

105TH CONGRESS
1ST SESSION

H. R. 1819

To amend the Internal Revenue Code of 1986 to provide for the establishment of lifetime learning accounts for the purpose of accumulating funds to pay the qualified expenses related to higher education and job training of the taxpayer and the taxpayer's family.

IN THE HOUSE OF REPRESENTATIVES

JUNE 5, 1997

Mr. ROTHMAN (for himself, Mr. FROST, and Ms. CHRISTIAN-GREEN) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Education and the Workforce, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To amend the Internal Revenue Code of 1986 to provide for the establishment of lifetime learning accounts for the purpose of accumulating funds to pay the qualified expenses related to higher education and job training of the taxpayer and the taxpayer's family.

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

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "Lifetime Learning Af-
5 fordability Act of 1997".

1 **SEC. 2. FINDINGS AND PURPOSE.**

2 (a) FINDINGS.—The Congress finds that—

3 (1) the rising costs of higher education are put-
4 ting lifetime learning and training opportunities out
5 of reach for millions of Americans;

6 (2) individuals who complete at least 2 years of
7 college generally earn more than those with only a
8 high school diploma;

9 (3) offering tax incentives to help American
10 families save for education expenses will lead to
11 more Americans going to college; and

12 (4) ensuring the American workforce is well
13 educated and well trained throughout their lifetime
14 will give our Nation a significant competitive advan-
15 tage in the global marketplace.

16 (b) PURPOSE.—The purpose of this Act is to ensure
17 that all Americans are given an opportunity to obtain the
18 education and job training they need to compete in the
19 world’s rapidly changing marketplace.

20 **TITLE I—LIFETIME LEARNING**
21 **ACCOUNTS**

22 **SEC. 101. DEDUCTION FOR CONTRIBUTIONS TO LIFETIME**
23 **LEARNING ACCOUNTS.**

24 (a) IN GENERAL.—Part VII of subchapter B of chap-
25 ter 1 of the Internal Revenue Code of 1986 (relating to
26 additional itemized deductions for individuals) is amended

1 by redesignating section 221 as section 222 and by insert-
2 ing after section 220 the following new section:

3 **“SEC. 221. LIFETIME LEARNING ACCOUNTS.**

4 “(a) DEDUCTION ALLOWED.—In the case of an indi-
5 vidual, there shall be allowed as a deduction an amount
6 equal to the amount paid in cash for the taxable year by
7 the taxpayer to a lifetime learning account established for
8 the purpose of accumulating funds to pay the qualified
9 expenses related to higher education or job training of the
10 taxpayer or any family member of the taxpayer.

11 “(b) LIMITATIONS.—

12 “(1) MAXIMUM DEDUCTION.—The amount al-
13 lowable as a deduction under subsection (a) to the
14 taxpayer for any taxable year shall not exceed
15 \$4,000 (\$2,000 in the case of a married individual
16 filing a separate return) for amounts paid for the
17 benefit of the taxpayer and each family member of
18 the taxpayer.

19 “(2) DEDUCTION NOT TO EXCEED COMPENSA-
20 TION.—The amount allowable as a deduction under
21 subsection (a) shall not exceed the amount of the
22 taxpayer’s gross income for the taxable year.

23 “(3) MAXIMUM AMOUNT OF DEPOSIT FOR
24 WHICH DEDUCTION IS ALLOWABLE IN CASE OF MUL-
25 TIPLE CONTRIBUTORS.—With respect to a lifetime

1 learning account of a beneficiary who has not at-
2 tained age 22 before the close of the calendar year
3 in which such payment is made, the total amount al-
4 lowable as a deduction under subsection (a) for the
5 taxable year of the beneficiary is \$4,000 (\$2,000 in
6 the case of a married individual filing a separate re-
7 turn). The allocation of such deduction among con-
8 tributors shall be in accordance with regulations pre-
9 scribed by the Secretary.

10 “(4) DEDUCTIONS AFTER BENEFICIARY AT-
11 TAINS AGE 22.—

12 “(A) LIMITED TO DEPOSITS BY BENE-
13 FICIARY; MAXIMUM AMOUNT.—In the case of a
14 beneficiary of a lifetime learning account who
15 has attained age 22 before the close of the cal-
16 endar year—

17 “(i) no deduction for any payment in
18 that calendar year shall be allowed under
19 subsection (a) to any individual other than
20 the beneficiary or the spouse of the bene-
21 ficiary (where a joint return is filed), and

22 “(ii) the amount allowable as such de-
23 duction for any taxable year shall not ex-
24 ceed \$2,000.

1 “(B) NO DEDUCTION AFTER BENEFICIARY
2 ATTAINS AGE 40.—No deduction shall be al-
3 lowed for any payment to a lifetime learning ac-
4 count established for the benefit of an individ-
5 ual who has attained age 40 before the close of
6 the calendar year in which such payment is
7 made.

8 “(5) ACCOUNT MAY NOT BE ESTABLISHED FOR
9 BENEFIT OF MORE THAN 1 INDIVIDUAL.—A lifetime
10 learning account may not be established for the ben-
11 efit of more than 1 individual.

12 “(6) INCOME LIMITATION BASED ON INCOME
13 OF PARENTS OR LEGAL GUARDIAN OF BENE-
14 FICIARY.—No deduction shall be allowed under sub-
15 section (a) for a payment by a taxpayer to the life-
16 time learning account of a beneficiary if the adjusted
17 gross income of the parents or legal guardian of
18 such beneficiary (other than a beneficiary described
19 by paragraph (4)(A)) exceeds \$85,000 (\$125,000 in
20 the case of a joint return and \$62,500 in the case
21 of a married individual filing a separate return). For
22 purposes of the preceding sentence, rules similar to
23 rules of section 152(e) (relating to support test in
24 case of child of divorced parents, etc.).

1 “(7) NO CONTRIBUTION IF BALANCE IN AC-
2 COUNT EXCEEDS \$100,000.—No amount may be con-
3 tributed, or rolled over under clause (ii) of sub-
4 section (c)(1)(E), to a lifetime learning account if
5 the balance of such account exceeds \$100,000.

6 “(c) DEFINITIONS AND SPECIAL RULES.—For pur-
7 poses of this section—

8 “(1) LIFETIME LEARNING ACCOUNT.—The
9 term ‘lifetime learning account’ means a trust cre-
10 ated or organized in the United States exclusively
11 for the purpose of paying the qualified expenses of
12 the account holder related to higher education or job
13 training, but only if the written governing instru-
14 ment creating the trust meets the following require-
15 ments:

16 “(A) No contribution will be accepted un-
17 less it is in cash, and contributions will not be
18 accepted for the taxable year in excess of an ag-
19 gregate of \$4,000 (\$2,000 in the case of a ben-
20 eficiary who has attained the age of 22).

21 “(B) The trustee is a bank (as defined in
22 section 408(n)) or another person who dem-
23 onstrates to the satisfaction of the Secretary
24 that the manner in which that person will ad-

1 minister the trust will be consistent with the re-
2 quirements of this section.

3 “(C) No part of the trust assets will be in-
4 vested in life insurance contracts.

5 “(D) The assets of the trust shall not be
6 commingled with other property except in a
7 common trust fund or common investment
8 fund.

9 “(E) On the termination date—

10 “(i) the balance in the account shall
11 be distributed to the individual for whose
12 benefit the account is established, or

13 “(ii) at the election of such individual,
14 from amounts in the account, not to exceed
15 \$50,000 in the aggregate—

16 “(I) shall be treated for purposes
17 of this title as a lifetime learning ac-
18 count for each of those designated
19 family members of such individual
20 who does not have a lifetime learning
21 account and who has not attained the
22 age of 18 before the close of the cal-
23 endar year in which such date occurs,

24 “(II) shall be rolled over in ac-
25 cordance with subsection (d)(4) into

1 the lifetime learning account of each
2 of those designated family members of
3 such individual who has a lifetime
4 learning account and who has not at-
5 tained the age of 18 before the close
6 of the calendar year in which such
7 date occurs,

8 “(III) shall be contributed to an
9 eligible educational institution, or

10 “(IV) shall be contributed to an
11 organization described in section
12 501(c) that is exempt from taxation
13 under section 501(a) whose purpose is
14 providing scholarships at eligible edu-
15 cational institutions.

16 Amounts contributed under subclause (III)
17 or (IV) shall not be treated as a charitable
18 contribution (as defined in section 170(c).

19 “(2) FAMILY MEMBER.—The term ‘family
20 member’ means—

21 “(A) any individual with a relationship to
22 the taxpayer specified in section 267(c)(4),

23 “(B) with respect to only to contributions
24 for which a deduction is allowed by subsection

1 (a), any sibling of either parent of the account
2 holder and the spouse of any such sibling, and

3 “(C) in the case of lifetime learning ac-
4 count of a minor, or of an individual who is
5 mentally incompetent or under other legal dis-
6 ability adjudged by a court of competent juris-
7 diction, such term includes the person who is
8 constituted guardian or other fiduciary by the
9 law of the State of residence of such minor or
10 individual or is otherwise legally vested with the
11 care of the minor or individual, or the estate
12 thereof.

13 “(3) TERMINATION DATE.—The term ‘termi-
14 nation date’ means—

15 “(A) the date the beneficiary attains age
16 59½, or

17 “(B) the date of the beneficiary’s death.

18 “(4) QUALIFIED EXPENSES.—The term ‘quali-
19 fied expenses’ means—

20 “(A) educational expenses, and

21 “(B) job training expenses.

22 “(5) EDUCATIONAL EXPENSES.—

23 “(A) IN GENERAL.—

24 “(i) EDUCATIONAL EXPENSES.—The
25 term ‘educational expenses’ means—

1 “(I) tuition and fees required for
2 the enrollment or attendance of a stu-
3 dent at an eligible educational institu-
4 tion,

5 “(II) fees, books, supplies, and
6 equipment required for courses of in-
7 struction at an eligible educational in-
8 stitution, and

9 “(III) a reasonable allowance for
10 meals and lodging while attending an
11 eligible educational institution (not to
12 exceed the amounts specified in regu-
13 lations prescribed by the Secretary).

14 “(ii) EXCEPTION FOR EDUCATION IN-
15 VOLVING SPORTS, ETC.—Such term does
16 not include expenses with respect to any
17 course or other education involving sports,
18 games, or hobbies, unless such course or
19 other education is part of the individual’s
20 degree program.

21 “(iii) EXCEPTION FOR NONACADEMIC
22 FEES.—Such term does not include stu-
23 dent activity fees, athletic fees, insurance
24 expenses, or other expenses unrelated to

1 the individual's academic course of instruc-
2 tion.

3 “(B) ELIGIBLE EDUCATIONAL INSTITU-
4 TION.—The term ‘eligible educational institu-
5 tion’ means—

6 “(i) an institution of higher education,
7 or

8 “(ii) a vocational school.

9 “(C) INSTITUTION OF HIGHER EDU-
10 CATION.—The term ‘institution of higher edu-
11 cation’ means the institutions described in sec-
12 tion 1201(a) or 481(a) of the Higher Education
13 Act of 1965.

14 “(D) VOCATIONAL SCHOOL.—The term
15 ‘vocational school’ means an area vocational
16 education school as defined in subparagraph
17 (C) or (D) of section 521(4) of the Carl D. Per-
18 kins Vocational and Applied Technology Edu-
19 cation Act to the extent such school is located
20 within any State (as defined in such section).

21 “(6) JOB TRAINING EXPENSES.—

22 “(A) IN GENERAL.—The term ‘job training
23 expenses’ means—

24 “(i) tuition and fees required for the
25 enrollment or attendance of—

1 “(I) a student at an eligible edu-
2 cational institution, or

3 “(II) a worker in an applicable
4 training program,

5 “(ii) fees, books, supplies, and equip-
6 ment required for—

7 “(I) courses of instruction at an
8 eligible educational institution, or

9 “(II) for an applicable training
10 program, and

11 “(iii) a reasonable allowance for meals
12 and lodging while attending an eligible
13 educational institution or an applicable
14 training program (not to exceed the
15 amounts specified in regulations prescribed
16 by the Secretary).

17 “(B) EXCEPTION FOR EDUCATION INVOLV-
18 ING SPORTS, ETC.—Such term does not include
19 expenses with respect to any job training involv-
20 ing sports, games, or hobbies, unless such train-
21 ing is to improve the individual’s job skills or
22 for the individual to acquire new job skills.

23 “(C) EXCEPTION FOR NONACADEMIC
24 FEES.—Such term does not include student ac-
25 tivity fees, athletic fees, insurance expenses, or

1 other expenses unrelated to the individual’s job
2 training.

3 “(D) APPLICABLE TRAINING PROGRAM.—

4 The term ‘applicable training program’
5 means—

6 “(i) any applicable program (as de-
7 fined in section 314(g) of the Job Training
8 Partnership Act), and

9 “(ii) any training program approved
10 under section 236 of the Trade Act of
11 1974.

12 “(7) DENIAL OF DEDUCTION FOR AMOUNTS
13 PAID FROM ACCOUNT.—If any amount paid or dis-
14 tributed from a lifetime learning account is not in-
15 cluded in gross income by reason of being used to
16 pay any qualified expense, such expense shall not be
17 taken into account in determining the amount of any
18 deduction under section 212, 217, or any other pro-
19 vision of this chapter.

20 “(8) TIME WHEN CONTRIBUTIONS DEEMED
21 MADE.—A taxpayer shall be deemed to have made a
22 contribution on the last day of the preceding taxable
23 year if the contribution is made on account of such
24 taxable year and is made not later than the time

1 prescribed by law for filing the return for such tax-
2 able year (including extensions thereof).

3 “(d) TAX TREATMENT OF DISTRIBUTIONS.—

4 “(1) IN GENERAL.—Except as otherwise pro-
5 vided in this subsection, any amount paid from a
6 lifetime learning account shall be included in the
7 gross income of the beneficiary of such account for
8 the taxable year in which the payment is received.

9 “(2) AMOUNTS USED FOR EDUCATION, JOB
10 TRAINING, OR EXPENSES.—If any payment from a
11 lifetime learning account is used to pay the qualified
12 expenses of the beneficiary of such account—

13 “(A) paragraph (1) shall not apply, but

14 “(B) such amount shall be included in
15 gross income of the beneficiary of such account
16 for—

17 “(i) the 8th taxable year beginning
18 after the taxable year in which the pay-
19 ment is received, or

20 “(ii) at the election of, and in the
21 amounts allocated by, the beneficiary, any
22 of the first eight taxable years beginning
23 after the taxable year in which the pay-
24 ment is received.

1 “(3) EXCESS CONTRIBUTIONS RETURNED BE-
2 FORE DUE DATE OF RETURN.—Paragraph (1) shall
3 not apply to the distribution of any contribution
4 made during a taxable year to a lifetime learning ac-
5 count to the extent that such contribution exceeds
6 the amount allowable as a deduction under sub-
7 section (a) if—

8 “(A) such distribution is received on or be-
9 fore the day prescribed by law (including exten-
10 sions of time) for filing such individual’s return
11 for such taxable year,

12 “(B) no deduction is allowed under sub-
13 section (a) with respect to such excess contribu-
14 tion, and

15 “(C) such distribution is accompanied by
16 the amount of net income attributable to such
17 excess contribution.

18 Any net income described in subparagraph (C) shall
19 be included in the gross income of the individual for
20 the taxable year in which such excess contribution
21 was made.

22 “(4) TREATMENT AS OTHER LIFETIME LEARN-
23 ING ACCOUNTS AND NONTAXABLE CONTRIBUTIONS
24 THAT ARE NOT SUBJECT TO INCOME TAX INCLU-
25 SION.—The treatment described in subsection

1 (c)(1)(E)(ii) shall not be treated as a distribution for
2 purposes of this subsection. The preceding sentence
3 shall apply in the case of a rollover under subclause
4 (II) of such subsection to any amount (not to exceed
5 \$50,000) paid or distributed on the termination date
6 out of a lifetime learning account to an individual
7 for whose benefit the account is maintained if the
8 entire amount received (including money and any
9 other property) is paid into the lifetime learning ac-
10 count for the benefit of a family member of such in-
11 dividual not later than the 60th day after the day
12 on which he received the payment or distribution.

13 “(e) TAX TREATMENT OF ACCOUNTS.—

14 “(1) EXEMPTION FROM TAX.—A lifetime learn-
15 ing account is exempt from taxation under this sub-
16 title unless such account has ceased to be a lifetime
17 learning account by reason of paragraph (2) or (3).
18 Notwithstanding the preceding sentence, any such
19 account is subject to the taxes imposed by section
20 511 (relating to imposition of tax on unrelated busi-
21 ness income of charitable, etc. organizations).

22 “(2) LOSS OF EXEMPTION OF ACCOUNT WHERE
23 INDIVIDUAL ENGAGES IN PROHIBITED TRANSACTION
24 OR FAILS TO MAKE REQUIRED PAYMENT.—

25 “(A) IN GENERAL.—

1 “(i) PROHIBITED TRANSACTION.—If
2 the individual for whose benefit a lifetime
3 learning account is established or any indi-
4 vidual who contributes to such account en-
5 gages in any transaction prohibited by sec-
6 tion 4975 with respect to the account, the
7 account shall cease to be a lifetime learn-
8 ing account as of the first day of the tax-
9 able year (of the individual so engaging in
10 such transaction) during which such trans-
11 action occurs.

12 “(ii) FAILURE TO MAKE REQUIRED
13 PAYMENT.—

14 “(I) IN GENERAL.—In the case
15 of a beneficiary who incurs qualified
16 expenses (reduced by amounts de-
17 scribed in subclause (II)) but who
18 fails to make a payment for such ex-
19 penses from the beneficiary’s lifetime
20 learning account, the account shall
21 cease to be a lifetime learning account
22 as of the first day of the taxable year
23 of the beneficiary during which such
24 failure occurs.

1 “(II) SCHOLARSHIPS AND EDU-
2 CATIONAL BENEFITS.—The amounts
3 described in this clause are amounts
4 received by, or on behalf of, the bene-
5 ficiary that are described in section
6 135(c)(1) (relating to qualified United
7 States savings bond) and subpara-
8 graphs (A), (B), and (D) of section
9 135(d)(1) (relating to certain scholar-
10 ships and veterans benefits).

11 “(B) ACCOUNT TREATED AS DISTRIBUTING
12 ALL ITS ASSETS.—In any case in which any ac-
13 count ceases to be a lifetime learning account
14 by reason of subparagraph (A) as of the first
15 day of any taxable year, paragraph (1) of sub-
16 section (d) shall apply as if there was a dis-
17 tribution on such first day in an amount equal
18 to the fair market value (on such first day) of
19 all assets in the account (on such first day).

20 “(3) EFFECT OF PLEDGING ACCOUNT AS SECUR-
21 ITY.—If, during any taxable year, the individual for
22 whose benefit a lifetime learning account is estab-
23 lished, or any individual who contributes to such ac-
24 count, uses the account or any portion thereof as se-
25 curity for a loan, the portion so used shall be treated

1 as distributed to the individual so using such por-
2 tion.

3 “(f) ADDITIONAL TAX ON CERTAIN DISTRIBU-
4 TIONS.—

5 “(1) DISTRIBUTION NOT USED FOR EDU-
6 CATIONAL OR JOB TRAINING EXPENSES.—If any
7 payment from a lifetime learning account is used for
8 any purpose other than the payment of the qualified
9 expenses of the beneficiary of such account, the tax
10 liability under this chapter of such beneficiary for
11 the taxable year in which the payment is received
12 shall be increased by an amount equal to 20 percent
13 of such payment.

14 “(2) DISTRIBUTIONS ON TERMINATION OF AC-
15 COUNT.—

16 “(A) IN GENERAL.—Paragraph (1) shall
17 be applied by substituting ‘10 percent’ for ‘20
18 percent’ in the case of any distribution made on
19 the termination date to the beneficiary of the
20 account.

21 “(B) TERMINATION OF SUBSEQUENT AC-
22 COUNT.—If—

23 “(i) the election under subsection
24 (c)(1)(E)(ii) is made with respect to any
25 account, and

1 “(ii) the termination date occurs other
2 than by reason of the death of the account
3 beneficiary,
4 the tax liability under this chapter of such ben-
5 eficiary for the taxable year which includes the
6 termination date shall be increased by an
7 amount equal to 20 percent of the balance in
8 such account on such date.

9 “(3) DISABILITY CASES.—Paragraphs (1) and
10 (2)(A) shall not apply if the distribution is made
11 after the account beneficiary becomes disabled with-
12 in the meaning of section 72(m)(7).

13 “(4) DISQUALIFICATION CASES.—Any amount
14 treated under paragraph (2) or (3) of subsection (e)
15 as distributed from a lifetime learning account shall
16 be treated as a distribution to which the tax imposed
17 by paragraph (1) applies.

18 “(g) COMMUNITY PROPERTY LAWS.—This section
19 shall be applied without regard to any community property
20 laws.

21 “(h) REPORTS.—The trustee of a lifetime learning
22 account shall make such reports regarding such account
23 to the Secretary and to the individual for whose benefit
24 the account is maintained with respect to contributions,
25 distributions, and such other matters as the Secretary

1 may require under regulations. The reports required by
2 this subsection shall be filed at such time and in such
3 manner and furnished to such individuals at such time and
4 in such manner as may be required by those regulations.”

5 (b) DEDUCTION ALLOWED IN ARRIVING AT AD-
6 JUSTED GROSS INCOME.—Subsection (a) of section 62 of
7 such Code (relating to retirement savings) is amended by
8 inserting after paragraph (16) the following new para-
9 graph:

10 “(17) EDUCATION AND JOB TRAINING SAV-
11 INGS.—The deduction allowed by section 221 (relat-
12 ing to lifetime learning accounts).”

13 (c) TAX ON EXCESS CONTRIBUTIONS.—Section 4973
14 of such Code (relating to tax on excess contributions to
15 individual retirement accounts, certain section 403(b) con-
16 tracts, and certain individual retirement annuities) is
17 amended—

18 (1) by inserting “**LIFETIME LEARNING AC-**
19 **COUNTS,**” after “**SAVINGS ACCOUNTS,**” in the
20 heading of such section,

21 (2) by striking “or” at the end of paragraph
22 (2) of subsection (a),

23 (3) by redesignating paragraph (3) of sub-
24 section (a) as paragraph (4) and by inserting after
25 paragraph (2) the following new paragraph:

1 “(3) a lifetime learning account (within the
2 meaning of section 221(c)(1)), or”, and

3 (4) by adding at the end the following new sub-
4 section:

5 “(e) EXCESS CONTRIBUTIONS TO LIFETIME LEARN-
6 ING ACCOUNTS.—For purposes of this section, in the case
7 of a lifetime learning account, the term ‘excess contribu-
8 tions’ means the amount by which the amount contributed
9 for the taxable year to the account exceeds the amount
10 allowable as a deduction under section 221 for such tax-
11 able year. For purposes of this subsection, any contribu-
12 tion which is distributed out of the lifetime learning ac-
13 count in a distribution to which section 221(d)(3) applies
14 shall be treated as an amount not contributed.”

15 (d) TAX ON PROHIBITED TRANSACTIONS.—

16 (1) Subsection (c) of section 4975 of such Code
17 (relating to prohibited transactions) is amended by
18 adding at the end the following new paragraph:

19 “(5) SPECIAL RULE FOR LIFETIME LEARNING
20 ACCOUNTS.—An individual for whose benefit a life-
21 time learning account is established and any contrib-
22 utor to such account shall be exempt from the tax
23 imposed by this section with respect to any trans-
24 action concerning such account (which would other-
25 wise be taxable under this section) if, with respect

1 to such transaction, the account ceases to be a life-
2 time learning account by reason of the application of
3 section 221(e)(2)(A) to such account.”

4 (2) Paragraph (1) of section 4975(e) of such
5 Code is amended by striking “or” at the end of sub-
6 paragraph (D), by redesignating subparagraph (E)
7 as subparagraph (F), and by inserting after sub-
8 paragraph (D) the following new subparagraph:

9 “(E) a lifetime learning account described
10 in section 221(c)(1), or”.

11 (e) FAILURE TO PROVIDE REPORTS ON LIFETIME
12 LEARNING ACCOUNTS.—

13 (1) Paragraph (2) of section 6693(a) of such
14 Code (relating to failure to provide reports on indi-
15 vidual retirement accounts or annuities) is amended
16 by striking “and” at the end of subparagraph (A),
17 by striking the period at the end of subparagraph
18 (B) and inserting “, and”, and by adding at the end
19 the following new subparagraph:

20 “(C) section 221(i) (relating to lifetime
21 learning accounts).”.

22 (2) The heading for section 6693 of such Code
23 is amended to read as follows:

1 **“SEC. 6693. FAILURE TO PROVIDE REPORTS ON INDIVIDUAL**
2 **RETIREMENT PLANS AND CERTAIN OTHER**
3 **SAVINGS PLANS.”**

4 (f) CLERICAL AMENDMENTS.—

5 (1) The table of sections for part VII of sub-
6 chapter B of chapter 1 of such Code is amended by
7 striking the item relating to section 221 and insert-
8 ing the following new items:

“Sec. 221. Lifetime learning accounts.

“Sec. 222. Cross reference.”

9 (2) The table of sections for chapter 43 of such
10 Code is amended by striking the item relating to sec-
11 tion 4973 and inserting the following new item:

“Sec. 4973. Tax on excess contributions to individual retirement
accounts, medical savings accounts, lifetime learn-
ing accounts, certain 403(b) contracts, and certain
individual retirement annuities.”

12 (3) The table of sections for subchapter B of
13 chapter 68 of such Code is amended by striking the
14 item relating to section 6693 and inserting the fol-
15 lowing new item:

“Sec. 6693. Failure to provide reports on individual retirement
plans and certain other savings plans.”

16 (g) TREATMENT OF LIFETIME LEARNING ACCOUNTS
17 UNDER FEDERAL STUDENT FINANCIAL AID.—Subpara-
18 graph (A) of sections 475(d)(2), 476(c)(2), and 477(c)(2)
19 of the Higher Education Act of 1965 (20 U.S.C.
20 1087oo(d)(2)(A), 1087pp(c)(2)(A), 1087rr(c)(2)(A)) are
21 each amended by inserting before the semicolon at the end

1 thereof the following: “, excluding any amounts held in
2 a lifetime learning account established in accordance with
3 section 221 of the Internal Revenue Code of 1986 (26
4 U.S.C. 221)”.

5 (h) EFFECTIVE DATES.—

6 (1) IN GENERAL.—The amendments made by
7 this section shall apply to contributions made in tax-
8 able years beginning after December 31, 1997.

9 (2) EFFECTIVE DATE.—The amendments made
10 by subsection (g) shall apply to determinations of
11 need under title IV of the Higher Education Act of
12 1965 for periods of enrollment beginning on or after
13 July 1, 1998.

14 **TITLE II—INCREASE IN MAXI-** 15 **MUM PELL GRANT AWARDS.**

16 **SEC. 201. INCREASE IN MAXIMUM PELL GRANTS.**

17 (a) MAXIMUM PELL AMOUNTS.—Paragraph (2)(A)
18 of section 401(b) of the Higher Education Act of 1965
19 (20 U.S.C. 1070a(b)(2)(A)) is amended to read as follows:

20 “(2)(A) The amount of the basic grant for a student
21 eligible under this part shall be \$3,500, less an amount
22 equal to the amount determined to be the expected family
23 contribution with respect to that student for that year.”.

24 (b) FUNDING OF PELL GRANTS.—Section 401 of the
25 Higher Education Act of 1965 (20 U.S.C. 1070a) is fur-

1 ther amended by striking subsections (g) and (h) and in-
2 serting the following:

3 “(g) FUNDS FOR EXPENSES.—There shall be avail-
4 able to the Secretary, from funds not otherwise appro-
5 priated, such sums as may be necessary to provide funds
6 to be obligated for the costs of the grants under this sec-
7 tion in the maximum amounts authorized by this sec-
8 tion.”.

9 (c) CONFORMING AMENDMENTS.—Section 401 of the
10 Higher Education Act of 1965 (20 U.S.C. 1070a) is fur-
11 ther amended—

12 (1) in paragraph (7) of subsection (b), by strik-
13 ing “the appropriate Appropriation Act for this sub-
14 part for such year” and inserting “subsection (g)”;

15 (2) by striking paragraph (3) of such subsection
16 and redesignating paragraphs (4) through (8) of
17 such subsection as paragraphs (3) through (7), re-
18 spectively; and

19 (3) by redesignating subsection (i) as subsection
20 (h).

1 **TITLE III—RESTORATION OF DE-**
2 **DUCTION FOR INTEREST ON**
3 **EDUCATIONAL LOANS**

4 **SEC. 301. RESTORATION OF DEDUCTION FOR INTEREST ON**
5 **EDUCATIONAL LOANS.**

6 (a) IN GENERAL.—Paragraph (2) of section 163(h)
7 of the Internal Revenue Code of 1986 (defining personal
8 interest) is amended by striking “and” at the end of sub-
9 paragraph (D), by redesignating subparagraph (E) as sub-
10 paragraph (F), and by inserting after subparagraph (D)
11 the following new subparagraph:

12 “(E) any interest on a qualified edu-
13 cational loan, and”.

14 (b) QUALIFIED EDUCATIONAL LOAN DEFINED.—
15 Subsection (h) of section 163 of such Code is amended
16 by adding at the end the following new paragraph:

17 “(6) QUALIFIED EDUCATIONAL LOAN.—

18 “(A) IN GENERAL.—For purposes of this
19 subsection, the term ‘qualified educational loan’
20 means any indebtedness incurred to pay quali-
21 fied educational expenses which are paid or in-
22 curred within a reasonable period of time before
23 or after the indebtedness is incurred.

24 “(B) QUALIFIED EDUCATIONAL EX-
25 PENSES.—For purposes of this paragraph—

1 “(i) IN GENERAL.—The term ‘quali-
2 fied educational expenses’ means qualified
3 tuition and related expenses of the tax-
4 payer, his spouse, or a dependent for at-
5 tendance at an educational institution de-
6 scribed in section 170(b)(1)(A)(ii).

7 “(ii) QUALIFIED TUITION AND RELAT-
8 ED EXPENSES.—The term ‘qualified tui-
9 tion and related expenses’ means—

10 “(I) tuition and fees required for
11 enrollment or attendance at an edu-
12 cational institution described in sec-
13 tion 170(b)(1)(A)(ii),

14 “(II) fees, books, supplies, and
15 equipment required for courses of in-
16 struction at such an institution, and

17 “(III) reasonable living expenses
18 while away from home.

19 “(C) DEPENDENT.—For purposes of this
20 paragraph, the term ‘dependent’ has the mean-
21 ing given such term by section 152.

22 “(D) COORDINATION WITH PARAGRAPH
23 (3)(C)(ii).—Any qualified educational loan shall
24 not be taken into account for purposes of apply-
25 ing the limitation of paragraph (3)(C)(ii).”

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

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