

STUDENT AND FAMILY TAX SIMPLIFICATION ACT

JULY 17, 2014.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. CAMP, from the Committee on Ways and Means,  
 submitted the following

R E P O R T

together with

DISSENTING VIEWS

[To accompany H.R. 3393]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 3393) to amend the Internal Revenue Code of 1986 to consolidate certain tax benefits for educational expenses, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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The amendment is as follows:

Strike all after the enacting clause and insert the following:

**SECTION 1. SHORT TITLE.**

This Act may be cited as the “Student and Family Tax Simplification Act”.

**SEC. 2. CONSOLIDATION OF CERTAIN TAX BENEFITS FOR EDUCATIONAL EXPENSES.**

(a) AMERICAN OPPORTUNITY TAX CREDIT.—Section 25A of the Internal Revenue Code of 1986 is amended to read as follows:

**“SEC. 25A. AMERICAN OPPORTUNITY TAX CREDIT.**

“(a) IN GENERAL.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year, with respect to each eligible student, an amount equal to the sum of—

“(1) 100 percent of so much of the qualified tuition and related expenses paid by the taxpayer during the taxable year (for education furnished to the eligible student during any academic period beginning in such taxable year) as does not exceed \$2,000, plus

“(2) 25 percent of so much of such expenses so paid as exceeds the dollar amount in effect under paragraph (1) but does not exceed twice such dollar amount.

“(b) PORTION OF CREDIT REFUNDABLE.—So much of the credit allowable under subsection (a) with respect to each eligible student (determined without regard to this subsection and section 26(a) and after application of all other provisions of this section) as does not exceed \$1,500 shall be treated as a credit allowable under subpart C (and not under this part). The preceding sentence shall not apply to any taxpayer for any taxable year if such taxpayer is a child to whom section 1(g) applies for such taxable year.

“(c) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

“(1) IN GENERAL.—The amount allowable as a credit under subsection (a) for any taxable year shall be reduced (but not below zero) by an amount which bears the same ratio to the amount so allowable (determined without regard to this subsection and subsection (b) but after application of all other provisions of this section) as—

“(A) the excess of—

“(i) the taxpayer’s modified adjusted gross income for such taxable year, over

“(ii) \$80,000 (twice such amount in the case of a joint return), bears to

“(B) \$10,000 (twice such amount in the case of a joint return).

“(2) MODIFIED ADJUSTED GROSS INCOME.—For purposes of this subsection, the term ‘modified adjusted gross income’ means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911, 931, or 933.

“(d) OTHER LIMITATIONS.—No credit shall be allowed under this section with respect to any eligible student for any taxable year if—

“(1) such student was taken into account in determining the credit allowed under this section (by the taxpayer or any other individual) for any 4 prior taxable years, or

“(2) such student has completed (before the beginning of such taxable year) the first 4 years of postsecondary education at an eligible educational institution.

“(e) DEFINITIONS.—For purposes of this section—

“(1) ELIGIBLE STUDENT.— 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 August 5, 1997, and

“(B) is carrying at least ½ the normal full-time work load for the course of study the student is pursuing.

“(2) QUALIFIED TUITION AND RELATED EXPENSES.—

“(A) IN GENERAL.—The term ‘qualified tuition and related expenses’ means tuition, fees, and course materials, required for enrollment or attendance of—

“(i) the taxpayer,

“(ii) the taxpayer’s spouse, or

“(iii) any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151, at an eligible educational institution for courses of instruction of such individual at such institution.

“(B) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC.—Such term does not include expenses with respect to any course or other education involving sports, games, or hobbies, unless such course or other education is part of the individual’s degree program.

“(C) EXCEPTION FOR NONACADEMIC FEES.—Such term does not include student activity fees, athletic fees, insurance expenses, or other expenses unrelated to an individual’s academic course of instruction.

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

“(A) which is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on August 5, 1997, and

“(B) which is eligible to participate in a program under title IV of such Act.

“(f) SPECIAL RULES.—

“(1) IDENTIFICATION REQUIREMENT.—No credit shall be allowed under subsection (a) to a taxpayer with respect to the qualified tuition and related expenses of an individual unless the taxpayer includes the name and taxpayer identification number of such individual, and the employer identification number of any institution to which such expenses were paid, on the return of tax for the taxable year.

“(2) ADJUSTMENT FOR CERTAIN SCHOLARSHIPS, ETC.—

“(A) IN GENERAL.—The amount of qualified tuition and related expenses otherwise taken into account under subsection (a) with respect to an individual for an academic period shall be reduced (before the application of subsection (c)) by the sum of any amounts paid for the benefit of such individual which are allocable to such period as—

“(i) a qualified scholarship which is excludable from gross income under section 117,

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

“(iii) a payment (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)) for such individual’s educational expenses, or attributable to such individual’s enrollment at an eligible educational institution, which is excludable from gross income under any law of the United States.

“(B) COORDINATION WITH PELL GRANTS NOT USED FOR QUALIFIED TUITION AND RELATED EXPENSES.—For purposes of subparagraph (A), the amount of any Federal Pell Grant under section 401 of the Higher Education Act of 1965 (20 U.S.C. 1070a) shall be reduced (but not below zero) by the amount of expenses (other than qualified tuition and related expenses) which are taken into account in determining the cost of attendance (as defined in section 472 of the Higher Education Act of 1965, as in effect on the date of the enactment of this paragraph) of such individual at an eligible educational institution for the academic period for which the credit under this section is being determined.

“(3) TREATMENT OF EXPENSES PAID BY DEPENDENT.—If a deduction under section 151 with respect to an individual is allowed to another taxpayer for a taxable year beginning in the calendar year in which such individual’s taxable year begins—

“(A) no credit shall be allowed under subsection (a) to such individual for such individual’s taxable year, and

“(B) qualified tuition and related expenses paid by such individual during such individual’s taxable year shall be treated for purposes of this section as paid by such other taxpayer.

“(4) TREATMENT OF CERTAIN PREPAYMENTS.—If qualified tuition and related expenses are paid by the taxpayer during a taxable year for an academic period

which begins during the first 3 months following such taxable year, such academic period shall be treated for purposes of this section as beginning during such taxable year.

“(5) DENIAL OF DOUBLE BENEFIT.—No credit shall be allowed under this section for any amount for which a deduction is allowed under any other provision of this chapter.

“(6) NO CREDIT FOR MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—If the taxpayer is a married individual (within the meaning of section 7703), this section shall apply only if the taxpayer and the taxpayer’s spouse file a joint return for the taxable year.

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

“(g) INFLATION ADJUSTMENT.—

“(1) IN GENERAL.—In the case of a taxable year beginning after 2018, the \$2,000 amount in subsection (a)(1), the \$1,500 amount in subsection (b), and the \$80,000 amount in subsection (c)(1)(A)(ii) shall each be increased by an amount equal to—

“(A) such dollar amount, multiplied by

“(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting ‘calendar year 2017’ for ‘calendar year 1992’ in subparagraph (B) thereof.

“(2) ROUNDING.—If any amount as adjusted under paragraph (1) is not a multiple of \$100 (\$1,000 in the case of the amount in subsection (c)(1)(A)(ii)), such amount shall be rounded to the next lowest multiple of \$100 (\$1,000 in the case of the amount in subsection (c)(1)(A)(ii)).

“(h) REGULATIONS.—The Secretary may prescribe such regulations or other guidance as may be necessary or appropriate to carry out this section, including regulations providing for a recapture of the credit allowed under this section in cases where there is a refund in a subsequent taxable year of any amount which was taken into account in determining the amount of such credit.”.

(b) REQUIREMENT TO REPORT TUITION PAID RATHER THAN TUITION BILLED.—Section 6050S(b)(2)(B)(i) is amended by striking “or the aggregate amount billed”.

(c) REPEAL OF DEDUCTION FOR QUALIFIED TUITION AND RELATED EXPENSES.—Part VII of subchapter B of chapter 1 of such Code is amended by striking section 222 (and by striking the item relating to such section in the table of sections for such part).

(d) CONFORMING AMENDMENTS.—

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

(2) Section 72(t)(7)(B) of such Code is amended by striking “section 25A(g)(2)” and inserting “section 25A(f)(2)”.

(3) Sections 86(b)(2)(A), 135(c)(4)(A), 137(b)(3)(A), 199(d)(2)(A), 219(g)(3)(A)(ii), and 221(b)(2)(C)(i) of such Code are each amended by striking “222”.

(4) Section 469(i)(3)(F)(iii) of such Code is amended by striking “221, and 222” and inserting “and 221”.

(5) Section 529(c)(3)(B)(v)(I) of such Code is amended by striking “section 25A(g)(2)” and inserting “section 25A(f)(2)”.

(6) Section 529(e)(3)(B)(i) of such Code is amended by striking “section 25A(b)(3)” and inserting “section 25A(d)”.

(7) Section 530(d)(2)(C) of such Code is amended—

(A) by striking “section 25A(g)(2)” in clause (i)(I) and inserting “section 25A(f)(2)”, and

(B) by striking “HOPE AND LIFETIME LEARNING CREDITS” in the heading and inserting “AMERICAN OPPORTUNITY TAX CREDIT”.

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

(9) Section 6050S(e) of such Code is amended by striking “subsection (g)(2)” and inserting “subsection (f)(2)”.

(10) Section 6211(b)(4)(A) of such Code is amended by striking “subsection (i)(6)” and inserting “subsection (b)”.

(11) Section 6213(g)(2)(J) of such Code is amended by striking “TIN required under section 25A(g)(1)” and inserting “TIN, and employer identification number, required under section 25A(f)(1)”.

(12) Section 1004(c) of division B of the American Recovery and Reinvestment Tax Act of 2009 is amended—

(A) in paragraph (1)—

(i) by striking “section 25A(i)(6)” each place it appears and inserting “section 25A(b)”,

(ii) by striking “with respect to taxable years beginning after 2008 and before 2018” in subparagraph (A) and inserting “with respect to each taxable year”, and

(iii) by striking “for taxable years beginning after 2008 and before 2018” in subparagraph (B) and inserting “for each taxable year”,

(B) in paragraph (2), by striking “Section 25A(i)(6)” and inserting “Section 25A(b)”, and

(C) in paragraph (3)(C), by striking “subsection (i)(6)” and inserting “subsection (b)”.

(13) The table of sections for subpart A of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by striking the item relating to section 25A and inserting the following new item:

“Sec. 25A. American opportunity tax credit.”.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

**SEC. 3. EXPANSION OF PELL GRANT EXCLUSION FROM GROSS INCOME.**

(a) IN GENERAL.—Paragraph (1) of section 117(b) of the Internal Revenue Code of 1986 is amended—

(1) by striking the period at the end and inserting “, or”,

(2) by striking “received by an individual as a scholarship” and inserting the following: “received by an individual—

“(A) as a scholarship”, and

(3) by adding at the end the following new subparagraph:

“(B) as a Federal Pell Grant under section 401 of the Higher Education Act of 1965 (20 U.S.C. 1070a).”.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

## I. SUMMARY AND BACKGROUND

### A. PURPOSE AND SUMMARY

Similar to a provision contained in the discussion draft of the “Tax Reform Act of 2014” released on February 26, 2014, the bill, H.R. 3393, reported by the Committee on Ways and Means, provides a permanent, partially refundable tax credit of up to \$2,500 per student per year for qualified higher education expenses, replacing four overlapping education tax benefits, while making other improvements to help those students most in need and to promote greater compliance. One of the education tax benefits that would be consolidated under the legislation expired for tax years beginning after December 31, 2013, while another is scheduled to expire for tax years beginning after December 31, 2017.

### B. BACKGROUND AND NEED FOR LEGISLATION

While the Committee continues actively to pursue comprehensive tax reform as a critical means of promoting economic growth, job creation, and tax simplification, the Committee also believes that it is important to act immediately to simplify and consolidate the current, complicated array of education-related tax benefits, while providing students and their families permanent tax relief to help them better afford the rising costs of higher education. By making permanent and increasing the larger credit amount available under the American Opportunity Tax Credit, H.R. 3393 would preserve and expand an important benefit for taxpayers pursuing higher education. This bipartisan proposal—developed by Reps. Diane Black (R-TN) and Danny Davis (D-IL) as a result of their work on the Committee’s 2013 Tax Reform Working Group on Education and Family Benefits—would streamline and simplify four complex and overlapping education-related tax benefits available under

present law. Additionally, by improving the tax treatment of Pell Grants and the interaction of those grants with other benefits, H.R. 3393 would especially help those most in need cope with the increasing costs of higher education. Furthermore, by improving the reporting requirements for higher education institutions, H.R. 3393 would help ensure that education-related tax benefits are administered correctly. According to testimony received by the Committee, streamlining and consolidating the definitions, eligibility, and income phaseouts for the current patchwork of education benefits on a permanent basis would provide critical certainty and stability to students and their families.

### C. LEGISLATIVE HISTORY

#### *Background*

H.R. 3393 was introduced on October 30, 2013, and was referred to the Committee on Ways and Means.

#### *Committee action*

The Committee on Ways and Means marked up H.R. 3393, the “Student and Family Tax Simplification Act,” on June 25, 2014, and ordered the bill, as amended, favorably reported (with a quorum being present).

#### *Committee hearings*

The need for a workable, permanent higher education tax credit was discussed at no fewer than three hearings during the 112th and 113th Congresses:

- Full Committee hearing on How the Tax Code’s Burdens on Individuals and Families Demonstrate the Need for Comprehensive Tax Reform (April 13, 2011).
- Oversight Subcommittee hearing on Improper Payments in the Administration of Refundable Tax Credits (May 25, 2011).
- Full Committee hearing on the President’s Fiscal Year 2015 Budget Proposal with the U.S. Department of the Treasury Secretary Jacob J. Lew (Mar. 6, 2014).

## II. EXPLANATION OF THE BILL

### A. MODIFICATION OF TAX BENEFITS FOR TUITION AND TAX TREATMENT OF CERTAIN SCHOLARSHIPS (SECS. 25A, 117, 222 AND 6050S OF THE CODE)

#### PRESENT LAW

#### *Tax credits for qualified tuition and related expenses*

##### *Hope credit and American Opportunity credit*

For taxable years beginning before 2009 and after 2017, an individual may claim a tax credit, the Hope credit, for qualified tuition and related expenses paid for the first two years of the student’s post-secondary education in a degree or certificate program.<sup>1</sup> Although temporarily superseded by the American Opportunity tax credit (described below), the Hope credit in 2014, if it were in ef-

<sup>1</sup>Sec. 25A(a)(1). Unless otherwise stated, all section references are to the Internal Revenue Code of 1986, as amended (the “Code”).

fect, would be 100 percent on the first \$1,300 of qualified tuition and related expenses, and 50 percent on the next \$1,300 of qualified tuition and related expenses, for up to \$1,950 per eligible student per year.<sup>2</sup> These dollar amounts are indexed for inflation, with the amount rounded down to the next lowest multiple of \$100.<sup>3</sup> Thus, for example, the Hope credit for a taxpayer who incurs \$1,300 of qualified tuition and related expenses for an eligible student (subject to the modified adjusted gross income (“MAGI”) phaseout described below) would be \$1,300. If a taxpayer incurs \$2,600 of qualified tuition and related expenses for an eligible student, then the Hope credit would be \$1,950.

The Hope credit that a taxpayer may otherwise claim is phased out ratably for taxpayers with MAGI between \$55,000 and \$65,000 (\$110,000 and \$130,000 for married taxpayers filing a joint return) for 2014.<sup>4</sup> MAGI includes certain otherwise excludable income earned by U.S. citizens or residents living abroad or in certain U.S. territories.<sup>5</sup> The beginning points of the MAGI phaseout ranges are indexed for inflation, with the amount rounded down to the next lowest multiple of \$1,000. The size of the phaseout ranges for single and married taxpayers are always \$10,000 and \$20,000 respectively.<sup>6</sup>

A taxpayer may not claim the Hope credit with respect to qualified tuition and related expenses for the enrollment or attendance of a student, if the 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.<sup>7</sup> Additionally, a taxpayer must include the name and taxpayer identification number of the student on whose behalf the qualified tuition and related expenses were paid in order to be eligible for the credit.<sup>8</sup>

The credit is allowable against both the regular tax and the alternative minimum tax (“AMT”).

For taxable years beginning after December 31, 2008, and before January 1, 2018, an individual may claim the American Opportunity tax credit (“AOTC”), which is a modified version of the Hope credit.<sup>9</sup> The maximum allowable AOTC is \$2,500 per eligible student per year for qualified tuition and related expenses paid for each of the first four years of the student’s post-secondary education in a degree or certificate program. The AOTC rate is 100 percent on the first \$2,000 of qualified tuition and related expenses, and 25 percent on the next \$2,000 of qualified tuition and related expenses.<sup>10</sup> For purposes of the AOTC, the definition of qualified tuition and related expenses is expanded to include course materials. Forty percent of a taxpayer’s otherwise allowable AOTC is refundable. The AOTC that a taxpayer may otherwise claim is phased out ratably for taxpayers with MAGI between \$80,000 and \$90,000 (\$160,000 and \$180,000 for married taxpayers filing a joint

<sup>2</sup> Sec. 25A(b)(1). The \$1,300 amount, determined by the staff of the Joint Committee on Taxation, is the statutory amount of \$1,000, indexed for inflation from 2001.

<sup>3</sup> Sec. 25A(h).

<sup>4</sup> Based on inflation adjustments determined by the staff of the Joint Committee on Taxation.

<sup>5</sup> Sec. 25A(d)(3).

<sup>6</sup> Sec. 25A(d)(2)(B).

<sup>7</sup> Sec. 25A(b)(2)(D).

<sup>8</sup> Sec. 25A(g)(1).

<sup>9</sup> Sec. 25A(i).

<sup>10</sup> Sec. 25A(i)(1).

return).<sup>11</sup> Neither the credit rate nor the phaseout thresholds are indexed for inflation.

*Lifetime Learning credit*

An individual taxpayer may claim a nonrefundable tax credit, the Lifetime Learning credit, equal to 20 percent of qualified tuition and related expenses incurred during the taxable year on behalf of the taxpayer, the taxpayer's spouse, or any dependents.<sup>12</sup> Up to \$10,000 of qualified tuition and related expenses per taxpayer return are eligible for the Lifetime Learning credit (i.e., the maximum credit per taxpayer return is \$2,000). In contrast with the Hope credit, the maximum credit amount is not indexed for inflation.

In contrast to the Hope and American Opportunity tax credits, a taxpayer may claim the Lifetime Learning credit for an unlimited number of taxable years.<sup>13</sup> Also in contrast to the Hope and American Opportunity tax credits, the maximum amount of the Lifetime Learning credit that may be claimed on a taxpayer's return does not vary based on the number of students in the taxpayer's family—that is, the Hope credit is computed on a per student basis while the Lifetime Learning credit is computed on a family-wide basis. The Lifetime Learning credit amount that a taxpayer may otherwise claim is phased out ratably for taxpayers with MAGI between \$55,000 and \$65,000 (\$110,000 and \$130,000 for married taxpayers filing a joint return) in 2014. These phaseout ranges are the same as those for the Hope credit as it applies for tax years beginning before 2009 and after 2017, and are similarly indexed for inflation.

*Deduction for qualified tuition and related expenses*

For taxable years ending prior to January 1, 2014, an individual who has not elected to take the above-described credits is allowed an above-the-line deduction for qualified tuition and related expenses for higher education paid by the individual during the taxable year.<sup>14</sup> Qualified tuition includes tuition and fees required for the enrollment or attendance by the taxpayer, the taxpayer's spouse, or any dependent of the taxpayer with respect to whom the taxpayer may claim a personal exemption, at an eligible institution of higher education for courses of instruction of such individual at such institution. The expenses must be in connection with enrollment at an institution of higher education during the taxable year, or with an academic term beginning during the taxable year or during the first three months of the next taxable year. The deduction is not available for tuition and related expenses paid for elementary or secondary education.

The maximum deduction is \$4,000 for an individual whose AGI for the taxable year does not exceed \$65,000 (\$130,000 in the case of a joint return), or \$2,000 for other individuals whose AGI does not exceed \$80,000 (\$160,000 in the case of a joint return).<sup>15</sup> No deduction is allowed for an individual whose AGI exceeds the rel-

<sup>11</sup> Sec. 25A(i)(5).

<sup>12</sup> Sec. 25A(c).

<sup>13</sup> Sec. 25A(a)(2).

<sup>14</sup> Sec. 222(a).

<sup>15</sup> Sec. 222(b)(2)(B).

evant AGI limitations, for a married individual who does not file a joint return, or for an individual with respect to whom a personal exemption deduction may be claimed by another taxpayer for the taxable year.<sup>16</sup> The deduction is not available for taxable years beginning after December 31, 2013.

Additionally, a taxpayer must include the name and taxpayer identification number of the student on whose behalf the qualified tuition and related expenses were paid in order to be eligible to claim the deduction.<sup>17</sup>

#### *Tax treatment of qualified scholarships*

Present law provides an exclusion from gross income and wages for amounts received as a qualified scholarship by an individual who is a candidate for a degree at a qualifying educational organization.<sup>18</sup> Generally, the exclusion does not apply to amounts received by a student that represent payment for teaching, research, or other services by the student as a condition for receiving the scholarship.<sup>19</sup>

In general, a qualified scholarship is any amount received by such an individual as a scholarship or fellowship grant if the amount is used for qualified tuition and related expenses.<sup>20</sup> Qualified tuition and related expenses include tuition and fees required for enrollment or attendance, or for fees, books, supplies, and equipment required for courses of instruction, at the qualifying educational organization.<sup>21</sup> This definition does not include regular living expenses, such as room and board. Thus, for example, the portion of a Federal Pell Grant under section 401 of the Higher Education Act of 1965<sup>22</sup> (“Pell Grant”) that is not attributed to qualified tuition and related expenses is not a qualified scholarship and is included in an individual’s gross income. A qualifying educational organization is an educational organization which normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly carried on.<sup>23</sup>

#### *Coordination of tax benefits for qualified tuition and scholarships*

The amount of qualified tuition and related expenses paid, for purposes of computing the value of the Hope, American Opportunity, or Lifetime Learning credits, as well as the deduction for qualified tuition and related expenses, generally includes only out-of-pocket expenses. Qualified tuition and related expenses do not include expenses covered by employer-provided educational assistance and scholarships that are not required to be included in the gross income of either the student or the taxpayer claiming the credit. Thus, total qualified tuition and related expenses are reduced by any scholarship or fellowship grants excludable from gross income under section 117 and any other tax-free educational

<sup>16</sup> See secs. 222(c) and (d).

<sup>17</sup> Sec. 222(d)(2).

<sup>18</sup> Secs. 117(a) and 3121(a)(20).

<sup>19</sup> Sec. 117(c).

<sup>20</sup> Sec. 117(b)(1).

<sup>21</sup> Sec. 117(b)(2).

<sup>22</sup> 20 U.S.C. sec. 1070(a).

<sup>23</sup> Sec. 117(b)(2)(A).

benefits received by the student (or the taxpayer claiming the credit) during the taxable year.

*Reporting requirements for eligible institutions*

Section 6050S imposes reporting requirements, related to higher education tax benefits, on eligible educational institutions if the institution receives payments for qualified tuition and related expenses with respect to any individual for any calendar year. The information an institution subject to the reporting requirements is required to provide includes providing either the aggregate amount of payments received or the aggregate amount billed for qualified tuition and related expenses during the calendar year period.<sup>24</sup>

REASONS FOR CHANGE

The Committee believes that, with the cost of post-secondary education increasing at a rate in excess of the rate of inflation for nearly 30 years, it is appropriate to help mitigate the burden on individuals wishing to pursue a college education. The Committee believes that the AOTC is an important means by which to accomplish this goal. The Committee believes that permanently extending this provision will provide taxpayers with the certainty necessary to plan for college, and that indexing both the credit rate and the phaseout thresholds for inflation is necessary to ensure that the assistance provided by the credit is not diluted over time. Furthermore, the Committee believes that by consolidating the Hope, AOTC, Lifetime Learning credit and deduction for tuition and related expenses into one consolidated credit, simplification is provided in an area where tax benefits have grown increasingly complex.

By increasing the maximum portion of the AOTC that is refundable from \$1,000 to \$1,500, the Committee believes the AOTC will become a more effective means by which the government can provide assistance to low-income taxpayers without tax liability who wish to attend college.

The Committee believes that Pell Grants should be excluded from taxable income, without regard to whether those funds were used for tuition or other non-tuition expenses while attending school. Because Pell Grants in particular serve students with the greatest financial need, excluding the entirety of Pell Grant funds from taxation is an appropriate means by which to assist low-income students wishing to pursue a college education. Furthermore, the Committee believes it is appropriate to coordinate Pell Grant funds and the AOTC such that a student may receive the maximum benefit of the AOTC without regard to whether the Pell Grant funds were used for tuition or non-tuition costs of college attendance.

Finally, the Committee believes that the reporting requirements on the Form 1098-T should be modified to more accurately reflect the basis of the AOTC. Because the AOTC is based on tuition paid by a student to an educational institution (and not the amount of tuition billed to that student), reporting the tuition that the student has actually paid to the institution provides both the student

<sup>24</sup> Sec. 6050S(b)(2)(B)(i).

and the Internal Revenue Service with the relevant information for computing the credit.

#### EXPLANATION OF PROVISION

##### *Consolidation and modification of tuition credits and deduction*

The provision permanently replaces the Hope credit with a modified version of the AOTC, and repeals both the Lifetime Learning credit and the now-expired deduction for qualified tuition expenses. As under present law, the credit is claimed on a per-student basis and the credit rate is 100 percent on the first \$2,000 of qualified tuition and related expenses, and 25 percent on the next \$2,000 of qualified tuition and related expenses, for a maximum credit of \$2,500. Under the proposal, the taxpayer's credit for the first \$1,500 of qualified tuition and related expenses is refundable.

The provision retains the phaseout range of the AOTC (i.e., the credit will continue to be phased out ratably for taxpayers with MAGI between \$80,000 and \$90,000 (\$160,000 and \$180,000 for married taxpayers filing a joint return). The provision provides that both the credit amounts and the phaseout ranges are indexed for inflation for taxable years beginning after 2018.

The provision does not retain the rule that denies the credit with respect to qualified tuition and related expenses for the enrollment or attendance of any student who has been convicted of a felony offense consisting of the possession or distribution of a controlled substance.

The provision adds a requirement that a taxpayer must include the employer identification number of the institution to which qualified tuition and related expenses was paid.

##### *Coordination of Pell Grants with credit for tuition*

The provision alters the determination of qualified tuition and related expenses for students who are recipients of Pell Grants. Under the provision, for purposes of reducing the amount of qualified tuition and related expenses owing to receipt of scholarships, the recipient of the Pell Grant may disregard an amount of the Pell Grant equaling the amount of expenses (other than qualified tuition and related expenses) that are taken into account in determining the cost of attendance (as defined in section 472 of the Higher Education Act of 1965). That is, the student may first apply the Pell Grant to certain living expenses before any excess is deemed to reduce the amount of tuition and related expenses eligible for the AOTC. For example, under present law, if a student had \$2,000 in tuition and related expenses, \$4,000 in living expenses related to the cost of attendance, and received a \$3,000 Pell Grant, if that student had applied the Pell Grant towards his or her tuition first, the student would not be eligible for any AOTC because the qualified tuition and related expenses (\$2,000) is reduced by the amount of the Pell Grant (\$3,000), leaving no qualified tuition and related expenses. Under the provision, the \$3,000 Pell Grant is disregarded to the extent of living expenses related to the cost of attendance (\$4,000), thus leaving the full \$2,000 in qualified tuition and related expenses eligible for the AOTC.

*Modification of treatment of Pell Grant scholarships*

The provision modifies the exclusion for qualified scholarships by providing that Pell Grants are excluded from gross income, without regard to whether the grant is used for qualified tuition and related expenses.

*Modification of reporting requirements*

The provision modifies present-law reporting requirements, such that an eligible educational institution may only report the aggregate amount of tuition received with respect to any individual during the calendar year period.

EFFECTIVE DATE

The provision applies to taxable years beginning after December 31, 2014.

**III. VOTES OF THE COMMITTEE**

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the following statement is made concerning the vote of the Committee on Ways and Means in its consideration of H.R. 3393, the Student and Family Tax Simplification Act, on June 25, 2014.

The bill, H.R. 3393, was ordered favorably reported as amended by a roll call vote of 22 yeas to 13 nays (with a quorum being present). The vote was as follows:

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Camp	X			Mr. Levin		X	
Mr. Johnson	X			Mr. Rangel			
Mr. Brady	X			Mr. McDermott		X	
Mr. Ryan	X			Mr. Lewis		X	
Mr. Nunes	X			Mr. Neal		X	
Mr. Tiberi	X			Mr. Becerra		X	
Mr. Reichert	X			Mr. Doggett		X	
Mr. Boustany	X			Mr. Thompson		X	
Mr. Roskam	X			Mr. Larson		X	
Mr. Gerlach	X			Mr. Blumenauer		X	
Mr. Price	X			Mr. Kind		X	
Mr. Buchanan	X			Mr. Pascrell			
Mr. Smith	X			Mr. Crowley			
Mr. Schock	X			Ms. Schwartz		X	
Ms. Jenkins	X			Mr. Davis		X	
Mr. Paulsen	X			Ms. Sanchez		X	
Mr. Marchant	X						
Ms. Black	X						
Mr. Reed							
Mr. Young	X						
Mr. Kelly	X						
Mr. Griffin	X						
Mr. Renacci	X						

**IV. BUDGET EFFECTS OF THE BILL**

**A. COMMITTEE ESTIMATE OF BUDGETARY EFFECTS**

In compliance with clause 3(d) of rule XIII of the Rules of the House of Representatives, the following statement is made concerning the effects on the budget of the bill, H.R. 3393, as reported.

The bill, as reported, is estimated to have the following effect on Federal budget receipts for fiscal years 2014–2024 (with no effect on such receipts in fiscal year 2014):

**FISCAL YEARS**  
[Billions of Dollars]

Item	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-19	2015-24
Revenues <sup>(1)</sup> .....	(2)	-1.0	-0.9	-1.5	-14.5	-14.4	-15.5	-15.5	-15.9	-17.1	-18.1	-96.5
NOTE: Details do not add to totals due to rounding.												
(1) Estimate contains the following outlay effects .....	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-19	2015-24
(2) Loss of less than \$50 million .....		3.4	3.2	3.2	10.2	10.1	10.8	10.7	10.8	11.5	19.9	73.7

B. STATEMENT REGARDING NEW BUDGET AUTHORITY AND TAX  
EXPENDITURES BUDGET AUTHORITY

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee states that the bill involves new or increased budget authority. The Committee further states that the revenue-reducing tax provisions involve increased tax expenditures. (See amounts in table in Part IV.A, above.)

C. COST ESTIMATE PREPARED BY THE CONGRESSIONAL BUDGET  
OFFICE

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, requiring a cost estimate prepared by the CBO, the following statement by CBO is provided.

U.S. CONGRESS,  
CONGRESSIONAL BUDGET OFFICE,  
*Washington, DC, July 7, 2014.*

Hon. DAVE CAMP,  
*Chairman, Committee on Ways and Means,  
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 3393, the Student and Family Tax Simplification Act.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Logan Timmerhoff.

Sincerely,

PETER A. FONTAINE  
(For Douglas W. Elmendorf, Director)

Enclosure.

*H.R. 3393—Student and Family Tax Simplification Act*

H.R. 3393 would amend certain education-related provisions of the Internal Revenue Code. The bill would permanently extend, in modified form, the American Opportunity Tax Credit (AOTC) for tuition and related post-secondary expenses that is currently scheduled to expire at the end of 2017. Modifications to the credit would include increasing the refundable portion (starting in 2015) and indexing the credit and income phaseout amounts for inflation (starting in 2019). The Hope tax credit, which is scheduled to come back into effect in 2018 when the AOTC expires, would be replaced by the AOTC, and the Lifetime Learning tax credit would be repealed. In addition, for Pell grant recipients, the bill would increase the amount of expenses that potentially qualify for the AOTC, and Pell grant amounts that exceeded certain education expenses would no longer be considered taxable income. The bill would also modify the information-reporting requirements on higher educational institutions.

The staff of the Joint Committee on Taxation (JCT) estimates that enacting H.R. 3393 would increase direct spending over the 2014–2024 period by about \$73.7 billion, and reduce revenues over that period by about \$22.7 billion. JCT therefore estimates that enacting the legislation would increase federal budget deficits by about \$96.5 billion over the 2014–2024 period.

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending and revenues. Because enacting H.R. 3393 would affect revenues and direct spending, pay-as-you-go procedures apply. The net changes in revenues and outlays that are subject to pay-as-you-go procedures are shown in the following table.

JCT has determined that the bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

The CBO staff contact for this estimate is Logan Timmerhoff. The estimate was approved by David Weiner, Assistant Director for Tax Analysis.

**CBO ESTIMATE OF PAY-AS-YOU-GO EFFECTS FOR H.R. 3393, AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON WAYS AND MEANS ON JUNE 25, 2014**

	By fiscal year, in millions of dollars—												
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2014–2019	2014–2024
	<b>NET INCREASE IN THE DEFICIT</b>												
Statutory Pay-As-You-Go Effects .....	0	45	1,038	936	1,519	14,531	14,354	15,492	15,515	15,941	17,082	18,068	96,453
Memorandum:													
Changes in Outlays .....	0	0	3,350	3,215	3,162	10,152	10,085	10,766	10,743	10,806	11,462	19,879	73,740
Changes in Revenues .....	0	–45	2,312	2,279	1,643	–4,379	–4,269	–4,726	–4,772	–5,135	–5,620	1,811	–22,713

Source: Staff of the Joint Committee on Taxation  
 Note: Components may not sum to totals because of rounding.

#### D. MACROECONOMIC IMPACT ANALYSIS

In compliance with clause 3(h)(2) of rule XIII of the Rules of the House of Representatives, the following statement is made by the Joint Committee on Taxation with respect to the provisions of the bill amending the Internal Revenue Code of 1986: the effects of the bill on economic activity are so small as to be incalculable within the context of a model of the aggregate economy.

### V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

#### A. COMMITTEE OVERSIGHT FINDINGS AND RECOMMENDATIONS

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that it was as a result of the Committee's review of the provisions of H.R. 3393 that the Committee concluded that it is appropriate to report the bill, as amended, favorably to the House of Representatives with the recommendation that the bill do pass.

#### B. STATEMENT OF GENERAL PERFORMANCE GOALS AND OBJECTIVES

With respect to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee advises that the bill contains no measure that authorizes funding, so no statement of general performance goals and objectives for which any measure authorizes funding is required.

#### C. INFORMATION RELATING TO UNFUNDED MANDATES

This information is provided in accordance with section 423 of the Unfunded Mandates Reform Act of 1995 (Pub. L. No. 104-4).

The Committee has determined that the bill does not contain Federal mandates on the private sector. The Committee has determined that the bill does not impose a Federal intergovernmental mandate on State, local, or tribal governments.

#### D. APPLICABILITY OF HOUSE RULE XXI 5(b)

Rule XXI 5(b) of the Rules of the House of Representatives provides, in part, that "A bill or joint resolution, amendment, or conference report carrying a Federal income tax rate increase may not be considered as passed or agreed to unless so determined by a vote of not less than three-fifths of the Members voting, a quorum being present." The Committee has carefully reviewed the bill, and states that the bill does not involve any Federal income tax rate increases within the meaning of the rule.

#### E. TAX COMPLEXITY ANALYSIS

Section 4022(b) of the Internal Revenue Service Restructuring and Reform Act of 1998 requires the staff of the Joint Committee on Taxation (in consultation with the Internal Revenue Service and the Treasury Department) to provide a tax complexity analysis. The complexity analysis is required for all legislation reported by the Senate Committee on Finance, the House Committee on Ways and Means, or any committee of conference if the legislation in-

cludes a provision that directly or indirectly amends the Code and has widespread applicability to individuals or small businesses.

Pursuant to clause 3(h)(1) of rule XIII of the Rules of the House of Representatives, the staff of the Joint Committee on Taxation has determined that a complexity analysis is not required under section 4022(b) of the IRS Reform Act because the bill contains no provisions that amend the Code and that have “widespread applicability” to individuals or small businesses, within the meaning of the rule.

**F. CONGRESSIONAL EARMARKS, LIMITED TAX BENEFITS, AND LIMITED TARIFF BENEFITS**

With respect to clause 9 of rule XXI of the Rules of the House of Representatives, the Committee has carefully reviewed the provisions of the bill, and states that the provisions of the bill do not contain any congressional earmarks, limited tax benefits, or limited tariff benefits within the meaning of the rule.

**G. DUPLICATION OF FEDERAL PROGRAMS**

In compliance with sec. 3(j)(2) of H. Res. 5 (113th Congress), the Committee states that the Government Accountability Office has included the American Opportunity Tax Credit and Form 1098-T (the form on which educational institutions report tuition-related information) in reports to Congress pursuant to section 21 of Public Law 111-139. The Committee also states that the most recent Catalog of Federal Domestic Assistance, published pursuant to the Federal Program Information Act (Pub. L. No. 95-220, as amended by Pub. L. No. 98-169), identified programs related to the American Opportunity Tax Credit.

**H. DISCLOSURE OF DIRECTED RULE MAKINGS**

In compliance with sec. 3(k) of H. Res. 5 (113th Congress), the following statement is made concerning directed rule makings: The Committee estimates that the bill requires no directed rule makings within the meaning of such section.

**VI. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED**

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

**INTERNAL REVENUE CODE OF 1986**

\* \* \* \* \*

**Subtitle A—Income Taxes**

\* \* \* \* \*

## CHAPTER 1—NORMAL TAXES AND SURTAXES

\* \* \* \* \*

### Subchapter A—Determination of Tax Liability

\* \* \* \* \*

#### PART IV—CREDITS AGAINST TAX

\* \* \* \* \*

#### Subpart A—Nonrefundable Personal Credits

\* \* \* \* \*

**[Sec. 25A. Hope and Lifetime Learning credits.]**

*Sec. 25A. American opportunity tax credit.*

\* \* \* \* \*

#### **[SEC. 25A. HOPE AND LIFETIME LEARNING CREDITS.**

**[(a) ALLOWANCE OF CREDIT.—**In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year the amount equal to the sum of—

- [(1) the Hope Scholarship Credit, plus**
- [(2) the Lifetime Learning Credit.**

**[(b) HOPE SCHOLARSHIP CREDIT.—**

**[(1) PER STUDENT CREDIT.—**In the case of any eligible student for whom an election is in effect under this section for any taxable year, the Hope Scholarship Credit is an amount equal to the sum of—

**[(A) 100 percent of so much of the qualified tuition and related expenses paid by the taxpayer during the taxable year (for education furnished to the eligible student during any academic period beginning in such taxable year) as does not exceed \$1,000, plus**

**[(B) 50 percent of such expenses so paid as exceeds \$1,000 but does not exceed the applicable limit.**

**[(2) LIMITATIONS APPLICABLE TO HOPE SCHOLARSHIP CREDIT.—**

**[(A) CREDIT ALLOWED ONLY FOR 2 TAXABLE YEARS.—**An election to have this section apply with respect to any eligible student for purposes of the Hope Scholarship Credit under subsection (a)(1) may not be made for any taxable year if such an election (by the taxpayer or any other individual) is in effect with respect to such student for any 2 prior taxable years.

**[(B) CREDIT ALLOWED FOR YEAR ONLY IF INDIVIDUAL IS AT LEAST 1/2 TIME STUDENT FOR PORTION OF YEAR.—**The Hope Scholarship Credit under subsection (a)(1) shall not be allowed for a taxable year with respect to the qualified tuition and related expenses of an individual unless such individual is an eligible student for at least one academic period which begins during such year.

**[(C) CREDIT ALLOWED ONLY FOR FIRST 2 YEARS OF POST-SECONDARY EDUCATION.—**The Hope Scholarship Credit under subsection (a)(1) shall not be allowed for a taxable

year with respect to the qualified tuition and related expenses of an eligible student if the student has completed (before the beginning of such taxable year) the first 2 years of postsecondary education at an eligible educational institution.

**[(D) DENIAL OF CREDIT IF STUDENT CONVICTED OF A FELONY DRUG OFFENSE.—**The Hope Scholarship 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 within 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 1/2 the normal full-time work load for the course of study the student is pursuing.

**[(4) APPLICABLE LIMIT.—**For purposes of paragraph (1)(B), the applicable limit for any taxable year is an amount equal to 2 times the dollar amount in effect under paragraph (1)(A) for such taxable year.

**[(c) LIFETIME LEARNING CREDIT.—**

**[(1) PER TAXPAYER CREDIT.—**The Lifetime Learning Credit for any taxpayer for any taxable year is an amount equal to 20 percent of so much of the qualified tuition and related expenses paid by the taxpayer during the taxable year (for education furnished during any academic period beginning in such taxable year) as does not exceed \$10,000 (\$5,000 in the case of taxable years beginning before January 1, 2003).

**[(2) SPECIAL RULES FOR DETERMINING EXPENSES.—**

**[(A) COORDINATION WITH HOPE SCHOLARSHIP.—**The qualified tuition and related expenses with respect to an individual who is an eligible student for whom a Hope Scholarship Credit under subsection (a)(1) is allowed for the taxable year shall not be taken into account under this subsection.

**[(B) EXPENSES ELIGIBLE FOR LIFETIME LEARNING CREDIT.—**For purposes of paragraph (1), qualified tuition and related expenses shall include expenses described in subsection (f)(1) with respect to any course of instruction at an eligible educational institution to acquire or improve job skills of the individual.

**[(d) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—**

**[(1) IN GENERAL.—**The amount which would (but for this subsection) be taken into account under subsection (a) for the taxable year shall be reduced (but not below zero) by the amount determined under paragraph (2).

[(2) AMOUNT OF REDUCTION.—The amount determined under this paragraph is the amount which bears the same ratio to the amount which would be so taken into account as—

[(A) the excess of—

[(i) the taxpayer’s modified adjusted gross income for such taxable year, over

[(ii) \$40,000 (\$80,000 in the case of a joint return), bears to (B) \$10,000 (\$20,000 in the case of a joint return).

[(3) MODIFIED ADJUSTED GROSS INCOME.—The term “modified adjusted gross income” means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911, 931, or 933.

[(e) ELECTION NOT TO HAVE SECTION APPLY.—A taxpayer may elect not to have this section apply with respect to the qualified tuition and related expenses of an individual for any taxable year.

[(f) DEFINITIONS.—For purposes of this section—

[(1) QUALIFIED TUITION AND RELATED EXPENSES.—

[(A) IN GENERAL.—The term “qualified tuition and related expenses” means tuition and fees required for the enrollment or attendance of—

[(i) the taxpayer,

[(ii) the taxpayer’s spouse, or

[(iii) any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151,

at an eligible educational institution for courses of instruction of such individual at such institution.

[(B) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC.—Such term does not include expenses with respect to any course or other education involving sports, games, or hobbies, unless such course or other education is part of the individual’s degree program.

[(C) EXCEPTION FOR NONACADEMIC FEES.—Such term does not include student activity fees, athletic fees, insurance expenses, or other expenses unrelated to an individual’s academic course of instruction.

[(2) ELIGIBLE EDUCATIONAL INSTITUTION.—The term “eligible educational institution” means an institution—

[(A) which is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on the date of the enactment of this section, and

[(B) which is eligible to participate in a program under title IV of such Act.

[(g) SPECIAL RULES.—

[(1) IDENTIFICATION REQUIREMENT.—No credit shall be allowed under subsection (a) to a taxpayer with respect to the qualified tuition and related expenses of an individual unless the taxpayer includes the name and taxpayer identification number of such individual on the return of tax for the taxable year.

[(2) ADJUSTMENT FOR CERTAIN SCHOLARSHIPS, ETC.—The amount of qualified tuition and related expenses otherwise taken into account under subsection (a) with respect to an individual for an academic period shall be reduced (before the ap-

plication of subsections (b), (c), and (d)) by the sum of any amounts paid for the benefit of such individual which are allocable to such period as—

[(A) a qualified scholarship which is excludable from gross income under section 117,

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

[(C) a payment (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)) for such individual's educational expenses, or attributable to such individual's enrollment at an eligible educational institution, which is excludable from gross income under any law of the United States.

[(3) TREATMENT OF EXPENSES PAID BY DEPENDENT.—If a deduction under section 151 with respect to an individual is allowed to another taxpayer for a taxable year beginning in the calendar year in which such individual's taxable year begins—

[(A) no credit shall be allowed under subsection (a) to such individual for such individual's taxable year, and

[(B) qualified tuition and related expenses paid by such individual during such individual's taxable year shall be treated for purposes of this section as paid by such other taxpayer.

[(4) TREATMENT OF CERTAIN PREPAYMENTS.—If qualified tuition and related expenses are paid by the taxpayer during a taxable year for an academic period which begins during the first 3 months following such taxable year, such academic period shall be treated for purposes of this section as beginning during such taxable year.

[(5) DENIAL OF DOUBLE BENEFIT.—No credit shall be allowed under this section for any expense for which a deduction is allowed under any other provision of this chapter.

[(6) NO CREDIT FOR MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—If the taxpayer is a married individual (within the meaning of section 7703), this section shall apply only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

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

[(h) INFLATION ADJUSTMENTS.—

[(1) DOLLAR LIMITATION ON AMOUNT OF CREDIT.—

[(A) IN GENERAL.—In the case of a taxable year beginning after 2001, each of the \$1,000 amounts under subsection (b)(1) shall be increased by an amount equal to—

[(i) such dollar amount, multiplied by

[(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting "calendar year 2000" for "calendar year 1992" in subparagraph (B) thereof.

- [(B) ROUNDING.—If any amount as adjusted under subparagraph (A) is not a multiple of \$100, such amount shall be rounded to the next lowest multiple of \$100.
- [(2) INCOME LIMITS.—
- [(A) IN GENERAL.—In the case of a taxable year beginning after 2001, the \$40,000 and \$80,000 amounts in subsection (d)(2) shall each be increased by an amount equal to—
- [(i) such dollar amount, multiplied by
- [(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting “calendar year 2000” for “calendar year 1992” in subparagraph (B) thereof.
- [(B) ROUNDING.—If any amount as adjusted under subparagraph (A) is not a multiple of \$1,000, such amount shall be rounded to the next lowest multiple of \$1,000.
- [(i) AMERICAN OPPORTUNITY TAX CREDIT.—In the case of any taxable year beginning after 2008 and before 2018—
- [(1) INCREASE IN CREDIT.—The Hope Scholarship Credit shall be an amount equal to the sum of—
- [(A) 100 percent of so much of the qualified tuition and related expenses paid by the taxpayer during the taxable year (for education furnished to the eligible student during any academic period beginning in such taxable year) as does not exceed \$2,000, plus
- [(B) 25 percent of such expenses so paid as exceeds \$2,000 but does not exceed \$4,000.
- [(2) CREDIT ALLOWED FOR FIRST 4 YEARS OF POST-SECONDARY EDUCATION.—Subparagraphs (A) and (C) of subsection (b)(2) shall be applied by substituting “4” for “2”.
- [(3) QUALIFIED TUITION AND RELATED EXPENSES TO INCLUDE REQUIRED COURSE MATERIALS.—Subsection (f)(1)(A) shall be applied by substituting “tuition, fees, and course materials” for “tuition and fees”.
- [(4) INCREASE IN AGI LIMITS FOR HOPE SCHOLARSHIP CREDIT.—In lieu of applying subsection (d) with respect to the Hope Scholarship Credit, such credit (determined without regard to this paragraph) shall be reduced (but not below zero) by the amount which bears the same ratio to such credit (as so determined) as—
- [(A) the excess of—
- [(i) the taxpayer’s modified adjusted gross income (as defined in subsection (d)(3)) for such taxable year, over
- [(ii) \$80,000 (\$160,000 in the case of a joint return), bears to (B) \$10,000 (\$20,000 in the case of a joint return).
- [(5) PORTION OF CREDIT MADE REFUNDABLE.—40 percent of so much of the credit allowed under subsection (a) as is attributable to the Hope Scholarship Credit (determined after application of paragraph (4) and without regard to this paragraph and section 26(a)) shall be treated as a credit allowable under subpart C (and not allowed under subsection (a)). The preceding sentence shall not apply to any taxpayer for any taxable

year if such taxpayer is a child to whom subsection (g) of section 1 applies for such taxable year.

**[(6) COORDINATION WITH MIDWESTERN DISASTER AREA BENEFITS.—**In the case of a taxpayer with respect to whom section 702(a)(1)(B) of the Heartland Disaster Tax Relief Act of 2008 applies for any taxable year, such taxpayer may elect to waive the application of this subsection to such taxpayer for such taxable year.

**[(j) REGULATIONS.—**The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including regulations providing for a recapture of the credit allowed under this section in cases where there is a refund in a subsequent taxable year of any amount which was taken into account in determining the amount of such credit.]

**SEC. 25A. AMERICAN OPPORTUNITY TAX CREDIT.**

*(a) IN GENERAL.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year, with respect to each eligible student, an amount equal to the sum of—*

*(1) 100 percent of so much of the qualified tuition and related expenses paid by the taxpayer during the taxable year (for education furnished to the eligible student during any academic period beginning in such taxable year) as does not exceed \$2,000, plus*

*(2) 25 percent of so much of such expenses so paid as exceeds the dollar amount in effect under paragraph (1) but does not exceed twice such dollar amount.*

*(b) PORTION OF CREDIT REFUNDABLE.—So much of the credit allowable under subsection (a) with respect to each eligible student (determined without regard to this subsection and section 26(a) and after application of all other provisions of this section) as does not exceed \$1,500 shall be treated as a credit allowable under subpart C (and not under this part). The preceding sentence shall not apply to any taxpayer for any taxable year if such taxpayer is a child to whom section 1(g) applies for such taxable year.*

*(c) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—*

*(1) IN GENERAL.—The amount allowable as a credit under subsection (a) for any taxable year shall be reduced (but not below zero) by an amount which bears the same ratio to the amount so allowable (determined without regard to this subsection and subsection (b) but after application of all other provisions of this section) as—*

*(A) the excess of—*

*(i) the taxpayer's modified adjusted gross income for such taxable year, over*

*(ii) \$80,000 (twice such amount in the case of a joint return), bears to*

*(B) \$10,000 (twice such amount in the case of a joint return).*

*(2) MODIFIED ADJUSTED GROSS INCOME.—For purposes of this subsection, the term "modified adjusted gross income" means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911, 931, or 933.*

(d) *OTHER LIMITATIONS.*—No credit shall be allowed under this section with respect to any eligible student for any taxable year if—

(1) such student was taken into account in determining the credit allowed under this section (by the taxpayer or any other individual) for any 4 prior taxable years, or

(2) such student has completed (before the beginning of such taxable year) the first 4 years of postsecondary education at an eligible educational institution.

(e) *DEFINITIONS.*—For purposes of this section—

(1) *ELIGIBLE STUDENT.*—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 August 5, 1997, and

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

(2) *QUALIFIED TUITION AND RELATED EXPENSES.*—

(A) *IN GENERAL.*—The term “qualified tuition and related expenses” means tuition, fees, and course materials, required for enrollment or attendance of—

(i) the taxpayer,

(ii) the taxpayer’s spouse, or

(iii) any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151,

at an eligible educational institution for courses of instruction of such individual at such institution.

(B) *EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC.*—Such term does not include expenses with respect to any course or other education involving sports, games, or hobbies, unless such course or other education is part of the individual’s degree program.

(C) *EXCEPTION FOR NONACADEMIC FEES.*—Such term does not include student activity fees, athletic fees, insurance expenses, or other expenses unrelated to an individual’s academic course of instruction.

(3) *ELIGIBLE EDUCATIONAL INSTITUTION.*—The term “eligible educational institution” means an institution—

(A) which is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on August 5, 1997, and

(B) which is eligible to participate in a program under title IV of such Act.

(f) *SPECIAL RULES.*—

(1) *IDENTIFICATION REQUIREMENT.*—No credit shall be allowed under subsection (a) to a taxpayer with respect to the qualified tuition and related expenses of an individual unless the taxpayer includes the name and taxpayer identification number of such individual, and the employer identification number of any institution to which such expenses were paid, on the return of tax for the taxable year.

(2) *ADJUSTMENT FOR CERTAIN SCHOLARSHIPS, ETC.*—

(A) *IN GENERAL.*—The amount of qualified tuition and related expenses otherwise taken into account under subsection (a) with respect to an individual for an academic

period shall be reduced (before the application of subsection (c)) by the sum of any amounts paid for the benefit of such individual which are allocable to such period as—

(i) a qualified scholarship which is excludable from gross income under section 117,

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

(iii) a payment (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)) for such individual's educational expenses, or attributable to such individual's enrollment at an eligible educational institution, which is excludable from gross income under any law of the United States.

(B) COORDINATION WITH PELL GRANTS NOT USED FOR QUALIFIED TUITION AND RELATED EXPENSES.—For purposes of subparagraph (A), the amount of any Federal Pell Grant under section 401 of the Higher Education Act of 1965 (20 U.S.C. 1070a) shall be reduced (but not below zero) by the amount of expenses (other than qualified tuition and related expenses) which are taken into account in determining the cost of attendance (as defined in section 472 of the Higher Education Act of 1965, as in effect on the date of the enactment of this paragraph) of such individual at an eligible educational institution for the academic period for which the credit under this section is being determined.

(3) TREATMENT OF EXPENSES PAID BY DEPENDENT.—If a deduction under section 151 with respect to an individual is allowed to another taxpayer for a taxable year beginning in the calendar year in which such individual's taxable year begins—

(A) no credit shall be allowed under subsection (a) to such individual for such individual's taxable year, and

(B) qualified tuition and related expenses paid by such individual during such individual's taxable year shall be treated for purposes of this section as paid by such other taxpayer.

(4) TREATMENT OF CERTAIN PREPAYMENTS.—If qualified tuition and related expenses are paid by the taxpayer during a taxable year for an academic period which begins during the first 3 months following such taxable year, such academic period shall be treated for purposes of this section as beginning during such taxable year.

(5) DENIAL OF DOUBLE BENEFIT.—No credit shall be allowed under this section for any amount for which a deduction is allowed under any other provision of this chapter.

(6) NO CREDIT FOR MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—If the taxpayer is a married individual (within the meaning of section 7703), this section shall apply only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

(7) NONRESIDENT ALIENS.—If the taxpayer is a nonresident alien individual for any portion of the taxable year, this section shall apply only if such individual is treated as a resident alien

of the United States for purposes of this chapter by reason of an election under subsection (g) or (h) of section 6013.

(g) INFLATION ADJUSTMENT.—

(1) IN GENERAL.—In the case of a taxable year beginning after 2018, the \$2,000 amount in subsection (a)(1), the \$1,500 amount in subsection (b), and the \$80,000 amount in subsection (c)(1)(A)(ii) shall each be increased by an amount equal to—

(A) such dollar amount, multiplied by

(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting “calendar year 2017” for “calendar year 1992” in subparagraph (B) thereof.

(2) ROUNDING.—If any amount as adjusted under paragraph (1) is not a multiple of \$100 (\$1,000 in the case of the amount in subsection (c)(1)(A)(ii)), such amount shall be rounded to the next lowest multiple of \$100 (\$1,000 in the case of the amount in subsection (c)(1)(A)(ii)).

(h) REGULATIONS.—The Secretary may prescribe such regulations or other guidance as may be necessary or appropriate to carry out this section, including regulations providing for a recapture of the credit allowed under this section in cases where there is a refund in a subsequent taxable year of any amount which was taken into account in determining the amount of such credit.

\* \* \* \* \*

**Subchapter B—Computation of Taxable Income**

\* \* \* \* \*

**PART I—DEFINITION OF GROSS INCOME, ADJUSTED GROSS INCOME, TAXABLE INCOME, ETC**

\* \* \* \* \*

**SEC. 62. ADJUSTED GROSS INCOME DEFINED.**

(a) GENERAL RULE.—For purposes of this subtitle, the term “adjusted gross income” means, in the case of an individual, gross income minus the following deductions:

(1) \* \* \*

\* \* \* \* \*

[(18) HIGHER EDUCATION EXPENSES.—The deduction allowed by section 222.]

\* \* \* \* \*

**PART II—ITEMS SPECIFICALLY INCLUDED IN GROSS INCOME**

\* \* \* \* \*

**SEC. 72. ANNUITIES; CERTAIN PROCEEDS OF ENDOWMENT AND LIFE INSURANCE CONTRACTS.**

(a) \* \* \*

\* \* \* \* \*

**(t) 10-PERCENT ADDITIONAL TAX ON EARLY DISTRIBUTIONS FROM QUALIFIED RETIREMENT PLANS.—**

(1) \* \* \*

\* \* \* \* \*

(7) QUALIFIED HIGHER EDUCATION EXPENSES.—For purposes of paragraph (2)(E)—

(A) \* \* \*

(B) COORDINATION WITH OTHER BENEFITS.—The amount of qualified higher education expenses for any taxable year shall be reduced as provided in [section 25A(g)(2)] section 25A(f)(2).

\* \* \* \* \*

**SEC. 86. SOCIAL SECURITY AND TIER 1 RAILROAD RETIREMENT BENEFITS.**

(a) \* \* \*

(b) TAXPAYERS TO WHOM SUBSECTION (a) APPLIES.—

(1) \* \* \*

(2) MODIFIED ADJUSTED GROSS INCOME.—For purposes of this subsection, the term “modified adjusted gross income” means adjusted gross income—

(A) determined without regard to this section and sections 135, 137, 199, 221, [222,] 911, 931, and 933, and

\* \* \* \* \*

**PART III—ITEMS SPECIFICALLY EXCLUDED FROM GROSS INCOME**

\* \* \* \* \*

**SEC. 117. QUALIFIED SCHOLARSHIPS.**

(a) \* \* \*

(b) QUALIFIED SCHOLARSHIP.—For purposes of this section—

(1) IN GENERAL.—The term “qualified scholarship” means any amount [received by an individual as a scholarship] received by an individual—

(A) as a scholarship or fellowship grant to the extent the individual establishes that, in accordance with the conditions of the grant, such amount was used for qualified tuition and related expenses[.], or

(B) as a Federal Pell Grant under section 401 of the Higher Education Act of 1965 (20 U.S.C. 1070a).

\* \* \* \* \*

**SEC. 135. INCOME FROM UNITED STATES SAVINGS BONDS USED TO PAY HIGHER EDUCATION TUITION AND FEES.**

(a) \* \* \*

\* \* \* \* \*

(c) DEFINITIONS.—For purposes of this section—

(1) \* \* \*

\* \* \* \* \*

(4) MODIFIED ADJUSTED GROSS INCOME.—The term “modified adjusted gross income” means the adjusted gross income of the taxpayer for the taxable year determined—

(A) without regard to this section and sections 137, 199, 221, [222,] 911, 931, and 933, and

\* \* \* \* \*

**SEC. 137. ADOPTION ASSISTANCE PROGRAM.**

(a) \* \* \*

(b) LIMITATIONS.—

(1) \* \* \*

\* \* \* \* \*

(3) DETERMINATION OF ADJUSTED GROSS INCOME.—For purposes of paragraph (2), adjusted gross income shall be determined—

(A) without regard to this section and sections 199, 221, [222,] 911, 931, and 933, and

\* \* \* \* \*

**PART VI—ITEMIZED DEDUCTIONS FOR INDIVIDUALS AND CORPORATIONS**

\* \* \* \* \*

**SEC. 199. INCOME ATTRIBUTABLE TO DOMESTIC PRODUCTION ACTIVITIES.**

(a) \* \* \*

\* \* \* \* \*

(d) DEFINITIONS AND SPECIAL RULES.—

(1) \* \* \*

(2) APPLICATION TO INDIVIDUALS.—In the case of an individual, subsections (a)(1)(B) and (d)(9)(A)(iii) shall be applied by substituting “adjusted gross income” for “taxable income”. For purposes of the preceding sentence, adjusted gross income shall be determined—

(A) after application of sections 86, 135, 137, 219, 221, [222,] and 469, and

\* \* \* \* \*

**PART VII—ADDITIONAL ITEMIZED DEDUCTIONS FOR INDIVIDUALS**

Sec. 211. Allowance of deductions.

\* \* \* \* \*

[Sec. 222. Qualified tuition and related expenses.]

\* \* \* \* \*

**SEC. 219. RETIREMENT SAVINGS.**

(a) \* \* \*

\* \* \* \* \*

(g) LIMITATION ON DEDUCTION FOR ACTIVE PARTICIPANTS IN CERTAIN PENSION PLANS.—

(1) \* \* \*

\* \* \* \* \*

(3) ADJUSTED GROSS INCOME; APPLICABLE DOLLAR AMOUNT.—For purposes of this subsection—

(A) ADJUSTED GROSS INCOME.—Adjusted gross income of any taxpayer shall be determined—

(i) \* \* \*

(ii) without regard to sections 135, 137, 199, 221, [222,] and 911 or the deduction allowable under this section.

\* \* \* \* \*

**SEC. 221. INTEREST ON EDUCATION LOANS.**

(a) \* \* \*

(b) MAXIMUM DEDUCTION.—

(1) \* \* \*

(2) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

(A) \* \* \*

\* \* \* \* \*

(C) MODIFIED ADJUSTED GROSS INCOME.—The term “modified adjusted gross income” means adjusted gross income determined—

(i) without regard to this section and sections 199, [222,] 911, 931, and 933, and

\* \* \* \* \*

**[SEC. 222. QUALIFIED TUITION AND RELATED EXPENSES.**

[(a) ALLOWANCE OF DEDUCTION.—In the case of an individual, there shall be allowed as a deduction an amount equal to the qualified tuition and related expenses paid by the taxpayer during the taxable year.

[(b) DOLLAR LIMITATIONS.—

[(1) IN GENERAL.—The amount allowed as a deduction under subsection (a) with respect to the taxpayer for any taxable year shall not exceed the applicable dollar limit.

[(2) APPLICABLE DOLLAR LIMIT.—

[(A) 2002 AND 2003.—In the case of a taxable year beginning in 2002 or 2003, the applicable dollar limit shall be equal to—

[(i) in the case of a taxpayer whose adjusted gross income for the taxable year does not exceed \$65,000 (\$130,000 in the case of a joint return), \$3,000, and—

[(ii) in the case of any other taxpayer, zero.

[(B) AFTER 2003.—In the case of any taxable year beginning after 2003, the applicable dollar amount shall be equal to—

[(i) in the case of a taxpayer whose adjusted gross income for the taxable year does not exceed \$65,000 (\$130,000 in the case of a joint return), \$4,000,

[(ii) in the case of a taxpayer not described in clause (i) whose adjusted gross income for the taxable year does not exceed \$80,000 (\$160,000 in the case of a joint return), \$2,000, and

[(iii) in the case of any other taxpayer, zero.

[(C) ADJUSTED GROSS INCOME.—For purposes of this paragraph, adjusted gross income shall be determined—

[(i) without regard to this section and sections 199, 911, 931, and 933, and

[(ii) after application of sections 86, 135, 137, 219, 221, and 469.

[(c) NO DOUBLE BENEFIT.—

[(1) IN GENERAL.—No deduction shall be allowed under subsection (a) for any expense for which a deduction is allowed to the taxpayer under any other provision of this chapter.

[(2) COORDINATION WITH OTHER EDUCATION INCENTIVES.—

[(A) DENIAL OF DEDUCTION IF CREDIT ELECTED.—No deduction shall be allowed under subsection (a) for a taxable year with respect to the qualified tuition and related expenses with respect to an individual if the taxpayer or any other person elects to have section 25A apply with respect to such individual for such year.

[(B) COORDINATION WITH EXCLUSIONS.—The total amount of qualified tuition and related expenses shall be reduced by the amount of such expenses taken into account in determining any amount excluded under section 135, 529(c)(1), or 530(d)(2). For purposes of the preceding sentence, the amount taken into account in determining the amount excluded under section 529(c)(1) shall not include that portion of the distribution which represents a return of any contributions to the plan.

[(3) DEPENDENTS.—No deduction shall be allowed under subsection (a) to any individual with respect to whom a deduction under section 151 is allowable to another taxpayer for a taxable year beginning in the calendar year in which such individual's taxable year begins.

[(d) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

[(1) QUALIFIED TUITION AND RELATED EXPENSES.—The term “qualified tuition and related expenses” has the meaning given such term by section 25A(f). Such expenses shall be reduced in the same manner as under section 25A(g)(2).

[(2) IDENTIFICATION REQUIREMENT.—No deduction shall be allowed under subsection (a) to a taxpayer with respect to the qualified tuition and related expenses of an individual unless the taxpayer includes the name and taxpayer identification number of the individual on the return of tax for the taxable year.

[(3) LIMITATION ON TAXABLE YEAR OF DEDUCTION.—

[(A) IN GENERAL.—A deduction shall be allowed under subsection (a) for qualified tuition and related expenses for any taxable year only to the extent such expenses are in connection with enrollment at an institution of higher education during the taxable year.

[(B) CERTAIN PREPAYMENTS ALLOWED.—Subparagraph (A) shall not apply to qualified tuition and related expenses paid during a taxable year if such expenses are in connection with an academic term beginning during such taxable year or during the first 3 months of the next taxable year.

[(4) NO DEDUCTION FOR MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—If the taxpayer is a married individual (within the meaning of section 7703), this section shall apply only if

the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

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

[(6) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including regulations requiring recordkeeping and information reporting.

[(e) TERMINATION.—This section shall not apply to taxable years beginning after December 31, 2013.]

\* \* \* \* \*

**Subchapter E—Accounting Periods and Methods of Accounting**

\* \* \* \* \*

**PART II—METHODS OF ACCOUNTING**

\* \* \* \* \*

**Subpart C—Taxable Year for Which Deductions Taken**

\* \* \* \* \*

**SEC. 469. PASSIVE ACTIVITY LOSSES AND CREDITS LIMITED.**

(a) \* \* \*

\* \* \* \* \*

(i) \$25,000 offset for rental real estate activities

(1) \* \* \*

\* \* \* \* \*

(3) PHASE-OUT OF EXEMPTION.—

(A) \* \* \*

\* \* \* \* \*

(F) ADJUSTED GROSS INCOME.—For purposes of this paragraph, adjusted gross income shall be determined without regard to—

(i) \* \* \*

\* \* \* \* \*

(iii) the amounts allowable as a deduction under sections 199, 219, [221, and 222] and 221, and

\* \* \* \* \*

**Subchapter F—Exempt Organizations**

\* \* \* \* \*

**PART VIII—HIGHER EDUCATION SAVINGS ENTITIES****SEC. 529. QUALIFIED TUITION PROGRAMS.**

(a) \* \* \*

\* \* \* \* \*

(c) TAX TREATMENT OF DESIGNATED BENEFICIARIES AND CONTRIBUTORS.—

(1) \* \* \*

\* \* \* \* \*

(3) DISTRIBUTIONS.—

(A) \* \* \*

(B) DISTRIBUTIONS FOR QUALIFIED HIGHER EDUCATION EXPENSES.—For purposes of this paragraph—

(i) \* \* \*

\* \* \* \* \*

(v) COORDINATION WITH HOPE AND LIFETIME LEARNING CREDITS.—The total amount of qualified higher education expenses with respect to an individual for the taxable year shall be reduced—

(I) as provided in [section 25A(g)(2)] *section 25A(f)(2)*, and

\* \* \* \* \*

(e) OTHER DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

(1) \* \* \*

\* \* \* \* \*

(3) QUALIFIED HIGHER EDUCATION EXPENSES.—

(A) \* \* \*

(B) ROOM AND BOARD INCLUDED FOR STUDENTS WHO ARE AT LEAST HALF-TIME.—

(i) IN GENERAL.—In the case of an individual who is an eligible student (as defined in [section 25A(b)(3)] *section 25A(d)*) for any academic period, such term shall also include reasonable costs for such period (as determined under the qualified tuition program) incurred by the designated beneficiary for room and board while attending such institution. For purposes of subsection (b)(6), a designated beneficiary shall be treated as meeting the requirements of this clause.

\* \* \* \* \*

**SEC. 530. COVERDELL EDUCATION SAVINGS ACCOUNTS.**

(a) \* \* \*

\* \* \* \* \*

(d) TAX TREATMENT OF DISTRIBUTIONS.—

(1) \* \* \*

(2) DISTRIBUTIONS FOR QUALIFIED EDUCATION EXPENSES.—

(A) \* \* \*

\* \* \* \* \*

(C) COORDINATION WITH [HOPE AND LIFETIME LEARNING CREDITS] *AMERICAN OPPORTUNITY TAX CREDIT* AND QUALI-

FIED TUITION PROGRAMS.—For purposes of subparagraph (A)—

(i) CREDIT COORDINATION.—The total amount of qualified education expenses with respect to an individual for the taxable year shall be reduced—

(I) as provided in **section 25A(g)(2)** *section 25A(f)(2)*, and

\* \* \* \* \*

(4) ADDITIONAL TAX FOR DISTRIBUTIONS NOT USED FOR EDUCATIONAL EXPENSES.—

(A) \* \* \*

(B) EXCEPTIONS.—Subparagraph (A) shall not apply if the payment or distribution is—

(i) \* \* \*

\* \* \* \* \*

(iii) made on account of a scholarship, allowance, or payment described in **section 25A(g)(2)** *section 25A(d)(4)(B)* received by the designated beneficiary to the extent the amount of the payment or distribution does not exceed the amount of the scholarship, allowance, or payment,

\* \* \* \* \*

**Subtitle F—Procedure and Administration**

\* \* \* \* \*

**CHAPTER 61—INFORMATION AND RETURNS**

\* \* \* \* \*

**Subchapter A—Returns and Records**

\* \* \* \* \*

**PART III—INFORMATION RETURNS**

\* \* \* \* \*

**Subpart B—Information Concerning Transactions with Other Persons**

\* \* \* \* \*

**SEC. 6050S. RETURNS RELATING TO HIGHER EDUCATION TUITION AND RELATED EXPENSES.**

(a) \* \* \*

(b) FORM AND MANNER OF RETURNS.—A return is described in this subsection if such return—

(1) \* \* \*

(2) contains—

(A) \* \* \*

(B) the—

(i) aggregate amount of payments received **or the aggregate amount billed** for qualified tuition and re-

lated expenses with respect to the individual described in subparagraph (A) during the calendar year,

\* \* \* \* \*  
(e) DEFINITIONS.—For purposes of this section, the terms “eligible educational institution” and “qualified tuition and related expenses” have the meanings given such terms by section 25A (without regard to ~~subsection (g)(2)~~ *subsection (f)(2)* thereof), and except as provided in regulations, the term “qualified education loan” has the meaning given such term by section 221(d)(1).  
\* \* \* \* \*

**CHAPTER 63—ASSESSMENT**

\* \* \* \* \*  
**Subchapter B—Deficiency Procedures in the Case of Income, Estate, Gift, and Certain Excise Taxes**

**SEC. 6211. DEFINITION OF A DEFICIENCY.**

(a) \* \* \*  
(b) RULES FOR APPLICATION OF SUBSECTION (A).—For purposes of this section—  
(1) \* \* \*

\* \* \* \* \*  
(4) For purposes of subsection (a)—  
(A) any excess of the sum of the credits allowable under sections 24(d), 25A by reason of ~~subsection (i)(6)~~ *subsection (b)* thereof, 32, 34, 35, 36, 36A, 36B, 53(e), 168(k)(4), 6428, and 6431 over the tax imposed by subtitle A (determined without regard to such credits), and  
\* \* \* \* \*

**SEC. 6213. RESTRICTIONS APPLICABLE TO DEFICIENCIES; PETITION TO TAX COURT.**

(a) \* \* \*  
\* \* \* \* \*  
(g) DEFINITIONS.—For purposes of this section—  
(1) \* \* \*  
(2) MATHEMATICAL OR CLERICAL ERROR.—The term “mathematical or clerical error” means—  
(A) \* \* \*

\* \* \* \* \*  
(J) an omission of a correct ~~TIN~~ *TIN* required under section 25A(g)(1) *TIN, and employer identification number, required under section 25A(f)(1)* (relating to higher education tuition and related expenses) to be included on a return,  
\* \* \* \* \*

**SECTION 1004 OF THE AMERICAN RECOVERY AND REINVESTMENT TAX ACT OF 2009**

**SEC. 1004. AMERICAN OPPORTUNITY TAX CREDIT.**

(a) \* \* \*

\* \* \* \* \*

(c) TREATMENT OF POSSESSIONS.—

(1) PAYMENTS TO POSSESSIONS.—

(A) MIRROR CODE POSSESSION.—The Secretary of the Treasury shall pay to each possession of the United States with a mirror code tax system amounts equal to the loss to that possession by reason of the application of [section 25A(i)(6)] *section 25A(b)* of the Internal Revenue Code of 1986 (as added by this section) [with respect to taxable years beginning after 2008 and before 2018] *with respect to each taxable year*. Such amounts shall be determined by the Secretary of the Treasury based on information provided by the government of the respective possession.

(B) OTHER POSSESSIONS.—The Secretary of the Treasury shall pay to each possession of the United States which does not have a mirror code tax system amounts estimated by the Secretary of the Treasury as being equal to the aggregate benefits that would have been provided to residents of such possession by reason of the application of [section 25A(i)(6)] *section 25A(b)* of such Code (as so added) [for taxable years beginning after 2008 and before 2018] *for each taxable year* if a mirror code tax system had been in effect in such possession. The preceding sentence shall not apply with respect to any possession of the United States unless such possession has a plan, which has been approved by the Secretary of the Treasury, under which such possession will promptly distribute such payments to the residents of such possession.

(2) COORDINATION WITH CREDIT ALLOWED AGAINST UNITED STATES INCOME TAXES.—[Section 25A(i)(6)] *Section 25A(b)* of such Code (as added by this section) shall not apply to a bona fide resident of any possession of the United States.

(3) DEFINITIONS AND SPECIAL RULES.—

(A) \* \* \*

\* \* \* \* \*

(C) TREATMENT OF PAYMENTS.—For purposes of section 1324(b)(2) of title 31, United States Code, the payments under this subsection shall be treated in the same manner as a refund due from the credit allowed under section 25A of the Internal Revenue Code of 1986 by reason of [subsection (i)(6)] *subsection (b)* of such section (as added by this section).

\* \* \* \* \*

## VII. DISSENTING VIEWS

Notwithstanding that there is strong support for streamlining the education tax benefits, we opposed this bill because it takes away benefits from certain students—graduate students, lifetime learners, and non-traditional undergraduate students—to pay for educational benefits available to a narrower set of students—primarily, traditional undergraduate students who complete their degrees in four years.

The bill will negatively impact many low-income and middle-income students and families who benefit from the education tax provisions under current law. By replacing the Hope Scholarship Credit and repealing both the Lifetime Learning Credit (LLC) and the now-expired deduction for qualified tuition expenses, this bill will harm traditional middle-income undergraduates, adult learners, and low-income and middle-income graduate students. The bill appears to be based on outdated assumptions about the typical student in higher education—the student who enrolls in college full-time and completes a degree within four years. While the median time to degree for all bachelor’s degree recipients is 4.3 years, the median time for adult students (between ages 24–29) is 6.6 years. Thus, the bill’s four-year limit on benefits, in combination with the elimination of the LLC and tuition deduction for which part-time students are eligible, will cost many undergraduates much needed financial assistance.

The bill also provides no educational benefits to lifetime learners or graduate students. These learners are the primary beneficiaries of the LLC. Many of these learners are low-income and need assistance in pursuing additional skill development or advanced degrees that employers require.

In addition to our substantive concerns with the bill, we also believe that it should not be made permanent by adding to the deficit without any revenue offset. In three short months, Republicans on the Committee have approved 14 tax bills that would add a stunning \$825 billion to the deficit—and there does not appear to be an end in sight. Chairman Camp’s Tax Reform Act of 2014 discussion draft (the “Republican tax reform plan”) was revenue neutral and did not add to the deficit. These bills are going in the opposite direction. We should be considering these bills in the context of a revenue-neutral, bipartisan tax reform plan.

To put the combined \$825 billion cost into context, it is 1.7 times the entire projected federal deficit for this year and \$241 billion more than what the total non-defense discretionary spending (e.g., medical research, education, veterans’ pensions and health care, transportation, etc.) will be in 2014. It is more than nine times what we spend annually on education, job training, and social services. It is almost 14 times what we appropriate for veterans’ health care and benefits in a year, and it is 27 times more than we spend

on medical research. It is more than we spend to pay earned Social Security benefits to 58 million Americans—one in four American families—for a year. Unoffset tax cuts amounting to \$825 billion mean \$2,600 in debt for every man, woman, and child in the United States.

Make no mistake, this is part of the Republicans' bigger plan to force cuts in spending in response to the increased deficit from their reckless tax cuts. Republicans already have cut non-defense appropriations below the level needed to keep up with inflation every year since 2011, putting us on a path to the lowest level of domestic investment (as a percent of GDP) since we began tracking it in 1962. By 2018, real non-defense discretionary spending is projected to be 18 percent lower than it was in 2010. Americans feel those cuts every day. They result in overcrowded classrooms for our children, fewer food safety inspections, slower progress on medical research to fight deadly diseases, delays in highway repairs, waiting lists for child care, early national park closings, reduced investment in small businesses, and delays in awarding earned Medicare and Social Security benefits.

We found it hypocritical that, six months ago, Republicans let emergency unemployment insurance expire for more than 1.3 million Americans, a number that has now grown to 3 million, by arguing that an adequate offset had yet to be proposed. In early April, the Senate came to a bipartisan agreement on an offset after months of painstaking negotiations. Yet House Republicans still refuse to act.

SANDER M. LEVIN.

