

110TH CONGRESS
1ST SESSION

H. R. 3177

To allow a State to opt out of K–12 education grant programs and the requirements of those programs, to amend the Internal Revenue Code of 1986 to provide a credit to taxpayers in such a State, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JULY 25, 2007

Mr. GARRETT of New Jersey (for himself, Mr. HOEKSTRA, Mr. BISHOP of Utah, Ms. FOXX, Mr. PITTS, Mr. CULBERSON, Mr. AKIN, Mr. GOODE, Mr. WHITFIELD, Mr. KING of Iowa, Mr. CANNON, Mr. PENCE, Mr. CAMPBELL of California, Mr. JONES of North Carolina, Mr. PAUL, Mr. GILCHREST, Mr. BARTLETT of Maryland, Mrs. CUBIN, Mr. MCHENRY, Mr. MILLER of Florida, Mr. HENSARLING, Mr. WESTMORELAND, Mr. FEENEY, Mrs. MYRICK, Mr. POE, Mr. MANZULLO, Mrs. BLACKBURN, Ms. ROS-LEHTINEN, Mr. GOHMERT, Mr. DANIEL E. LUNGREN of California, Mr. BILBRAY, Mr. BARRETT of South Carolina, Mr. BAKER, Mr. WALBERG, and Mr. JORDAN of Ohio) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Education and Labor, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To allow a State to opt out of K–12 education grant programs and the requirements of those programs, to amend the Internal Revenue Code of 1986 to provide a credit to taxpayers in such a State, and for other purposes.

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. SHORT TITLE; TABLE OF CONTENTS.**

2 (a) **SHORT TITLE.**—This Act may be cited as the
3 “Local Education Authority Returns Now Act”.

4 (b) **TABLE OF CONTENTS.**—The table of contents for
5 this Act is as follows:

Sec. 1. Short title; table of contents.

**TITLE I—ABILITY OF STATES TO OPT OUT OF K-12 EDUCATION
GRANT PROGRAMS**

Sec. 101. Determinations by Secretary of Treasury as to which States are opt-
out States.

Sec. 102. Amounts creditable to States.

Sec. 103. Opt-out States not eligible to receive grants under K-12 education
grant programs.

Sec. 104. Requirements of K-12 education grant programs do not apply to opt-
out States.

Sec. 105. Definitions.

TITLE II—CREDIT TO TAXPAYERS IN OPT-OUT STATE

Sec. 201. Refundable opt-out State education credit.

6 **TITLE I—ABILITY OF STATES TO**
7 **OPT OUT OF K-12 EDUCATION**
8 **GRANT PROGRAMS**

9 **SEC. 101. DETERMINATIONS BY SECRETARY OF TREASURY**
10 **AS TO WHICH STATES ARE OPT-OUT STATES.**

11 (a) **DEADLINE.**—Not later than February 1 of each
12 calendar year (hereinafter in this title referred to as the
13 “determination year”), the Secretary of the Treasury shall
14 determine which States, if any, are opt-out States for the
15 calendar year (hereinafter in this title referred to as the
16 “opt-out year”) that follows the determination year.

17 (b) **DETERMINATION.**—The Secretary of the Treas-
18 ury shall determine that a State is an opt-out State for

1 an opt-out year under subsection (a) if, and only if, there
2 is transmitted to the Secretary a copy of a law, in effect
3 as of January 1 of the determination year, that can fairly
4 be read to mean that the policy of the State is to not ac-
5 cept grant funds under the K–12 education grant pro-
6 grams, and thereby to not be bound by the requirements
7 of those programs, for that opt-out year.

8 (c) NOTIFICATION.—Upon making a determination
9 under subsection (a), the Secretary of the Treasury shall
10 transmit that determination to the Secretary of Education
11 and to Congress.

12 **SEC. 102. AMOUNTS CREDITABLE TO STATES.**

13 (a) IN GENERAL.—For purposes of determinations
14 relating to the refundable opt-out State education credit
15 under section 36 of the Internal Revenue Code of 1986,
16 as early as practicable for a calendar year, the Secretary
17 of Education shall, for each State, determine the amount
18 creditable to that State for that calendar year and make
19 available that determination.

20 (b) AMOUNT CREDITABLE.—The Secretary shall de-
21 termine the amount creditable to a State for a calendar
22 year as follows:

23 (1) If the State was not an opt-out State for
24 the preceding calendar year, the amount creditable
25 for the calendar year shall be equal to the aggregate

1 K–12 funding (as determined under subsection (d))
2 for that State for that preceding calendar year.

3 (2) If the State was an opt-out State for the
4 preceding calendar year, the amount creditable for
5 the calendar year shall be equal to—

6 (A) the extrapolated amount (as deter-
7 mined under subsection (c)) for that preceding
8 calendar year, plus

9 (B) the amount that results when the
10 amount creditable for that preceding calendar
11 year is subtracted from the extrapolated
12 amount (as determined under subsection (c))
13 for that preceding calendar year.

14 (c) EXTRAPOLATED AMOUNT.—

15 (1) IN GENERAL.—The Secretary of Education
16 shall determine the extrapolated amount for a State
17 for a calendar year. The determination shall be
18 based on—

19 (A) the amount of grant funds that would
20 have been received other than on a competitive
21 basis, as direct grants, subgrants, or otherwise,
22 under the K–12 education grant programs, by
23 the State or any public educational entity in the
24 State for that calendar year, had it elected not

1 to be an opt-out State for that calendar year;
2 plus

3 (B) the average annual amount of all grant
4 funds that would have been received on a com-
5 petitive basis, as direct grants, subgrants, or
6 otherwise, under the K–12 education grant pro-
7 grams, by the State or any public educational
8 entity in the State for that calendar year and
9 the four preceding calendar years, had it elected
10 not to be an opt-out State for those calendar
11 years.

12 (2) REGULATIONS.—The Secretary shall pre-
13 scribe regulations for making determinations re-
14 quired by this subsection. The initial regulations
15 shall be prescribed not later than 6 months after the
16 date of the enactment of this Act.

17 (d) AGGREGATE K–12 FUNDING.—The aggregate K–
18 12 funding for a State for a calendar year shall be equal
19 to—

20 (1) the amount of all grant funds received other
21 than on a competitive basis, as direct grants, sub-
22 grants, or otherwise, under the K–12 education
23 grant programs, by the State or any public edu-
24 cational entity in the State for that calendar year;
25 plus

1 (2) the average annual amount of all grant
2 funds received on a competitive basis, as direct
3 grants, subgrants, or otherwise, under the K–12
4 education grant programs, by the State or any pub-
5 lic educational entity in the State for that calendar
6 year and the four preceding calendar years.

7 **SEC. 103. OPT-OUT STATES NOT ELIGIBLE TO RECEIVE**
8 **GRANTS UNDER K-12 EDUCATION GRANT**
9 **PROGRAMS.**

10 (a) IN GENERAL.—When a State is an opt-out State
11 for a calendar year, neither the State nor any public edu-
12 cational entity in the State is eligible to receive, as direct
13 grants, subgrants, or otherwise, any funds under any of
14 the K–12 education grant programs for that calendar
15 year.

16 (b) REALLOCATION.—Any funds under a K–12 edu-
17 cation grant program that are not allocated to a State or
18 public educational entity in the State by reason of sub-
19 section (a) shall be returned to the Treasury.

20 **SEC. 104. REQUIREMENTS OF K-12 EDUCATION GRANT PRO-**
21 **GRAMS DO NOT APPLY TO OPT-OUT STATES.**

22 When a State is an opt-out State for a calendar year,
23 neither the State nor any public educational entity in the
24 State is subject to any statutory or regulatory requirement
25 of a K–12 education grant program for that calendar year.

1 **SEC. 105. DEFINITIONS.**

2 In this title:

3 (1) The term “K–12 education grant program”
4 means any grant program carried out under any
5 title of the Elementary and Secondary Education
6 Act of 1965, except for the following:

7 (A) INDIAN, NATIVE HAWAIIAN, AND ALAS-
8 KA NATIVE EDUCATION.—Title VII (20 U.S.C.
9 7401 et seq.).

10 (B) IMPACT AID.—Title VIII (20 U.S.C.
11 7701 et seq.).

12 (2) The term “public educational entity”
13 means, with respect to a State, the State educational
14 agency, any local educational agency in the State, or
15 any public elementary or secondary school in the
16 State.

17 **TITLE II—CREDIT TO**
18 **TAXPAYERS IN OPT-OUT STATE**

19 **SEC. 201. REFUNDABLE OPT-OUT STATE EDUCATION CRED-**
20 **IT.**

21 (a) IN GENERAL.—Subpart C of part IV of sub-
22 chapter A of chapter 1 of the Internal Revenue Code of
23 1986 (relating to refundable credits) is amended by redес-
24 ignating section 36 as section 37 and by inserting after
25 section 35 the following new section:

1 **“SEC. 36. OPT-OUT STATE EDUCATION CREDIT.**

2 “(a) GENERAL RULE.—In the case of an eligible indi-
3 vidual, there shall be allowed as a credit against the tax
4 imposed by this chapter for the taxable year the opt-out
5 State education amount.

6 “(b) OPT-OUT STATE EDUCATION AMOUNT.—For
7 purposes of this section—

8 “(1) IN GENERAL.—The term ‘opt-out State
9 education amount’ means, with respect to a taxpayer
10 for a taxable year beginning in an opt-out year, the
11 amount equal to—

12 “(A) the amount creditable under section
13 102 of the Local Education Authority Returns
14 Now Act to an opt-out State (determined under
15 section 101 of such Act), multiplied by—

16 “(B) a fraction—

17 “(i) the numerator of which is the
18 taxpayer’s household tax burden from such
19 State for the opt-out year, and

20 “(ii) the denominator of which is the
21 total tax revenue of such State for the opt-
22 out year.

23 “(2) HOUSEHOLD TAX BURDEN.—The house-
24 hold tax burden from a State for an opt-out year is
25 the sum of—

26 “(A) the State real property taxes,

1 “(B) the State personal property taxes,

2 “(C) the State income, war profits, and ex-
3 cess profits taxes, plus

4 “(D) the State general sales taxes,

5 for the calendar year in which the second preceding
6 taxable year ends and within which paid or accrued
7 by the taxpayer. For purposes of this section, terms
8 used in the preceding sentence which are also used
9 in section 164 shall have the respective meanings
10 given such terms by section 164.

11 “(3) TOTAL TAX REVENUE.—The total tax rev-
12 enue of a State for an opt-out year is the amount
13 determined by the Secretary to be the aggregate tax
14 revenue of such State for the calendar year in which
15 the second preceding taxable year ends.

16 “(c) ELIGIBLE INDIVIDUAL.—For purposes of this
17 section—

18 “(1) IN GENERAL.—The term ‘eligible indi-
19 vidual’ means an individual whose principal place of
20 abode (within the meaning of section 121) was in
21 the opt-out State for the entire taxable year.

22 “(2) DEPENDENTS.—The term ‘eligible indi-
23 vidual’ does not include any individual if a deduction
24 under section 151 with respect to such individual is
25 allowed to another taxpayer for a taxable year begin-

1 ning in the calendar year in which such individual's
2 taxable year begins.

3 “(d) OPT-OUT YEAR.—The term ‘opt-out year’
4 means a calendar year for which the Secretary determines
5 a State to be an opt-out State under section 101 of the
6 Local Education Authority Returns Now Act.

7 “(e) AMOUNT OF CREDIT SHALL BE DETERMINED
8 UNDER TABLES.—

9 “(1) IN GENERAL.—The credit under sub-
10 section (a) shall be determined under tables pre-
11 scribed by the Secretary.

12 “(2) REQUIREMENTS FOR TABLES.—The tables
13 prescribed under paragraph (1) shall—

14 “(A) reflect the provisions of this section,
15 and

16 “(B) take into account filing status, State
17 of residence, and adjusted gross income.”.

18 (b) CONFORMING AMENDMENTS.—

19 (1) Paragraph (2) of section 1324(b) of title
20 31, United States Code, is amended by inserting “or
21 36” after “section 35”.

22 (2) The table of sections for subpart C of part
23 IV of subchapter A of chapter 1 of the Internal Rev-
24 enue Code of 1986 is amended by striking the last
25 item and inserting the following new items:

“Sec. 36. Opt-out State education credit.

“Sec. 37. Overpayments of tax.”.

- 1 (c) EFFECTIVE DATE.—The amendments made by
- 2 this section shall apply to taxable years beginning after
- 3 the date of the enactment of this Act.

