross income under sub-
11 paragraph (A) if the qualified higher edu-
12 cation expenses of the designated bene-
13 ficiary during the taxable year are not less
14 than the aggregate distributions during the
15 taxable year.

16 “(ii) DISTRIBUTIONS IN EXCESS OF
17 EXPENSES.—If such aggregate distribu-
18 tions exceed such expenses during the tax-
19 able year, the amount otherwise includible
20 in gross income under subparagraph (A)
21 shall be reduced by the amount which
22 bears the same ratio to the amount so in-
23 cludible (without regard to this subpara-
24 graph) as such expenses bear to such ag-
25 gregate distributions.

1 “(iii) ELECTION TO WAIVE EXCLU-
 2 SION.—A taxpayer may elect to waive the
 3 application of this subparagraph for any
 4 taxable year.

5 “(iv) IN-KIND DISTRIBUTIONS.—Any
 6 benefit furnished to a designated bene-
 7 ficiary under a qualified State tuition pro-
 8 gram shall be treated as a distribution to
 9 the beneficiary for purposes of this para-
 10 graph.

11 “(v) DISALLOWANCE OF EXCLUDED
 12 AMOUNTS AS CREDIT OR DEDUCTION.—No
 13 deduction or credit shall be allowed to the
 14 taxpayer under any other section of this
 15 chapter for any qualified higher education
 16 expenses to the extent taken into account
 17 in determining the amount of the exclusion
 18 under this paragraph.”.

19 (b) COORDINATION WITH EDUCATION CREDITS.—
 20 Section 25A(e)(2) of the Internal Revenue Code of 1986
 21 (relating to coordination with exclusions) is amended—

22 (1) by inserting “a qualified State tuition pro-
 23 gram or” before “an education individual retirement
 24 account”; and

1 (2) by striking “section 530(d)(2)” and insert-
2 ing “section 529(e)(3)(B) or 530(d)(2)”.

3 (c) COORDINATION WITH EDUCATION SAVINGS
4 BONDS.—Subparagraph (B) of section 135(d)(2) of the
5 Internal Revenue Code of 1986 (relating to coordination
6 with other higher education benefits) is amended by strik-
7 ing “section 530(d)(2)” and inserting “section
8 529(e)(3)(B) or 530(d)(2)”.

9 (d) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to taxable years beginning after
11 December 31, 1998.

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