

109TH CONGRESS
2D SESSION

H. R. 5407

To amend the Internal Revenue Code of 1986 to expand deductions allowed for education-related expenses and to allow an earned tuition credit against income tax for qualified tuition and related expenses.

IN THE HOUSE OF REPRESENTATIVES

MAY 17, 2006

Mrs. LOWEY 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 expand deductions allowed for education-related expenses and to allow an earned tuition credit against income tax for qualified tuition and related expenses.

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 “Deductibility and In-
5 centives to Promote Learning Opportunities and Maximize
6 Assistance (DIPLOMA) Act of 2006”.

1 **SEC. 2. DEDUCTION FOR HIGHER EDUCATION EXPENSES.**

2 (a) ELIMINATION OF DOLLAR LIMITATION FOR
 3 QUALIFIED TUITION AND RELATED EXPENSES DEDUC-
 4 TION.—Subsection (b) of section 222 of the Internal Rev-
 5 enue Code of 1986 (relating to qualified tuition and re-
 6 lated expenses) is amended to read as follows:

7 “(b) LIMITATION BASED ON ADJUSTED GROSS IN-
 8 COME.—

9 “(1) IN GENERAL.—In the case of a taxpayer
 10 whose adjusted gross income for a taxable year ex-
 11 ceeds \$80,000 (\$160,000 in the case of a joint re-
 12 turn), the amount of the deduction allowed under
 13 subsection (a) for the taxable year shall be zero.

14 “(2) ADJUSTED GROSS INCOME.—For purposes
 15 of this subsection, adjusted gross income shall be de-
 16 termined—

17 “(A) without regard to this section and
 18 sections 199, 911, 931, and 933, and

19 “(B) after application of sections 86, 135,
 20 137, 219, 221, and 469.”.

21 (b) TERMINATION.—Subsection (e) of such section of
 22 such Code is amended by striking “December 31, 2005”
 23 and inserting “December 31, 2010”.

24 **SEC. 3. INTEREST AND PRINCIPAL ON EDUCATION LOANS.**

25 (a) EXPANSION OF DEDUCTION FOR INTEREST ON
 26 EDUCATION LOANS TO INCLUDE PRINCIPAL PAY-

1 MENTS.—Section 221 of the Internal Revenue Code of
 2 1986 (relating to interest on education loans) is amend-
 3 ed—

4 (1) in subsection (a), by striking “interest
 5 paid” and inserting “interest and principal paid”,

6 (2) by redesignating subsections (d), (e), and
 7 (f) as subsections (e), (f), and (g), respectively,

8 (3) by inserting after subsection (c) the fol-
 9 lowing new subsection:

10 “(d) LIMIT ON PERIOD DEDUCTION ALLOWED.—

11 With respect to principal paid on any qualified education
 12 loan after the first 60 months (whether or not consecutive)
 13 in which principal payments are required, a deduction
 14 shall not be allowed under this section. For purposes of
 15 this paragraph, any loan and all refinancings of such loan
 16 shall be treated as 1 loan. Such 60 months shall be deter-
 17 mined in the manner prescribed by the Secretary in the
 18 case of multiple loans which are refinanced by, or serviced
 19 as, a single loan and in the case of loans incurred before
 20 the date of the enactment of this section.”, and

21 (4) in the heading, by striking “**INTEREST**”
 22 and inserting “**INTEREST AND PRINCIPAL**”.

23 (b) CLERICAL AMENDMENTS.—The item relating to
 24 section 221 in the table of sections for part VII of sub-

1 chapter B of chapter 1 of such Code is amended to read
 2 as follows:

“Sec. 221. Interest and principal on education loans.”.

3 **SEC. 4. EARNED TUITION CREDIT.**

4 (a) IN GENERAL.—Subsection (b) of section 25A of
 5 the Internal Revenue Code of 1986 (relating to Hope and
 6 Lifetime Learning credits) is amended to read as follows:

7 “(b) EARNED TUITION CREDIT.—

8 “(1) PER STUDENT CREDIT.—In the case of
 9 any eligible student for whom an election is in effect
 10 under this section for any taxable year, the earned
 11 tuition credit is an amount equal to the sum of—

12 “(A) 100 percent of so much of the quali-
 13 fied tuition and related expenses paid by the
 14 taxpayer during the taxable year (for education
 15 furnished to the eligible student during any
 16 academic period beginning in such taxable year)
 17 as does not exceed \$1,500, plus

18 “(B) 50 percent of such expenses so paid
 19 as exceeds \$1,500 but does not exceed \$4,000.

20 “(2) LIMITATIONS APPLICABLE TO EARNED
 21 TUITION CREDIT.—

22 “(A) CREDIT ALLOWED ONLY FOR 4 TAX-
 23 ABLE YEARS.—An election to have this section
 24 apply with respect to any eligible student for
 25 purposes of the earned tuition credit under sub-

1 section (a)(1) may not be made for any taxable
2 year if such an election (by the taxpayer or any
3 other individual) is in effect with respect to
4 such student for any 4 prior taxable years.

5 “(B) CREDIT ALLOWED FOR YEAR ONLY IF
6 INDIVIDUAL IS AT LEAST 1/2 TIME STUDENT
7 FOR PORTION OF YEAR.—The earned tuition
8 credit under subsection (a)(1) shall not be al-
9 lowed for a taxable year with respect to the
10 qualified tuition and related expenses of an in-
11 dividual unless such individual is an eligible
12 student for at least one academic period which
13 begins during such year.

14 “(C) CREDIT ALLOWED ONLY FOR FIRST 4
15 YEARS OF POSTSECONDARY EDUCATION.—The
16 earned tuition credit under subsection (a)(1)
17 shall not be allowed for a taxable year with re-
18 spect to the qualified tuition and related ex-
19 penses of an eligible student if the student has
20 completed (before the beginning of such taxable
21 year) the first 4 years of postsecondary edu-
22 cation at an eligible educational institution.

23 “(D) DENIAL OF CREDIT IF STUDENT
24 CONVICTED OF A FELONY DRUG OFFENSE.—
25 The earned tuition credit under subsection

(a)(1) shall not be allowed for qualified tuition and related expenses for the enrollment or attendance of a student for any academic period if such student has been convicted of a Federal or State felony offense consisting of the possession or distribution of a controlled substance before the end of the taxable year with or without in which such period ends.

“(3) ELIGIBLE STUDENT.—For purposes of this subsection, the term ‘eligible student’ means, with respect to any academic period, a student who—

“(A) meets the requirements of section 484(a)(1) of the Higher Education Act of 1965 (20 U.S.C. 1091(a)(1)), as in effect on the date of the enactment of this section, and

“(B) is carrying at least $\frac{1}{2}$ the normal full-time work load for the course of study the student is pursuing.”.

(b) EARNED TUITION CREDIT NOT REDUCED BY FEDERAL PELL GRANTS AND SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS.—Subsection (g) of section 25A of such Code (relating to special rules) is amended by adding at the end the following new paragraph:

1 “(8) PELL AND SEOG GRANTS.—For purposes
 2 of the earned tuition credit, paragraph (2) shall not
 3 apply to amounts paid for an individual as a Federal
 4 Pell Grant or a Federal supplemental educational
 5 opportunity grant under subparts 1 and 3, respec-
 6 tively, of part A of title IV of the Higher Education
 7 Act of 1965 (20 U.S.C. 1070a and 1070b et seq.,
 8 respectively).”.

9 (c) DEFINITION OF QUALIFIED TUITION AND RE-
 10 LATED EXPENSES.—Paragraph (1) of section 25A(f) of
 11 such Code (relating to definitions) is amended to read as
 12 follows:

13 “(1) QUALIFIED TUITION AND RELATED EX-
 14 PENSES.—

15 “(A) IN GENERAL.—The term ‘qualified
 16 tuition and related expenses’ means the quali-
 17 fied higher education expenses of—

18 “(i) the taxpayer,

19 “(ii) the taxpayer’s spouse, or

20 “(iii) any dependent of the taxpayer
 21 with respect to whom the taxpayer is al-
 22 lowed a deduction under section 151.

23 “(B) QUALIFIED HIGHER EDUCATION EX-
 24 PENSES.—The term ‘qualified higher education

1 expenses' has the meaning given to such term
2 by section 529(e)(3).”.

3 (d) CONFORMING AMENDMENTS.—Section 25A of
4 such Code is amended—

5 (1) in the heading, by striking “**HOPE**” and in-
6 serting “**EARNED TUITION**”,

7 (2) in subsection (a)(1), by striking “Hope
8 Scholarship Credit” and inserting “earned tuition
9 credit”,

10 (3) in subsection (c)(2)(A)—

11 (A) in the heading, by striking “HOPE
12 SCHOLARSHIP” and inserting “EARNED TUITION
13 CREDIT”,

14 (B) in the text, by striking “Hope Scholar-
15 ship Credit” and inserting “earned tuition cred-
16 it”, and

17 (4) in subsection (h)(1)(A)—

18 (A) by striking “2001” and inserting
19 “2006”,

20 (B) by striking “the \$1,000 amounts” and
21 inserting “the dollar amounts”, and

22 (C) in clause (ii), by striking “substituting
23 ‘calendar year 2000’” and inserting “sub-
24 stituting ‘calendar year 2005’”.

1 **SEC. 5. EARNED TUITION AND LIFETIME LEARNING CRED-**
2 **ITS TO BE REFUNDABLE.**

3 (a) CREDIT TO BE REFUNDABLE.—Section 25A of
4 the Internal Revenue Code of 1986, as amended by this
5 Act, is hereby moved to subpart C of part IV of subchapter
6 A of chapter 1 of such Code (relating to refundable cred-
7 its) and inserted after section 35.

8 (b) TECHNICAL AMENDMENTS.—

9 (1) Section 36 of such Code is redesignated as
10 section 37.

11 (2) Section 25A of such Code (as moved by
12 subsection (a)) is redesignated as section 36.

13 (3) Paragraph (1) of section 36(a) of such Code
14 (as redesignated by paragraph (2)) is amended by
15 striking “this chapter” and inserting “this subtitle”.

16 (4) Subparagraph (B) of section 72(t)(7) of
17 such Code is amended by striking “section
18 25A(g)(2)” and inserting “section 36(g)(2)”.

19 (5) Subparagraph (A) of section 135(d)(2) of
20 such Code is amended by striking “section 25A” and
21 inserting “section 36”.

22 (6) Section 221(d) of such Code is amended—

23 (A) by striking “section 25A(g)(2)” in
24 paragraph (2)(B) and inserting “section
25 36(g)(2)”.

1 (B) by striking “section 25A(f)(2)” in the
2 matter following paragraph (2)(B) and insert-
3 ing “section 36(f)(2)”, and

4 (C) by striking “section 25A(b)(3)” in
5 paragraph (3) and inserting “section 36(b)(3)”.

6 (7) Section 222 of such Code is amended—

7 (A) by striking “section 25A” in subpara-
8 graph (A) of subsection (c)(2) and inserting
9 “section 36”,

10 (B) by striking “section 25A(f)” in sub-
11 section (d)(1) and inserting “section 36(f)”,
12 and

13 (C) by striking “section 25A(g)(2)” in sub-
14 section (d)(1) and inserting “section 36(g)(2)”.

15 (8) Section 529 of such Code is amended—

16 (A) by striking “section 25A(g)(2)” in sub-
17 clause (I) of subsection (c)(3)(B)(v) and insert-
18 ing “section 36(g)(2)”,

19 (B) by striking “section 25A” in subclause
20 (II) of subsection (c)(3)(B)(v) and inserting
21 “section 36”, and

22 (C) by striking “section 25A(b)(3)” in
23 clause (i) of subsection (e)(3)(B) and inserting
24 “section 36(b)(3)”.

25 (9) Section 530 of such Code is amended—

1 (A) by striking “section 25A(g)(2)” in sub-
2 clause (I) of subsection (d)(2)(C)(i) and insert-
3 ing “section 36(g)(2)”,

4 (B) by striking “section 25A” in subclause
5 (II) of subsection (d)(2)(C)(i) and inserting
6 “section 36”, and

7 (C) by striking “section 25A(g)(2)” in
8 clause (iii) of subsection (d)(4)(B) and inserting
9 “section 36(g)(2)”.

10 (10) Subsection (e) of section 6050S of such
11 Code is amended by striking “section 25A” and in-
12 serting “section 36”.

13 (11) Subparagraph (J) of section 6213(g)(2) of
14 such Code is amended by striking “section
15 25A(g)(1)” and inserting “section 36(g)(1)”.

16 (12) Paragraph (2) of section 1324(b) of title
17 31, United States Code, is amended by inserting be-
18 fore the period “or from section 36 of such Code”.

19 (13) Section 1400O of such Code is amended—

20 (A) by striking paragraph (1) and redesign-
21 ating paragraphs (2) and (3) as paragraphs
22 (1) and (2), respectively,

23 (B) by striking “section 25A(f)(2)” and in-
24 serting “section 36(f)(2)”,

1 (C) by striking “section 25A(b)(1)” in
2 paragraph (1) (as redesignated by subpara-
3 graph (A)) and inserting “section 36(b)(1)”,
4 and

5 (D) by striking “section 25A(c)(1)” in
6 paragraph (2) (as redesignated by subpara-
7 graph (A)) and inserting “section 36(c)(1)”.

8 (14) The table of sections for subpart C of part
9 IV of subchapter A of chapter 1 of the Internal Rev-
10 enue Code of 1986 is amended by striking the item
11 relating to section 36 and inserting the following:

“Sec. 36. Earned tuition and Lifetime Learning credits.”.

12 (15) The table of sections for subpart A of such
13 part IV is amended by striking the item relating to
14 section 25A.

15 **SEC. 6. EFFECTIVE DATE.**

16 The amendments made by this Act shall apply to tax-
17 able years beginning after December 31, 2006.

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