

107TH CONGRESS
1ST SESSION

S. 1059

To amend the Internal Revenue Code of 1986 to provide that certain postsecondary educational benefits provided by an employer to children of employees shall be excludable from gross income as a scholarship.

IN THE SENATE OF THE UNITED STATES

JUNE 19, 2001

Mr. BAYH 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 provide that certain postsecondary educational benefits provided by an employer to children of employees shall be excludable from gross income as a scholarship.

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. CERTAIN POSTSECONDARY EDUCATIONAL**
2 **BENEFITS PROVIDED BY AN EMPLOYER TO**
3 **CHILDREN OF EMPLOYEES EXCLUDABLE**
4 **FROM GROSS INCOME AS A SCHOLARSHIP.**

5 (a) IN GENERAL.—Section 117 of the Internal Rev-
6 enue Code of 1986 (relating to qualified scholarships) is
7 amended by adding at the end the following:

8 “(e) EMPLOYER-PROVIDED POST-SECONDARY EDU-
9 CATIONAL BENEFITS PROVIDED TO CHILDREN OF EM-
10 PLOYEES.—

11 “(1) IN GENERAL.—In determining whether
12 any amount is a qualified scholarship for purposes
13 of subsection (a), the fact that such amount is pro-
14 vided in connection with an employment relationship
15 shall be disregarded if—

16 “(A) such amount is provided by the em-
17 ployer to a child (as defined in section
18 151(c)(3)) of an employee of such employer,

19 “(B) such amount is provided pursuant to
20 a plan which meets the nondiscrimination re-
21 quirements of subsection (d)(3), and

22 “(C) amounts provided under such plan
23 are in addition to any other compensation pay-
24 able to employees and such plan does not pro-
25 vide employees with a choice between such
26 amounts and any other benefit.

1 For purposes of subparagraph (C), the business
2 practices of the employer (as well as such plan) shall
3 be taken into account.

4 “(2) DOLLAR LIMITATIONS.—

5 “(A) PER CHILD.—The amount excluded
6 from the gross income of the employee by rea-
7 son of paragraph (1) for a taxable year with re-
8 spect to amounts provided to each child of such
9 employee shall not exceed \$2,000.

10 “(B) AGGREGATE LIMIT.—The amount ex-
11 cluded from the gross income of the employee
12 by reason of paragraph (1) for a taxable year
13 (after the application of subparagraph (A))
14 shall not exceed the excess of the dollar amount
15 contained in section 127(a)(2) over the amount
16 excluded from the employee’s gross income
17 under section 127 for such year.

18 “(3) PRINCIPAL SHAREHOLDERS AND OWN-
19 ERS.—Paragraph (1) shall not apply to any amount
20 provided to any child of any individual if such indi-
21 vidual (or such individual’s spouse) owns (on any
22 day of the year) more than 5 percent of the stock
23 or of the capital or profits interest in the employer.

1 “(4) SPECIAL RULES OF APPLICATION.—In the
2 case of an amount which is treated as a qualified
3 scholarship by reason of this subsection—

4 “(A) subsection (a) shall be applied with-
5 out regard to the requirement that the recipient
6 be a candidate for a degree, and

7 “(B) subsection (b)(2)(A) shall be applied
8 by substituting ‘section 529(e)(5)’ for ‘section
9 170(b)(1)(A)(ii)’.

10 “(5) DEFINITION; CERTAIN OTHER RULES TO
11 APPLY.—

12 “(A) EMPLOYEE.—For purposes of this
13 subsection, the term ‘employee’ has the same
14 meaning given such term in section 127.

15 “(B) CERTAIN OTHER RULES TO APPLY.—
16 Rules similar to the rules of paragraphs (4),
17 (5), and (7) of section 127(c) shall apply for
18 purposes of this subsection.”

19 (b) EFFECTIVE DATE.—The amendment made by
20 this section shall apply to taxable years beginning after
21 the date of enactment of this Act.

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