

105TH CONGRESS
1ST SESSION

S. 573

To amend the Internal Revenue Code of 1986 to allow an income tax deduction for student loan interest payments.

IN THE SENATE OF THE UNITED STATES

APRIL 15, 1997

Mr. GRASSLEY (for himself, Ms. MOSELEY-BRAUN, and Mr. BURNS) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to allow an income tax deduction for student loan interest payments.

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 “Loan Interest Forgive-
5 ness for Education Act”.

6 **SEC. 2. DEDUCTION FOR INTEREST ON EDUCATION LOANS.**

7 (a) IN GENERAL.—Part VII of subchapter B of chap-
8 ter 1 of the Internal Revenue Code of 1986 (relating to
9 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:

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

4 “(a) ALLOWANCE OF DEDUCTION.—In the case of an
5 individual, there shall be allowed as a deduction for the
6 taxable year an amount equal to the interest paid by the
7 taxpayer during the taxable year on any qualified edu-
8 cation loan.

9 “(b) LIMITATION BASED ON MODIFIED ADJUSTED
10 GROSS INCOME.—

11 “(1) IN GENERAL.—If the modified adjusted
12 gross income of the taxpayer for the taxable year ex-
13 ceeds \$65,000 (\$85,000 in the case of a joint re-
14 turn), the amount which would (but for this para-
15 graph) be allowable as a deduction under this sec-
16 tion shall be reduced (but not below zero) by the
17 amount which bears the same ratio to the amount
18 which would be so allowable as such excess bears to
19 \$20,000.

20 “(2) MODIFIED ADJUSTED GROSS INCOME.—
21 For purposes of paragraph (1), the term ‘modified
22 adjusted gross income’ means adjusted gross income
23 determined—

24 “(A) without regard to this section and
25 sections 135, 911, 931, and 933, and

1 “(B) after application of sections 86, 219,
2 and 469.

3 For purposes of sections 86, 135, 219, and 469, ad-
4 justed gross income shall be determined without re-
5 gard to the deduction allowed under this section.

6 “(3) INFLATION ADJUSTMENT.—In the case of
7 any taxable year beginning after 1997, the \$65,000
8 and \$85,000 amounts referred to in paragraph (1)
9 shall be increased by an amount equal to—

10 “(A) such dollar amount, multiplied by

11 “(B) the cost-of-living adjustment deter-
12 mined under section (1)(f)(3) for the calendar
13 year in which the taxable year begins, by sub-
14 stituting ‘1996’ for ‘1992’.

15 “(4) ROUNDING.—If any amount as adjusted
16 under paragraph (3) is not a multiple of \$50, such
17 amount shall be rounded to the nearest multiple of
18 \$50.

19 “(c) DEPENDENTS NOT ELIGIBLE FOR DEDUC-
20 TION.—No deduction shall be allowed by this section to
21 an individual for the taxable year if a deduction under sec-
22 tion 151 with respect to such individual is allowed to an-
23 other taxpayer for the taxable year beginning in the cal-
24 endar year in which such individual’s taxable year begins.

25 “(d) DEFINITIONS.—For purposes of this section—

1 “(1) QUALIFIED EDUCATION LOAN.—The term
2 ‘qualified education loan’ means any indebtedness
3 incurred to pay qualified higher education ex-
4 penses—

5 “(A) which are incurred on behalf of the
6 taxpayer, the taxpayer’s spouse, or any depend-
7 ent of the taxpayer as of the time the indebted-
8 ness was incurred,

9 “(B) which are paid or incurred within a
10 reasonable period of time before or after the in-
11 debtedness is incurred, and

12 “(C) which are attributable to education
13 furnished during a period during which the re-
14 cipient was at least a half-time student.

15 Such term includes indebtedness used to refinance
16 indebtedness which qualifies as a qualified education
17 loan. The term ‘qualified education loan’ shall not
18 include any indebtedness owed to a person who is re-
19 lated (within the meaning of section 267(b) or
20 707(b)(1)) to the taxpayer.

21 “(2) QUALIFIED HIGHER EDUCATION EX-
22 PENSES.—The term ‘qualified higher education ex-
23 penses’ means the cost of attendance (as defined in
24 section 472 of the Higher Education Act of 1965,
25 20 U.S.C. 1087*ll*, as in effect on the day before the

1 date of the enactment of this Act) of the taxpayer
2 or the taxpayer’s spouse at an eligible educational
3 institution, reduced by the sum of—

4 “(A) the amount excluded from gross in-
5 come under section 135 by reason of such ex-
6 penses, and

7 “(B) the amount of the reduction de-
8 scribed in section 135(d)(1).

9 For purposes of the preceding sentence, the term ‘el-
10 igible educational institution’ has the same meaning
11 given such term by section 135(c)(3), except that
12 such term shall also include an institution conduct-
13 ing an internship or residency program leading to a
14 degree or certificate awarded by an institution of
15 higher education, a hospital, or a health care facility
16 which offers postgraduate training.

17 “(3) HALF-TIME STUDENT.—The term ‘half-
18 time student’ means any individual who would be a
19 student as defined in section 151(c)(4) if ‘half-time’
20 were substituted for ‘full-time’ each place it appears
21 in such section.

22 “(4) DEPENDENT.—The term ‘dependent’ has
23 the meaning given such term by section 152.

24 “(e) SPECIAL RULES.—

1 “(1) DENIAL OF DOUBLE BENEFIT.—No deduc-
2 tion shall be allowed under this section for any
3 amount for which a deduction is allowable under any
4 other provision of this chapter.

5 “(2) MARRIED COUPLES MUST FILE JOINT RE-
6 TURN.—If the taxpayer is married at the close of
7 the taxable year, the deduction shall be allowed
8 under subsection (a) only if the taxpayer and the
9 taxpayer’s spouse file a joint return for the taxable
10 year.

11 “(3) MARITAL STATUS.—Marital status shall be
12 determined in accordance with section 7703.”.

13 (b) DEDUCTION ALLOWED WHETHER OR NOT TAX-
14 PAYER ITEMIZES OTHER DEDUCTIONS.—Section 62(a) of
15 the Internal Revenue Code of 1986 (defining adjusted
16 gross income) is amended by inserting after paragraph
17 (16) the following:

18 “(17) INTEREST ON EDUCATION LOANS.—The
19 deduction allowed by section 221.”.

20 (c) REPORTING REQUIREMENT.—

21 (1) IN GENERAL.—Subpart B of part III of
22 subchapter A of chapter 61 of the Internal Revenue
23 Code of 1986 (relating to information concerning
24 transactions with other persons) is amended by in-
25 serting after section 6050R the following:

1 **“SEC. 6050S. RETURNS RELATING TO EDUCATION LOAN IN-**
2 **TEREST RECEIVED IN TRADE OR BUSINESS**
3 **FROM INDIVIDUALS.**

4 “(a) EDUCATION LOAN INTEREST OF \$600 OR
5 MORE.—Any person—

6 “(1) who is engaged in a trade or business, and

7 “(2) who, in the course of such trade or busi-
8 ness, receives from any individual interest aggregat-
9 ing \$600 or more for any calendar year on 1 or
10 more qualified education loans,

11 shall make the return described in subsection (b) with re-
12 spect to each individual from whom such interest was re-
13 ceived at such time as the Secretary may by regulations
14 prescribe.

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

17 “(1) is in such form as the Secretary may pre-
18 scribe,

19 “(2) contains—

20 “(A) the name, address, and TIN of the
21 individual from whom the interest described in
22 subsection (a)(2) was received,

23 “(B) the amount of such interest received
24 for the calendar year, and

25 “(C) such other information as the Sec-
26 retary may prescribe.

1 “(c) APPLICATION TO GOVERNMENTAL UNITS.—For
2 purposes of subsection (a)—

3 “(1) TREATED AS PERSONS.—The term ‘per-
4 son’ includes any governmental unit (and any agency
5 or instrumentality thereof).

6 “(2) SPECIAL RULES.—In the case of a govern-
7 mental unit or any agency or instrumentality there-
8 of—

9 “(A) subsection (a) shall be applied with-
10 out regard to the trade or business requirement
11 contained therein, and

12 “(B) any return required under subsection
13 (a) shall be made by the officer or employee ap-
14 propriately designated for the purpose of mak-
15 ing such return.

16 “(d) STATEMENTS TO BE FURNISHED TO INDIVID-
17 UALS WITH RESPECT TO WHOM INFORMATION IS RE-
18 QUIRED.—Every person required to make a return under
19 subsection (a) shall furnish to each individual whose name
20 is required to be set forth in such return a written state-
21 ment showing—

22 “(1) the name and address of the person re-
23 quired to make such return, and

24 “(2) the aggregate amount of interest described
25 in subsection (a)(2) received by the person required

1 to make such return from the individual to whom
2 the statement is required to be furnished.

3 The written statement required under the preceding sen-
4 tence shall be furnished on or before January 31 of the
5 year following the calendar year for which the return
6 under subsection (a) was required to be made.

7 “(e) QUALIFIED EDUCATION LOAN DEFINED.—For
8 purposes of this section, except as provided in regulations
9 prescribed by the Secretary, the term ‘qualified education
10 loan’ has the meaning given such term by section
11 221(d)(1).

12 “(f) RETURNS WHICH WOULD BE REQUIRED TO BE
13 MADE BY 2 OR MORE PERSONS.—Except to the extent
14 provided in regulations prescribed by the Secretary, in the
15 case of interest received by any person on behalf of an-
16 other person, only the person first receiving such interest
17 shall be required to make the return under subsection
18 (a).”.

19 (2) ASSESSABLE PENALTIES.—Section 6724(d)
20 of such Code (relating to definitions) is amended—

21 (A) in paragraph (1)(B), by redesignating
22 clauses (x) through (xv) as clauses (xi) through
23 (xvi), respectively, and by inserting after clause
24 (ix) the following new clause:

1 “(x) section 6050S (relating to re-
 2 turns relating to education loan interest re-
 3 ceived in trade or business from individ-
 4 uals),”, and

5 (B) in paragraph (2), by striking “or” at
 6 the end of the next to last subparagraph, by
 7 striking the period at the end of the last sub-
 8 paragraph and inserting “, or”, and by adding
 9 at the end the following new subparagraph:

10 “(Z) section 6050S(d) (relating to returns
 11 relating to education loan interest received in
 12 trade or business from individuals).”.

13 (d) CONFORMING AMENDMENT.—The table of sec-
 14 tions for part VII of subchapter B of chapter 1 of the
 15 Internal Revenue Code of 1986 is amended by striking the
 16 last item and inserting the following:

 “Sec. 221. Interest on education loans.
 “Sec. 222. Cross reference.”.

17 (e) EFFECTIVE DATE.—The amendments made by
 18 this section shall apply to any qualified education loan (as
 19 defined in section 221(d)(1) of the Internal Revenue Code
 20 of 1986, as added by this section) incurred on, before, or
 21 after the date of the enactment of this Act, but only with
 22 respect to any loan interest payment due after December
 23 31, 1996.