

110TH CONGRESS  
1ST SESSION

# S. 1501

To amend the Internal Revenue Code of 1986 to consolidate the current education tax incentives into one credit against income tax for higher education expenses, and for other purposes.

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IN THE SENATE OF THE UNITED STATES

MAY 24, 2007

Mr. BAYH introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to consolidate the current education tax incentives into one credit against income tax for higher education expenses, 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,*

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “Universal Higher Edu-  
5       cation and Lifetime Learning Act of 2007”.

1 **SEC. 2. CONSOLIDATION OF EDUCATION TAX INCENTIVES**  
2 **INTO HIGHER EDUCATION TAX CREDIT.**

3 (a) IN GENERAL.—Section 25A of the Internal Rev-  
4 enue Code of 1986 (relating to Hope and Lifetime Learn-  
5 ing credits) is amended to read as follows:

6 **“SEC. 25A. HIGHER EDUCATION TAX CREDIT.**

7 “(a) ALLOWANCE OF CREDIT.—In the case of any  
8 eligible student for whom an election is in effect under  
9 this section for any taxable year, there shall be allowed  
10 as a credit against the tax imposed by this chapter for  
11 the taxable year an amount equal to the sum of—

12 “(1) 50 percent of so much of the higher edu-  
13 cation expenses paid by the taxpayer during the tax-  
14 able year (with respect to attendance of the eligible  
15 student at an eligible educational institution during  
16 any academic period beginning in such taxable year)  
17 as does not exceed \$3,000, and

18 “(2) 30 percent of so much of such expenses as  
19 exceeds \$3,000, but does not exceed \$8,000.

20 “(b) LIMITATIONS.—

21 “(1) HIGHER EDUCATION EXPENSE LIMITA-  
22 TION.—The amount of higher education expenses  
23 taken into account under subsection (a) with respect  
24 to an individual for an academic period shall not ex-  
25 ceed the individual’s cost of attendance (as defined  
26 in section 472 of the Higher Education Act of 1965,

1 as in effect on the date of the enactment of this sec-  
 2 tion) for such period at the eligible educational insti-  
 3 tution with respect to which such higher education  
 4 expenses were paid.

5 “(2) LIFETIME CREDIT LIMITATION.—The  
 6 amount of the credit allowed under subsection (a)  
 7 for any taxable year with respect to any eligible stu-  
 8 dent shall not exceed the excess of—

9 “(A) \$12,000, over

10 “(B) the aggregate credit allowed under  
 11 subsection (a) with respect to such eligible stu-  
 12 dent for all prior taxable years.

13 “(3) CREDIT LIMITATION BASED ON MODIFIED  
 14 ADJUSTED GROSS INCOME.—

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

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

25 “(i) the excess of—

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

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

6                   “(ii) \$30,000 (\$60,000 in the case of  
7                   a joint return).

8                   “(C) MODIFIED ADJUSTED GROSS IN-  
9                   COME.—The term ‘modified adjusted gross in-  
10                  come’ means the adjusted gross income of the  
11                  taxpayer for the taxable year increased by any  
12                  amount excluded from gross income under sec-  
13                  tion 911, 931, or 933.

14                  “(D) APPLICABLE AMOUNT.—The applica-  
15                  ble amount under this subparagraph is—

16                         “(i) in the case of a joint return, 200  
17                         percent of the dollar amount in effect  
18                         under clause (ii) for the taxable year, and

19                         “(ii) in any other case, \$50,000.

20                  “(4) LIMITATION BASED ON AMOUNT OF  
21                  TAX.—In the case of a taxable year to which section  
22                  26(a)(2) does not apply, the credit allowed under  
23                  subsection (a) for the taxable year shall not exceed  
24                  the excess of—

1           “(A) the sum of the regular tax liability  
2           (as defined in section 26(b)) plus the tax im-  
3           posed by section 55, over

4           “(B) the sum of the credits allowable  
5           under this subpart (other than this section and  
6           section 23) and section 27 for the taxable year.

7           “(c) DEFINITIONS.—For purposes of this sub-  
8 section—

9           “(1) ELIGIBLE STUDENT.—The term ‘eligible  
10          student’ means, with respect to any academic period,  
11          any individual who meets the requirements of section  
12          484(a)(1) of the Higher Education Act of 1965 (20  
13          U.S.C. 1091(a)(1)), as in effect on the date of the  
14          enactment of the Taxpayer Relief Act of 1997.

15          “(2) HIGHER EDUCATION EXPENSE.—The term  
16          ‘higher education expense’ means any expense of a  
17          type which is taken into account in determining the  
18          cost of attendance (as defined in section 472 of the  
19          Higher Education Act of 1965, as in effect on the  
20          date of the enactment of this section) of—

21                  “(A) the taxpayer,

22                  “(B) the taxpayer’s spouse, or

23                  “(C) any dependent of the taxpayer with  
24          respect to whom the taxpayer is allowed a de-  
25          duction under section 151,

1 at an eligible educational institution with respect to  
2 the attendance of such individual at such institution  
3 for the academic period for which the credit under  
4 this section is being determined.

5 “(3) ELIGIBLE EDUCATIONAL INSTITUTION.—  
6 The term ‘eligible educational institution’ means an  
7 institution—

8 “(A) which is described in section 481 of  
9 the Higher Education Act of 1965, as in effect  
10 on the date of the enactment of the Taxpayer  
11 Relief Act of 1997, and

12 “(B) which is eligible to participate in a  
13 program under title IV of the Higher Education  
14 Act of 1965.

15 “(d) SPECIAL RULES.—

16 “(1) IDENTIFICATION REQUIREMENT.—No  
17 credit shall be allowed under subsection (a) to a tax-  
18 payer with respect to an eligible student unless the  
19 taxpayer includes the name and taxpayer identifica-  
20 tion number of such student on the return of tax for  
21 the taxable year.

22 “(2) ADJUSTMENT FOR CERTAIN SCHOLAR-  
23 SHIPS.—The amount of higher education expenses  
24 otherwise taken into account under subsection (a)  
25 with respect to an individual for an academic period

1 shall be reduced (before the application of sub-  
2 sections (a) and (b)) by the sum of any amounts  
3 paid for the benefit of such individual which are allo-  
4 cable to such period as—

5 “(A) a qualified scholarship which is ex-  
6 cludable from gross income under section 117,

7 “(B) an educational assistance allowance  
8 under chapter 30, 31, 32, 34, or 35 of title 38,  
9 United States Code, or under chapter 1606 of  
10 title 10, United States Code, and

11 “(C) a payment (other than a gift, be-  
12 quest, devise, or inheritance within the meaning  
13 of section 102(a)) for such student’s edu-  
14 cational expenses, or attributable to such indi-  
15 vidual’s enrollment at an eligible educational in-  
16 stitution, which is excludable from gross income  
17 under any law of the United States.

18 “(3) CREDIT ALLOWED ONLY FOR FIRST 2  
19 YEARS OF GRADUATE EDUCATION.—No credit shall  
20 be allowed under subsection (a) for a taxable year  
21 with respect to the higher education expenses of an  
22 eligible student if the student has completed (before  
23 the beginning of such taxable year) 2 years of grad-  
24 uate education at one or more eligible educational  
25 institutions.

1           “(4) TREATMENT OF EXPENSES PAID BY DE-  
2           PENDENT.—If a deduction under section 151 with  
3           respect to an individual is allowed to another tax-  
4           payer for a taxable year beginning in the calendar  
5           year in which such individual’s taxable year begins—

6                   “(A) no credit shall be allowed under sub-  
7                   section (a) to such individual for such individ-  
8                   ual’s taxable year, and

9                   “(B) higher education expenses paid by  
10                  such individual during such individual’s taxable  
11                  year shall be treated for purposes of this section  
12                  as paid by such other taxpayer.

13           “(5) TREATMENT OF CERTAIN PREPAY-  
14           MENTS.—If higher education expenses are paid by  
15           the taxpayer during a taxable year for an academic  
16           period which begins during the first 3 months fol-  
17           lowing such taxable year, such academic period shall  
18           be treated for purposes of this section as beginning  
19           during such taxable year.

20           “(6) DENIAL OF DOUBLE BENEFIT.—No credit  
21           shall be allowed under this section for any expense  
22           for which deduction is allowed under any other pro-  
23           vision of this chapter.

24           “(7) NO CREDIT FOR MARRIED INDIVIDUALS  
25           FILING SEPARATE RETURNS.—If the taxpayer is a

1 married individual (within the meaning of section  
2 7703), this section shall apply only if the taxpayer  
3 and the taxpayer's spouse file a joint return for the  
4 taxable year.

5 “(8) NONRESIDENT ALIENS.—If the taxpayer is  
6 a nonresident alien individual for any portion of the  
7 taxable year, this section shall apply only if such in-  
8 dividual is treated as a resident alien of the United  
9 States for purposes of this chapter by reason of an  
10 election under subsection (g) or (h) of section 6013.

11 “(e) PORTION OF CREDIT REFUNDABLE.—The ag-  
12 gregate credits allowed to a taxpayer under subpart C  
13 shall be increased by 50 percent of the portion of the  
14 amount of the credit which would be allowed to the tax-  
15 payer under this section without regard to this subsection  
16 and the limitation under section 26(a)(2) or subsection  
17 (b)(4), as the case may be. The amount of the credit al-  
18 lowed under this subsection shall not be treated as a credit  
19 allowed under this subpart and shall reduce the amount  
20 of credit otherwise allowable under subsection (a) without  
21 regard to section 26(a)(2) or subsection (b)(3), as the case  
22 may be.

23 “(f) ELECTION NOT TO HAVE SECTION APPLY.—A  
24 taxpayer may elect not to have this section apply with re-

1 spect to the higher education expenses of an individual for  
2 any taxable year.

3 “(g) INFLATION ADJUSTMENT.—

4 “(1) IN GENERAL.—In the case of a taxable  
5 year beginning after 2008, the \$50,000 amount in  
6 subsection (b)(3)(D) shall each be increased by an  
7 amount equal to—

8 “(A) such dollar amount, multiplied by

9 “(B) the cost-of-living adjustment deter-  
10 mined under section 1(f)(3) for the calendar  
11 year in which the taxable year begins, deter-  
12 mined by substituting ‘calendar year 2007’ for  
13 ‘calendar year 1992’ in subparagraph (B)  
14 thereof.

15 “(2) ROUNDING.—If any amount as adjusted  
16 under subparagraph (A) is not a multiple of \$1,000,  
17 such amount shall be rounded to the next lowest  
18 multiple of \$1,000.

19 “(h) REGULATIONS.—The Secretary may prescribe  
20 such regulations as may be necessary or appropriate to  
21 carry out this section, including regulations providing for  
22 a recapture of the credit allowed under this section in  
23 cases where there is a refund in a subsequent taxable year  
24 of any expense which was taken into account in deter-  
25 mining the amount of such credit.”.

1 (b) REPEAL OF DEDUCTION FOR QUALIFIED TUI-  
2 TION AND RELATED EXPENSES.—

3 (1) IN GENERAL.—Part VII of subchapter B of  
4 chapter 1 of such Code (relating to additional  
5 itemized deductions for individuals) is amended by  
6 striking section 222.

7 (2) CLERICAL AMENDMENT.—The table of sec-  
8 tions for part VII of subchapter B of chapter 1 of  
9 such Code is amended by striking the item relating  
10 to section 222.

11 (c) CONFORMING AMENDMENTS.—

12 (1) Subsection (c) of section 23 of such Code  
13 is amended by striking “and 1400C” and inserting  
14 “25A, and 1400C”.

15 (2) Subparagraph (B) of section 24(b)(3) of  
16 such Code is amended by striking “and 25B” and  
17 inserting “, 25A, and 25B”.

18 (3) Subparagraph (C) of section 25(e)(1) of  
19 such Code is amended—

20 (A) by striking “25D” in clause (i) and in-  
21 serting “25A, 25D”, and

22 (B) by striking “24” in clause (ii) and in-  
23 serting “24, 25A”.

1           (4) Paragraph (2) of section 25B(g) of such  
2 Code is amended by striking “section 23” and in-  
3 sserting “sections 23 and 25A”.

4           (5) Subsection (c) of section 25D of such Code  
5 is amended—

6           (A) in paragraph (1) by inserting “and  
7 section 25A” after “other than this section”,  
8 and

9           (B) in paragraph (2) by striking “24” and  
10 inserting “24, 25A”.

11          (6) Subsection (d) of section 1400C of such  
12 Code is amended—

13          (A) by striking “section 25D” in para-  
14 graph (1) and inserting “sections 25A and  
15 25D”, and

16          (B) by striking “24” in paragraph (2) and  
17 inserting “24, 25A”.

18          (7) Section 62(a) of such Code is amended by  
19 striking paragraph (18).

20          (8) Subparagraph (A) of section 86(b)(2) of  
21 such Code is amended by striking “, 222”.

22          (9) Subparagraph (B) of section 72(t)(7) of  
23 such Code is amended by striking “section  
24 25A(g)(2)” and inserting “section 25A(d)(2)”.

1           (10) Subparagraph (A) of section 135(c)(4) of  
2 such Code is amended by striking “, 222”.

3           (11) Subparagraph (A) of section 137(b)(3) of  
4 such Code is amended by striking “, 222”.

5           (12) Subparagraph (A) of section 199(d)(2) of  
6 such Code is amended by striking “, 222”.

7           (13) Clause (ii) of section 219(g)(3)(A) of such  
8 Code is amended by striking “, 222”.

9           (14) Clause (i) of section 221(b)(2)(C) of such  
10 Code is amended by striking “, 222”.

11           (15) Clause (iii) of section 469(i)(3)(F) of such  
12 Code is amended by striking “221, and 222” and in-  
13 serting “and 221”.

14           (16) Subsection (d) of section 221 of such Code  
15 is amended—

16                   (A) by striking “section 25A(g)(2)” in  
17 paragraph (2)(B) and inserting “section  
18 25A(d)(2)”, and

19                   (B) by striking “section 25A(f)(2)” in the  
20 second sentence of paragraph (2) and inserting  
21 “section 25A(e)(3)”.

22           (17) Paragraph (3) of section 221(d) of such  
23 Code is amended to read as follows:

1           “(3) ELIGIBLE STUDENT.—The term ‘eligible  
2 student’ means, with respect to any academic period,  
3 a student who—

4                   “(A) meets the requirements of section  
5 484(a)(1) of the Higher Education Act of 1965  
6 (20 U.S.C. 1091(a)(1)), as in effect on the date  
7 of the enactment of the Taxpayer Relief Act of  
8 1997, and

9                   “(B) is carrying at least ½ the normal  
10 full-time workload for the course of study the  
11 student is pursuing.”.

12           (18) Subclause (I) of section 529(e)(3)(B)(v) of  
13 such Code is amended by striking “section  
14 25A(g)(2)” and inserting “25A(d)(2)”.

15           (19) Clause (i) of section 529(e)(3)(B) of such  
16 Code is amended by striking “section 25A(b)(3)”  
17 and inserting “section 221(d)(3)”.

18           (20) Subclause (I) of section 530(d)(2)(C)(i) of  
19 such Code is amended by striking “section  
20 25A(g)(2)” and inserting “section 25A(d)(2)”.

21           (21) Clause (iii) of section 530(d)(4)(B) of such  
22 Code is amended by striking “section 25A(g)(2)”  
23 and inserting “25A(d)(2)”.

24           (22) Section 14000 of such Code is amended  
25 by adding at the end the following flush sentence:

1 “For purposes of this section, any reference to section 25A  
2 shall be treated as a reference to such section as in effect  
3 on the day before the date of the enactment of this sen-  
4 tence.”.

5 (23) Section 6050S of such Code is amended—

6 (A) by striking “qualified tuition and re-  
7 lated expenses” in subsection (a)(2) and insert-  
8 ing “expenses which are included as part of a  
9 student’s cost of attendance (as defined in sec-  
10 tion 472 of the Higher Education Act of  
11 1965)”,

12 (B) by striking clause (i) of subsection  
13 (b)(2)(B) and inserting the following new  
14 clause:

15 “(i) the cost of attendance (as defined  
16 in section 472 of the Higher Education  
17 Act of 1965) of such individual,”, and

18 (C) in subsection (e) by striking “the  
19 terms” and all that follows through “subsection  
20 (g)(2) thereof” and inserting “the term ‘eligi-  
21 ble educational institution’ has the meaning  
22 given such term by section 25A(c)(3)”.

23 (24) Subparagraph (J) of section 6213(g)(2) of  
24 such Code is amended by striking “section  
25 25A(g)(1) (relating to higher education tuition and

1 related expenses)” and inserting “section 25A(d)(1)  
2 (relating to higher education tax credit)”.

3 (25) Paragraph (2) of section 1324(b) of title  
4 31, United States Code, is amended by inserting “,  
5 25A,” after “section 35”.

6 (26) The table of sections for subpart A of part  
7 IV of subchapter A of chapter 1 of such Code is  
8 amended by striking the item relating to section 25A  
9 and inserting the following:

“Sec. 25A. Higher education tax credit.”.

10 (d) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to expenses paid after December  
12 31, 2007, for education furnished in academic periods be-  
13 ginning after such date.

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