

110TH CONGRESS
1ST SESSION

S. 1230

To amend the Internal Revenue Code of 1986 to provide a refundable credit for contributions to qualified tuition programs.

IN THE SENATE OF THE UNITED STATES

APRIL 26, 2007

Mr. DODD 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 a refundable credit for contributions to qualified tuition programs.

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 “College Saver’s Credit
5 Act of 2007”.

6 **SEC. 2. COLLEGE SAVER’S CREDIT.**

7 (a) ALLOWANCE OF REFUNDABLE CREDIT.—Sub-
8 part C of part IV of subchapter A of chapter 1 of the
9 Internal Revenue Code of 1986 (relating to refundable
10 credits) is amended by redesignating section 36 as section

1 37 and by inserting after section 35 the following new sec-
 2 tion:

3 **“SEC. 36. COLLEGE SAVER’S CREDIT.**

4 “(a) ALLOWANCE OF CREDIT.—In the case of an eli-
 5 gible individual, there shall be allowed as a credit against
 6 the tax imposed by this subtitle for the taxable year an
 7 amount equal to 50 percent of so much of the qualified
 8 college savings contributions made during the taxable year
 9 as do not exceed \$2,000.

10 “(b) LIMITATIONS.—

11 “(1) LIMITATION BASED ON MODIFIED AD-
 12 JUSTED GROSS INCOME.—

13 “(A) IN GENERAL.—The amount which
 14 would (but for this paragraph) be taken into ac-
 15 count under subsection (a) for the taxable year
 16 shall be reduced (but not below zero) by the
 17 amount determined under subparagraph (B).

18 “(B) AMOUNT OF REDUCTION.—The
 19 amount determined under this subparagraph is
 20 the amount which bears the same ratio to the
 21 amount which would be so taken into account
 22 as—

23 “(i) the excess of—

1 “(I) the taxpayer’s modified ad-
 2 justed gross income for the taxable
 3 year, over

4 “(II) the applicable amount,
 5 bears to

6 “(ii) the phaseout amount.

7 “(C) APPLICABLE AMOUNT; PHASEOUT
 8 AMOUNT.—For purposes of subparagraph (B),
 9 the applicable amount and the phaseout amount
 10 shall be determined as follows:

	The applica- ble amount is:	The phase- out amount is:
In the case of a joint return	\$60,000	\$10,000
In the case of a head of household	\$45,000	\$7,500
In any other case	\$30,000	\$5,000

11 “(D) MODIFIED ADJUSTED GROSS IN-
 12 COME.—For purposes of this paragraph, the
 13 term ‘modified adjusted gross income’ means
 14 the adjusted gross income of the taxpayer for
 15 the taxable year increased by any amount ex-
 16 cluded from gross income under section 911,
 17 931, or 933.

18 “(E) INFLATION ADJUSTMENT.—In the
 19 case of any taxable year beginning in a calendar
 20 year after 2008, each of the applicable amounts
 21 in the second column of the table in subpara-

1 graph (C) shall be increased by an amount
2 equal to—

3 “(i) such dollar amount, multiplied by

4 “(ii) the cost-of-living adjustment de-
5 termined under section 1(f)(3) for the cal-
6 endar year in which the taxable year be-
7 gins, determined by substituting ‘calendar
8 year 2007’ for ‘calendar year 1992’ in sub-
9 paragraph (B) thereof.

10 Any increase determined under the preceding
11 sentence shall be rounded to the nearest mul-
12 tiple of \$500.

13 “(2) EARNED INCOME LIMITATION.—The
14 amount of the credit allowable under subsection (a)
15 to any taxpayer for any taxable year shall not exceed
16 the earned income (as defined by section 32(c)(2))
17 of such taxpayer for such taxable year.

18 “(c) ELIGIBLE INDIVIDUAL.—For purposes of this
19 section—

20 “(1) IN GENERAL.—The term ‘eligible indi-
21 vidual’ means any individual if such individual has
22 attained the age of 18 as of the close of the taxable
23 year.

24 “(2) DEPENDENTS NOT ELIGIBLE.—The term
25 ‘eligible individual’ shall not include any individual

1 with respect to whom a deduction under section 151
 2 is allowed to another taxpayer for a taxable year be-
 3 ginning in the calendar year in which such individ-
 4 ual's taxable year begins.

5 “(d) QUALIFIED COLLEGE SAVINGS CONTRIBU-
 6 TIONS.—The term ‘qualified college savings contributions’
 7 means, with respect to any taxable year, the aggregate
 8 contributions made by the taxpayer to any account
 9 which—

10 “(1) is described in section 529(b)(1)(A)(ii),
 11 “(2) is part of a qualified tuition program, and
 12 “(3) is established for the benefit of—
 13 “(A) the taxpayer,
 14 “(B) the taxpayer's spouse, or
 15 “(C) any dependent of the taxpayer with
 16 respect to whom the taxpayer is allowed a de-
 17 duction under section 151.

18 “(e) TREATMENT OF CONTRIBUTIONS BY DEPEND-
 19 ENT.—If a deduction under section 151 with respect to
 20 an individual is allowed to another taxpayer for a taxable
 21 year beginning in the calendar year in which such individ-
 22 ual's taxable year begins—

23 “(1) no credit shall be allowed under subsection
 24 (a) to such individual for such individual's taxable
 25 year, and

1 “(2) any qualified college savings contributions
2 made by such individual during such taxable year
3 shall be treated for purposes of this section as made
4 by such other taxpayer.”.

5 (b) REFUNDABLE AMOUNT CREDITED TO QUALIFIED
6 TUITION PLAN.—

7 (1) TRANSFER OF REFUND TO QUALIFIED TUI-
8 TION PLANS.—Section 6402 of the Internal Revenue
9 Code of 1986 (relating to authority to make credits
10 or refunds) is amended by adding at the end the fol-
11 lowing new subsection:

12 “(1) SPECIAL RULE FOR OVERPAYMENTS ATTRIB-
13 UTABLE TO COLLEGE SAVER’S CREDIT.—

14 “(1) IN GENERAL.—In the case of any overpay-
15 ment attributable to the credit allowed under section
16 36, the Secretary shall transfer such amount to the
17 qualified tuition program to which the taxpayer
18 made a qualified college savings contribution.

19 “(2) TRANSFERS TO MORE THAN 1 QUALIFIED
20 TUITION PROGRAM.—If the taxpayer made qualified
21 college savings contributions to more than 1 quali-
22 fied tuition program, the Secretary shall transfer the
23 overpayment described in paragraph (1) to each
24 such qualified tuition program in an amount that

1 bears the same ratio to the amount of such overpay-
2 ment as—

3 “(A) the amount of qualified college sav-
4 ings contributions made by such taxpayer to
5 such qualified tuition program, bears to

6 “(B) the amount of qualified college sav-
7 ings contribution made by such taxpayer to all
8 qualified tuition programs.

9 “(3) QUALIFIED COLLEGE SAVINGS CONTRIBU-
10 TION.—For purposes of this subsection, the term
11 ‘qualified college savings contribution’ has the mean-
12 ing given such term by section 36(d).”.

13 (2) SEPARATE ACCOUNTING FOR REFUNDABLE
14 AMOUNTS.—Section 529 of such Code is amended by
15 redesignating subsection (f) as subsection (g) and by
16 inserting after subsection (e) the following new sub-
17 section:

18 “(f) SPECIAL RULES FOR CONTRIBUTIONS ATTRIB-
19 UTABLE TO COLLEGE SAVER’S CREDIT.—

20 “(1) IN GENERAL.—A program shall not be
21 treated as a qualified tuition program unless it pro-
22 vides separate accounting for contributions trans-
23 ferred by the Secretary under section 6402(l) to an
24 account in the program.

1 “(2) SPECIAL RULES FOR DISTRIBUTION.—In
2 the case of a distribution under a qualified tuition
3 program which includes any amount transferred by
4 the Secretary under section 6402(l) (including any
5 earnings attributable to such amount) and which is
6 includible in gross income, the tax imposed by this
7 chapter on the person receiving such distribution
8 shall be increased by 100 percent of the amount so
9 includible.

10 “(3) ORDERING RULES.—For purposes of ap-
11 plying this subsection to any distribution from a
12 qualified tuition program—

13 “(A) IN GENERAL.—Except as provided in
14 subparagraph (B), such distribution shall be
15 treated as made—

16 “(i) first from amounts contributed
17 under the program, and

18 “(ii) second from amounts transferred
19 by the Secretary under section 6402(l).

20 “(B) EXCEPTION FOR DISTRIBUTIONS FOR
21 QUALIFIED HIGHER EDUCATION EXPENSES.—In
22 the case of a distribution described in sub-
23 section (c)(3), such distribution shall be treated
24 as made—

1 “(i) first from amounts transferred by
2 the Secretary under section 6402(l), and
3 “(ii) second from other amounts con-
4 tributed under the program.”.

5 (c) CONFORMING AMENDMENTS.—

6 (1) Section 1324(b)(2) of title 31, United
7 States Code, is amended by inserting before the pe-
8 riod at the end “, or enacted by the College Saver’s
9 Credit Act of 2007”.

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

“Sec. 36. College saver’s credit.
“Sec. 37. Overpayments of tax.”.

14 (d) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to taxable years beginning after
16 December 31, 2007.

17 **SEC. 3. DISTRIBUTION OF FINANCIAL EDUCATION MATE-**
18 **RIALS TO INDIVIDUALS INVESTING IN QUALI-**
19 **FIED TUITION PROGRAMS.**

20 (a) IN GENERAL.—Subsection (b) of section 529 of
21 the Internal Revenue Code of 1986 is amended by adding
22 at the end the following new paragraph:

23 “(7) FINANCIAL EDUCATION MATERIALS.—A
24 program shall not be treated as a qualified tuition

1 program unless it requires that financial education
2 materials are distributed to individuals participating
3 in the program.”.

4 (b) GUIDANCE.—Subsection (g) of section 529 of
5 such Code, as redesignated by this Act, is amended by in-
6 serting “and regulations providing guidance on the types
7 of financial education material required to be provided
8 under subsection (b)(7)” before the period at the end.

9 (c) EFFECTIVE DATE.—The amendments made by
10 this section shall take effect 1 year after the date of the
11 enactment of this Act.

12 **SEC. 4. STUDY ON PARTICIPATION IN QUALIFIED TUITION**
13 **PROGRAMS.**

14 (a) IN GENERAL.—The Secretary of the Treasury
15 shall conduct a study on the participation of individuals
16 in qualified tuition programs under section 529 of the In-
17 ternal Revenue Code of 1986.

18 (b) MATTER STUDIED.—The study conducted under
19 subsection (a) shall consider—

20 (1) the income and age of individuals partici-
21 pating in qualified tuition programs, and

22 (2) the amount of fees charged under each
23 qualified tuition program established or maintained
24 by a State (or agency or instrumentality thereof).

1 (c) REPORT.—Not later than 1 year after the date
2 of the enactment of this Act, the Secretary of the Treasury
3 shall submit to Congress a report on the study conducted
4 under subsection (a).

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