

110TH CONGRESS
1ST SESSION

H. R. 2901

To amend the Internal Revenue Code of 1986 to establish a program demonstrating multiple approaches to Lifelong Learning Accounts, which are portable, worker-owned savings accounts that can be used by workers to help finance education, training, and apprenticeships and which are intended to supplement both public and employer-provided education and training resources, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 28, 2007

Mr. ALLEN (for himself and Mr. MICHAUD) introduced the following bill;
which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to establish a program demonstrating multiple approaches to Lifelong Learning Accounts, which are portable, worker-owned savings accounts that can be used by workers to help finance education, training, and apprenticeships and which are intended to supplement both public and employer-provided education and training resources, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the “Lifelong Learning Ac-
3 counts Act of 2007”.

4 **SEC. 2. ESTABLISHMENT OF LIFELONG LEARNING AC-
5 COUNTS.**

6 (a) IN GENERAL.—Part VII of subchapter B of chap-
7 ter 1 of the Internal Revenue Code of 1986 (relating to
8 computation of taxable income) is amended by redesi-
9 gnating section 224 as section 225 and inserting after sec-
10 tion 223 the following new section:

11 **“SEC. 224. LIFELONG LEARNING ACCOUNTS.**

12 “(a) DEDUCTION ALLOWED.—In the case of any eli-
13 gible individual, there shall be allowed as a deduction for
14 the taxable year an amount equal to the aggregate amount
15 paid in cash during such taxable year by or on behalf of
16 such individual to a lifelong learning account of such indi-
17 vidual.

18 “(b) LIFELONG LEARNING ACCOUNTS.—For pur-
19 poses of this title, the term ‘lifelong learning account’
20 means a trust created or organized in the United States
21 for the exclusive benefit of an eligible individual, but only
22 if the written governing instrument creating the trust
23 meets the following requirements:

24 “(1) No contribution will be accepted unless it
25 is in cash.

1 “(2) The trustee is a bank (as defined in sec-
2 tion 408(n)), an agency or instrumentality of a
3 State, or another person who demonstrates to the
4 satisfaction of the Secretary that the manner in
5 which that person will administer the trust will be
6 consistent with the requirements of this section.

7 “(3) No part of the trust assets will be invested
8 in any collectible (as defined in section 408(m)).

9 “(4) The assets of the trust will not be commin-
10 gled with other property except in a common trust
11 fund or common investment fund.

12 “(c) TAX TREATMENT OF DISTRIBUTIONS.—

13 “(1) IN GENERAL.—Except as otherwise pro-
14 vided in this subsection, any amount distributed out
15 of a lifelong learning account shall be included in
16 gross income by the distributee.

17 “(2) QUALIFIED HIGHER EDUCATION EX-
18 PENSES.—

19 “(A) IN GENERAL.—No amount shall be
20 includible in gross income under paragraph (1)
21 if the qualified higher education expenses of the
22 individual for whom the account was established
23 during the taxable year are not less than the
24 aggregate distributions from the account during
25 such taxable year.

1 “(B) DISTRIBUTIONS IN EXCESS OF EX-
2 PENSES.—If the aggregate distributions from a
3 lifelong learning account for any taxable year
4 exceed the qualified higher education expenses
5 of the individual for whom the account was es-
6 tablished during the taxable year, the amount
7 otherwise includible in gross income under
8 paragraph (1) shall be reduced by the amount
9 which bears the same ratio to the amount which
10 would be includible in gross income under para-
11 graph (1) (without regard to this subpara-
12 graph) as such expenses bear to such aggregate
13 distributions.

14 “(C) ELECTION TO WAIVE EXCLUSION.—A
15 taxpayer may elect to waive the application of
16 this paragraph for any taxable year.

17 “(D) NO DOUBLE BENEFIT.—No exclu-
18 sion, credit, or deduction shall be allowed to the
19 taxpayer under this chapter for any qualified
20 higher education expenses taken into account in
21 determining the amount of the exclusion under
22 this paragraph.

23 “(3) ADDITIONAL TAX.—

24 “(A) IN GENERAL.—The tax imposed by
25 this chapter on the account holder for any tax-

1 able year in which there is a distribution from
2 a lifelong learning account includible in gross
3 income under paragraph (1) shall be increased
4 by 15 percent of the amount so includible.

5 “(B) EXCEPTIONS.—Subparagraph (A)
6 shall not apply if the distribution is made after
7 the account holder dies or becomes disabled
8 (within the meaning of section 72(m)(7)).

9 “(4) TRANSFER OF ACCOUNT INCIDENT TO DI-
10 VORCE.—The transfer of an individual’s interest in
11 a lifelong learning account to such individual’s
12 former spouse under a divorce decree or under a
13 written instrument incident to a divorce shall not be
14 considered a taxable transfer made by such indi-
15 vidual notwithstanding any other provision of this
16 subtitle, and such interest at the time of the transfer
17 shall be treated as a lifelong learning account of
18 such spouse and not of such individual. Thereafter
19 such account shall be treated, for purposes of this
20 subtitle, as maintained for the benefit of such
21 spouse.

22 “(d) TIME WHEN CONTRIBUTIONS DEEMED
23 MADE.—A taxpayer shall be deemed to have made a con-
24 tribution on the last day of a taxable year if the contribu-
25 tion is made on account of such taxable year and is made

1 not later than the time prescribed by law for filing the
2 return for such taxable year (not including extensions
3 thereof).

4 “(e) TAX TREATMENT OF ACCOUNTS.—

5 “(1) IN GENERAL.—A lifelong learning account
6 shall be exempt from taxation under this subtitle.
7 Notwithstanding the preceding sentence, any lifelong
8 learning account shall be subject to the taxes im-
9 posed by section 511 (relating to imposition of tax
10 on unrelated business income of charitable, etc., or-
11 ganizations).

12 “(2) LOSS OF EXEMPTION OF ACCOUNT WHERE
13 INDIVIDUAL ENGAGES IN PROHIBITED TRANS-
14 ACTION.—

15 “(A) IN GENERAL.—If, during any taxable
16 year of the individual for whose benefit the life-
17 long learning account is established, the indi-
18 vidual engages in any transaction prohibited by
19 section 4975 with respect to the account, the
20 account shall cease to be a lifelong learning ac-
21 count as of the first day of that taxable year.

22 “(B) ACCOUNT TREATED AS DISTRIBUTING
23 ALL ITS ASSETS.—In any case in which any ac-
24 count ceases to be a lifelong learning account
25 by reason of subparagraph (A) on the first day

1 of any taxable year, paragraph (1) of subsection
2 (c) shall be applied as if there were a distribu-
3 tion on such first day in an amount equal to
4 the fair market value (on such first day) of all
5 assets in the account (on such first day).

6 “(3) EFFECT OF PLEDGING ACCOUNT AS SECUR-
7 RITY.—If, during any taxable year, an individual for
8 whose benefit a lifelong learning account is estab-
9 lished uses the account or any portion thereof as se-
10 curity for a loan, the portion so used shall be treated
11 as distributed to that individual.

12 “(4) ROLLOVER CONTRIBUTIONS.—Subsection
13 (c)(1) shall not apply to any amount paid or distrib-
14 uted out of a lifelong learning account to the indi-
15 vidual for whose benefit the account is maintained if
16 such amount is paid into another lifelong learning
17 account for the benefit of such individual not later
18 than the 60th day after the day on which the indi-
19 vidual receives the payment or distribution.

20 “(f) OTHER DEFINITIONS.—For purposes of this sec-
21 tion—

22 “(1) ELIGIBLE INDIVIDUAL.—The term ‘eligible
23 individual’ means an individual who—

1 “(A) is an employee or a self-employed in-
2 dividual (within the meaning of section
3 401(c)(1)(B)), and

4 “(B) is a resident of a State designated by
5 the Secretary under subsection (i), on the date
6 the lifelong learning account is established for
7 such individual.

8 “(2) QUALIFIED HIGHER EDUCATION EX-
9 PENSES.—The term ‘qualified higher education ex-
10 penses’ means—

11 “(A) the expenses and courses of instruc-
12 tion described in section 127(c)(1), and

13 “(B) such expenses, including tools, equip-
14 ment, information technology devices, and
15 training and apprenticeship programs, as the
16 Secretary shall prescribe after consultation with
17 the Secretary of Labor.

18 “(g) CUSTODIAL ACCOUNTS.—For purposes of this
19 section, a custodial account shall be treated as a trust if
20 the assets of such account are held by a bank (as defined
21 in section 408(n)) or another person who demonstrates,
22 to the satisfaction of the Secretary, that the manner in
23 which such person will administer the account will be con-
24 sistent with the requirements of this section, and if the
25 custodial account would, except for the fact that it is not

1 a trust, constitute a lifelong learning account described in
2 subsection (b). For purposes of this title, in the case of
3 a custodial account treated as a trust by reason of the
4 preceding sentence, the custodian of such account shall be
5 treated as the trustee thereof.

6 “(h) REPORTS.—The trustee of a lifelong learning
7 account shall make such reports regarding such account
8 to the Secretary and to the individual for whose benefit
9 the account is maintained with respect to contributions,
10 distributions, and such other matters as the Secretary
11 may require under regulations. The reports required by
12 this subsection shall be filed at such time and in such
13 manner and furnished to such individuals at such time and
14 in such manner as may be required by those regulations.

15 “(i) ESTABLISHMENT OF DEMONSTRATION PRO-
16 GRAM.—From among States which apply (in such form
17 and manner and at such time as the Secretary deter-
18 mines), the Secretary shall designate 10 States in which
19 residents shall be treated as eligible individuals.

20 “(j) LIMITATION ON NUMBER OF TAXPAYERS HAV-
21 ING LIFELONG LEARNING ACCOUNTS.—

22 “(1) IN GENERAL.—No individual shall be
23 treated as an eligible individual for any taxable year
24 beginning after the cut-off year unless such indi-

1 vidual was an eligible individual for any taxable year
2 ending on or before the close of the cut-off year.

3 “(2) CUT-OFF YEAR.—For purposes of para-
4 graph (1), the term ‘cut-off year’ means the first
5 calendar year for which the Secretary determines
6 that the number of eligible individuals for whom a
7 lifelong learning account has been established ex-
8 ceeds 200,000 by the close of such calendar year.

9 “(3) REPORTING.—The Secretary shall estab-
10 lish such reporting requirements for trustees of life-
11 long learning accounts as are necessary to carry out
12 this subsection.

13 “(k) SPECIAL RULES FOR EMPLOYER CONTRIBU-
14 TIONS.—In the case of any contribution by an employer
15 to a lifetime learning account made on behalf of an em-
16 ployee, rules similar to the rules of paragraphs (2) through
17 (6) of section 127(b) shall apply.”.

18 (b) DEDUCTION ALLOWED WHETHER OR NOT INDI-
19 VIDUAL ITEMIZES OTHER DEDUCTIONS.—Subsection (a)
20 of section 62 of the Internal Revenue Code of 1986 is
21 amended by inserting after paragraph (21) the following
22 new paragraph:

23 “(22) LIFELONG LEARNING ACCOUNTS.—The
24 deduction allowed under section 224.”.

1 (c) EMPLOYER CONTRIBUTIONS EXCLUDED FROM
2 INCOME.—Section 127 of the Internal Revenue Code of
3 1986 (relating to educational assistance) is amended by
4 redesignating subsection (d) as subsection (e) and by in-
5 serting after subsection (c) the following new subsection:

6 “(d) EMPLOYER CONTRIBUTIONS TO LIFELONG
7 LEARNING ACCOUNT.—Gross income of an employee of an
8 employer shall not include the amount of any contribution
9 by the employer to a lifelong learning account established
10 on behalf of the employee.”.

11 (d) EXCLUSION FROM EMPLOYMENT TAXES.—

12 (1) RAILROAD RETIREMENT TAX.—Subsection
13 (e) of section 3231 of the Internal Revenue Code of
14 1986 is amended by adding at the end the following
15 new paragraph:

16 “(13) LIFELONG LEARNING ACCOUNT CON-
17 TRIBUTIONS.—The term ‘compensation’ shall not in-
18 clude any payment made to or for the benefit of an
19 employee if at the time of such payment it is reason-
20 able to believe that the employee will be able to ex-
21 clude such payment from income under section
22 127(d).”.

23 (2) UNEMPLOYMENT TAX.—Subsection (b) of
24 section 3306 of such Code is amended by striking
25 “or” at the end of paragraph (18), by striking the

1 period at the end of paragraph (19) and inserting “;
2 or”, and by inserting after paragraph (19) the fol-
3 lowing new paragraph:

4 “(20) any payment made to or for the benefit
5 of an employee if at the time of such payment it is
6 reasonable to believe that the employee will be able
7 to exclude such payment from income under section
8 127(d).”.

9 (3) WITHHOLDING TAX.—Subsection (a) of sec-
10 tion 3401 of such Code is amended by striking “or”
11 at the end of paragraph (21), by striking the period
12 at the end of paragraph (22) and inserting “; or”,
13 and by inserting after paragraph (22) the following
14 new paragraph:

15 “(23) any payment made to or for the benefit
16 of an employee if at the time of such payment it is
17 reasonable to believe that the employee will be able
18 to exclude such payment from income under section
19 127(d).”.

20 (4) EMPLOYER CONTRIBUTIONS REQUIRED TO
21 BE SHOWN ON W-2.—Subsection (a) of section 6051
22 of such Code is amended by striking “and” at the
23 end of paragraph (12), by striking the period at the
24 end of paragraph (13) and inserting “, and”, and by

1 inserting after paragraph (13) the following new
2 paragraph:

3 “(14) the amount contributed to any lifelong
4 learning account (as defined in section 224) on be-
5 half of such employee.”.

6 (e) TAX ON PROHIBITED TRANSACTIONS.—

7 (1) Paragraph (1) of section 4975(e) of the In-
8 ternal Revenue Code of 1986 (relating to prohibited
9 transactions) is amended by redesignating subpara-
10 graphs (H) and (I) as subparagraphs (I) and (J),
11 respectively, and by inserting the following new sub-
12 paragraph after subparagraph (G):

13 “(H) a lifelong learning account described
14 in section 224(b),”.

15 (2) Subsection (c) of section 4975 of such Code
16 is amended by adding at the end the following new
17 paragraph:

18 “(7) SPECIAL RULE FOR LIFELONG LEARNING
19 ACCOUNTS.—An individual for whose benefit a life-
20 long learning account is established shall be exempt
21 from the tax imposed by this section with respect to
22 any transaction concerning such account (which
23 would otherwise be taxable under this section) if,
24 with respect to such transaction, the account ceases

1 to be a lifelong learning account by reason of the ap-
2 plication of section 224(e)(2)(A) to such account.”.

3 (f) FAILURE TO PROVIDE REPORTS ON LIFELONG
4 LEARNING ACCOUNTS.—Paragraph (2) of section 6693(a)
5 of the Internal Revenue Code of 1986 is amended by strik-
6 ing “and” at the end of subparagraph (D), by redesign-
7 ating subparagraph (E) as subparagraph (F), and by in-
8 serting after subparagraph (D) the following new subpara-
9 graph:

10 “(E) section 224(h) (relating to lifelong
11 learning accounts), and”.

12 (g) EXEMPTION FROM ERISA REQUIREMENTS.—A
13 lifelong learning account (as defined in section 224 of the
14 Internal Revenue Code of 1986, as added by this section)
15 shall not be treated as an employee welfare benefit plan
16 for purposes of title I of the Employee Retirement Income
17 Security Act of 1974.

18 (h) CLERICAL AMENDMENT.—The table of sections
19 for part VII of subchapter B of chapter 1 of the Internal
20 Revenue Code of 1986 is amended by redesignating the
21 item relating to section 224 as an item relating to section
22 225 and inserting after the item relating to section 223
23 the following new item:

“Sec. 224. Lifelong learning accounts.”.

1 (i) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2007.

4 **SEC. 3. REFUNDABLE CREDIT FOR CONTRIBUTIONS TO**
5 **LIFELONG LEARNING ACCOUNTS.**

6 (a) GENERAL RULE.—Subpart C of part IV of sub-
7 chapter A of chapter 1 of the Internal Revenue Code of
8 1986 (relating to refundable credits) is amended by redес-
9 ignating section 36 as section 37 and by inserting after
10 section 35 the following new section:

11 **“SEC. 36. CONTRIBUTIONS TO LIFELONG LEARNING AC-**
12 **COUNTS.**

13 “(a) GENERAL RULE.—In the case of an eligible indi-
14 vidual, there shall be allowed as a credit against the tax
15 imposed by this chapter for the taxable year an amount
16 equal to the aggregate amount paid in cash for the taxable
17 year by such individual to a lifelong learning account es-
18 tablished for the benefit of such individual under section
19 224.

20 “(b) LIMITATIONS.—

21 “(1) IN GENERAL.—The credit allowed under
22 subsection (a) with respect to any taxable year shall
23 not exceed \$500.

24 “(2) LIMITATION BASED ON MODIFIED AD-
25 JUSTED GROSS INCOME.—The amount which would

1 (but for this paragraph) be otherwise allowable as a
2 credit under subsection (a) for the taxable year shall
3 be reduced (but not below zero) by the amount
4 which bears the same ratio to the amount which
5 would (but for this paragraph) be otherwise allow-
6 able under subsection (a) as—

7 “(A) the excess of—

8 “(i) the taxpayer’s modified adjusted
9 gross income (as defined in section
10 530(c)(2)) for the taxable year, over

11 “(ii) \$55,000 (twice such amount in
12 the case of a joint return), bears to

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

15 “(c) ELIGIBLE INDIVIDUAL.—The term ‘eligible indi-
16 vidual’ has the meaning given such term by section
17 224(f)(1).”.

18 (b) CONFORMING AMENDMENTS.—

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

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

“Sec. 36. Contributions to lifelong learning accounts.
“Sec. 37. Overpayments of tax.”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2006.

4 **SEC. 4. TAX TREATMENT OF CONTRIBUTIONS BY EMPLOY-**
5 **ERS TO LIFELONG LEARNING ACCOUNTS OF**
6 **THEIR EMPLOYEES.**

7 (a) ALLOWANCE OF CREDIT TO EMPLOYERS.—

8 (1) IN GENERAL.—Subpart D of part IV of
9 subchapter A of chapter 1 of the Internal Revenue
10 Code of 1986 (relating to business related credits) is
11 amended by adding at the end the following new sec-
12 tion:

13 **“SEC. 450. CONTRIBUTIONS BY EMPLOYERS TO LIFELONG**
14 **LEARNING ACCOUNTS.**

15 “(a) IN GENERAL.—For purposes of section 38, in
16 the case of an employer, the lifelong learning contribution
17 credit determined under this section for any taxable year
18 is an amount equal to the aggregate qualified lifelong
19 learning contributions of the employer for the taxable
20 year.

21 “(b) QUALIFIED LIFELONG LEARNING CONTRIBU-
22 TION.—For purposes of this section—

23 “(1) IN GENERAL.—The term ‘qualified lifelong
24 learning contribution’ means a contribution made by

1 an employer on behalf of an employee of such em-
2 ployer to a lifelong learning account established on
3 behalf of such employee.

4 “(2) DOLLAR LIMITATION.—The aggregate con-
5 tributions made by an employer on behalf of any em-
6 ployee which may be treated as qualified lifelong
7 learning contributions for any calendar year shall
8 not exceed the lesser of—

9 “(A) the contributions made by the em-
10 ployee to the employee’s lifelong learning ac-
11 count during the calendar year, or

12 “(B) \$500.

13 “(c) NO REDUCTION IN EDUCATION BENEFITS.—No
14 credit shall be allowed under this section to any employer
15 for any taxable year unless such employer certifies (in
16 such form and manner as the Secretary may provide) that
17 such employer has not reduced the education and tuition
18 benefits provided by the employer to its employees.

19 “(d) DEFINITIONS AND SPECIAL RULES.—For pur-
20 poses of this section—

21 “(1) DEFINITIONS.—Any term used in this sec-
22 tion which is also used in section 529A shall have
23 the same meaning as when used in such section.

1 “(2) SPECIAL RULES.—Rules similar to the
2 rules of section 45E(e) shall apply for purposes of
3 this section.

4 “(3) SELF-EMPLOYED INDIVIDUALS.—A self-
5 employed individual (within the meaning of section
6 401(c)(1)(B)) shall not be treated as an employee.”.

7 (2) CREDIT PART OF GENERAL BUSINESS
8 CREDIT.—Section 38(b) of such Code is amended by
9 striking “and” at the end of paragraph (30), by
10 striking the period at the end of paragraph (31) and
11 inserting “, plus”, and by adding at the end the fol-
12 lowing new paragraph:

13 “(32) the lifelong learning contribution credit
14 determined under section 45O.”.

15 (3) DEDUCTION FOR UNUSED CREDIT.—Section
16 196(c) of such Code is amended by striking “and”
17 at the end of paragraph (12), by striking the period
18 at the end of paragraph (13) and inserting “, and”,
19 and by adding at the end the following new para-
20 graph:

21 “(14) the employer lifelong learning contribu-
22 tion credit determined under section 45O(a).”.

23 (4) CLERICAL AMENDMENT.—The table of sec-
24 tions for subpart D of part IV of subchapter A of

1 chapter 1 of such Code is amended by adding at the
2 end the following new item:

“Sec. 45O. Contributions by employers to lifelong learning accounts.”.

3 (b) **EFFECTIVE DATE.**—The amendments made by
4 this section shall apply to taxable years beginning after
5 December 31, 2006.

6 **SEC. 5. APPLICATION TO SECTION 529 QUALIFIED TUITION**
7 **PROGRAMS.**

8 Section 529 of the Internal Revenue Code of 1986
9 is amended by adding at the end the following new sub-
10 section:

11 “(g) **APPLICATION OF LIFELONG LEARNING AC-**
12 **COUNT RULES.**—Not later than 90 days after the date
13 of the enactment of this subsection, the Secretary shall—

14 “(1) prescribe regulations which provide for the
15 application (subject the requirements of subsection
16 (i) and (j) of section 224) of the rules of sections
17 224 (including the deduction allowed under sub-
18 section (a) thereof), 36, and 45O, and related provi-
19 sions, to qualified tuition programs established
20 under this section, or

21 “(2) submit a report to Congress describing in
22 detail the reasons that such regulations have not
23 been prescribed.”.

1 **SEC. 6. STUDY ON EFFECTIVENESS OF LIFELONG LEARN-**
2 **ING ACCOUNTS DEMONSTRATION PROGRAM.**

3 (a) **IN GENERAL.**—The Comptroller General of the
4 United States, in consultation with the Secretary of
5 Labor, shall conduct a study on lifelong learning accounts
6 established under section 224 of the Internal Revenue
7 Code of 1986 and the credits established under sections
8 36 and 450 of such Code. Such study shall examine the
9 effectiveness of the accounts in increasing funding for ca-
10 reer-related education and the extent to which the tax ben-
11 efits under such sections are provided to low-income indi-
12 viduals.

13 (b) **REPORT.**—Not later than January 1, 2009, the
14 Secretary of the Treasury shall submit to Congress a re-
15 port on the study conducted under subsection (a).

○