

107TH CONGRESS  
1ST SESSION

# H. R. 538

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

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## IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 8, 2001

Ms. GRANGER (for herself, Mr. BURR of North Carolina, Mr. PITTS, Mr. FORD, Mr. SESSIONS, Mr. BONILLA, Mr. WATKINS, Mr. HINCHEY, Mr. BLUNT, Mr. PAUL, Mr. MCHUGH, Mr. COMBEST, Mr. DOOLITTLE, and Mrs. KELLY) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to provide  
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. SHORT TITLE.**

4       This Act may be cited as the “Higher Education Af-  
5       fordability Act”.

1 **SEC. 2. EXCLUSION FROM GROSS INCOME OF EDUCATION**2 **DISTRIBUTIONS FROM QUALIFIED TUITION**  
3 **PROGRAMS; COVERAGE OF PRIVATE PRO-**  
4 **GRAMS.**

## 5 (a) EXCLUSION.—

6 (1) IN GENERAL.—Subparagraph (B) of section  
7 529(c)(3) of the Internal Revenue Code of 1986 (re-  
8 lating to distributions) is amended to read as fol-  
9 lows:10 “(B) DISTRIBUTIONS FOR QUALIFIED  
11 HIGHER EDUCATION EXPENSES.—If a dis-  
12 tributee elects the application of this subpara-  
13 graph for any taxable year—14 “(i) no amount shall be includible in  
15 gross income by reason of a distribution  
16 which consists of providing a benefit to the  
17 distributee which, if paid for by the dis-  
18 tributee, would constitute payment of a  
19 qualified higher education expense, and20 “(ii) the amount which (but for the  
21 election) would be includible in gross in-  
22 come by reason of any other distribution  
23 shall not be so includible in an amount  
24 which bears the same ratio to the amount  
25 which would be so includible as the amount  
26 of the qualified higher education expenses

7        "(f) ADDITIONAL TAX FOR DISTRIBUTIONS NOT  
8 USED FOR EDUCATIONAL EXPENSES.—

9               “(1) IN GENERAL.—The tax imposed by section  
10               530(d)(4) shall apply to payments and distributions  
11               from qualified tuition programs in the same manner  
12               as such tax applies to education individual retire-  
13               ment accounts.

14                     “(2) EXCESS CONTRIBUTIONS RETURNED BE-  
15                     FORE DUE DATE OF RETURN.—Paragraph (1) shall  
16                     not apply to the distribution to a contributor of any  
17                     contribution paid during a taxable year to a qual-  
18                     fied tuition program to the extent that such con-  
19                     tribution exceeds the limitation in section 4973(e) if  
20                     such distribution (and the net income with respect  
21                     to such excess contribution) meets requirements  
22                     comparable to the requirements of clauses (i) and  
23                     (ii) of section 530(d)(4)(C).”

4 (4) CONFORMING AMENDMENT.—Paragraph (2)  
5 of section 26(b) of such Code is amended by redesign-  
6 nating subparagraphs (E) through (Q) as subpara-  
7 graphs (F) through (R), respectively, and by insert-  
8 ing after subparagraph (D) the following new sub-  
9 paragraph:

10                             “(E) section 529(f) (relating to additional  
11                             tax on certain distributions from qualified tui-  
12                             tion programs),”.

17 (b) ELIGIBLE EDUCATIONAL INSTITUTIONS PER-  
18 MITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.—

7 (3) CONFORMING AMENDMENTS.—

17 (C) The headings for sections 529(b) and  
18 530(b)(2)(B) of such Code are each amended  
19 by striking “QUALIFIED STATE TUITION” and  
20 inserting “QUALIFIED TUITION”.

21 (D) The heading for section 529 of such  
22 Code is amended by striking “**STATE**”.

23 (E) The item relating to section 529 in the  
24 table of sections for part VIII of subchapter F

1           of chapter 1 of such Code is amended by strik-  
2           ing “State”.

3           (4) EFFECTIVE DATE.—The amendments made  
4           by this subsection shall apply to taxable years begin-  
5           ning after December 31, 2000.

6           (c) CHANGE OF QUALIFIED TUITION PROGRAM OR  
7           OF DESIGNATED BENEFICIARY.—

8           (1) IN GENERAL.—Clause (i) of section  
9           529(c)(3)(C) of such Code is amended by inserting  
10           “to another qualified tuition program for the benefit  
11           of the designated beneficiary or” after “trans-  
12           ferred”.

13           (2) INCLUSION OF SIBLINGS AS MEMBER OF  
14           FAMILY.—Paragraph (2) of section 529(e) of such  
15           Code is amended by striking “and” at the end of  
16           subparagraph (B), by striking the period at the end  
17           of subparagraph (C) and inserting “; and”, and by  
18           adding at the end the following new subparagraph:

19               “(D) any sibling (whether by the whole or  
20               half blood) of the designated beneficiary.”.

21           (3) EFFECTIVE DATE.—The amendments made  
22           by this subsection shall apply to taxable years begin-  
23           ning after December 31, 2000.

