

109TH CONGRESS
1ST SESSION

H. R. 1766

To amend the Internal Revenue Code of 1986 to simplify the determination and deduction of interest on qualified education loans.

IN THE HOUSE OF REPRESENTATIVES

APRIL 21, 2005

Mr. ENGLISH of Pennsylvania 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 simplify the determination and deduction of interest on qualified education loans.

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. TREATMENT OF ORIGINATION FEES AND CAP-**
4 **ITALIZED INTEREST CHARGES FOR QUALI-**
5 **FIED EDUCATION LOANS.**

6 (a) IN GENERAL.—Subsection (e) of section 221 of
7 the Internal Revenue Code of 1986 (relating to special
8 rules) is amended by adding at the end the following:

9 “(4) LOAN ORIGINATION FEES.—For purposes
10 of this section—

1 “(A) TREATMENT AS INTEREST.—Loan
2 origination fees, other than fees for services or
3 property—

4 “(i) shall be treated as interest, and

5 “(ii) shall accrue at the time the loan
6 origination fees are deducted from the loan
7 proceeds or otherwise are charged to or
8 paid by the borrower.

9 “(B) FEES UNDER CERTAIN FEDERAL
10 PROGRAMS.—Loan origination fees required
11 under the Federal Family Education Loan Pro-
12 gram and Federal Direct Loan Program under
13 title IV of the Higher Education Act of 1965
14 shall be treated as interest for purposes of sub-
15 paragraph (A).

16 “(5) ACCRUAL OF INTEREST.—For purposes of
17 this section, interest on a qualified education loan
18 (other than loan origination fees) shall accrue in ac-
19 cordance with the stated terms of the loan.

20 “(6) ALLOCATION OF PAYMENTS.—For pur-
21 poses of this section, a payment (other than pay-
22 ments of collection costs, late fees, and penalties, if
23 any) is treated—

24 “(A) first as a payment of interest to the
25 extent of the interest that has accrued and re-

1 mains unpaid as of the date the payment is
2 due,

3 “(B) second as a payment of any loan
4 origination fees or capitalized interest, until
5 such amounts have been reduced to zero, and

6 “(C) third as a payment of principal.”.

7 (b) CONFORMING AMENDMENT.—Section 6050S(e)
8 of such Code is amended by adding at the end the fol-
9 lowing new sentence: “The term ‘interest’ has the same
10 meaning as when used in section 221.”.

11 (c) EFFECTIVE DATE.—

12 (1) IN GENERAL.—The amendment made by
13 this section shall apply to taxable years ending on or
14 after December 31, 2005.

15 (2) SPECIAL RULE FOR INTEREST REPORT-
16 ING.—The reporting under section 6050S of the In-
17 ternal Revenue Code of 1986 with respect to capital-
18 ized interest and origination fees in accordance with
19 the amendments made by this section shall not be
20 required for loans made prior to September 1, 2004.

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