

**Calendar No. 34**

107<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

**S. 763**

**[Report No. 107-12]**

To amend the Internal Revenue Code of 1986 to allow tax-free expenditures from education individual retirement accounts for elementary and secondary school expenses, to increase the maximum annual amount of contributions to such accounts, and for other purposes.

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IN THE SENATE OF THE UNITED STATES

APRIL 24, 2001

Mr. GRASSLEY, from the Committee on Finance, reported the following original bill; which was read twice and placed on the calendar

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**A BILL**

To amend the Internal Revenue Code of 1986 to allow tax-free expenditures from education individual retirement accounts for elementary and secondary school expenses, to increase the maximum annual amount of contributions to such accounts, 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; AMENDMENT OF 1986 CODE;**  
 2 **TABLE OF CONTENTS.**

3 (a) **SHORT TITLE.**—This Act may be cited as the  
 4 “Affordable Education Act of 2001”.

5 (b) **AMENDMENT OF 1986 CODE.**—Except as other-  
 6 wise expressly provided, whenever in this Act an amend-  
 7 ment or repeal is expressed in terms of an amendment  
 8 to, or repeal of, a section or other provision, the reference  
 9 shall be considered to be made to a section or other provi-  
 10 sion of the Internal Revenue Code of 1986.

11 (c) **TABLE OF CONTENTS.**—The table of contents for  
 12 this Act is as follows:

Sec. 1. Short title; amendment of 1986 Code; table of contents.

**TITLE I—EDUCATION SAVINGS INCENTIVES**

Sec. 101. Modifications to education individual retirement accounts.

Sec. 102. Modifications to qualified tuition programs.

**TITLE II—EDUCATIONAL ASSISTANCE**

Sec. 201. Extension of exclusion for employer-provided educational assistance.

Sec. 202. Elimination of 60-month limit on student loan interest deduction.

Sec. 203. Exclusion of certain amounts received under the National Public Health Service Corps Scholarship Program and the F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program.

Sec. 204. Exclusion from income of certain amounts contributed to Coverdell education savings accounts.

**TITLE III—LIBERALIZATION OF TAX-EXEMPT FINANCING RULES FOR PUBLIC SCHOOL CONSTRUCTION**

Sec. 301. Additional increase in arbitrage rebate exception for governmental bonds used to finance educational facilities.

Sec. 302. Treatment of qualified public educational facility bonds as exempt facility bonds.

1 **TITLE I—EDUCATION SAVINGS**  
2 **INCENTIVES**

3 **SEC. 101. MODIFICATIONS TO EDUCATION INDIVIDUAL RE-**  
4 **TIREMENT ACCOUNTS.**

5 (a) MAXIMUM ANNUAL CONTRIBUTIONS.—

6 (1) IN GENERAL.—Section 530(b)(1)(A)(iii)  
7 (defining education individual retirement account) is  
8 amended by striking “\$500” and inserting  
9 “\$2,000”.

10 (2) CONFORMING AMENDMENT.—Section  
11 4973(e)(1)(A) is amended by striking “\$500” and  
12 inserting “\$2,000”.

13 (b) MODIFICATION OF AGI LIMITS TO REMOVE  
14 MARRIAGE PENALTY.—Section 530(c)(1) (relating to re-  
15 duction in permitted contributions based on adjusted gross  
16 income) is amended—

17 (1) by striking “\$150,000” in subparagraph  
18 (A)(ii) and inserting “\$190,000”, and

19 (2) by striking “\$10,000” in subparagraph (B)  
20 and inserting “\$30,000”.

21 (c) TAX-FREE EXPENDITURES FOR ELEMENTARY  
22 AND SECONDARY SCHOOL EXPENSES.—

23 (1) IN GENERAL.—Section 530(b)(2) (defining  
24 qualified higher education expenses) is amended to  
25 read as follows:

1           “(2) QUALIFIED EDUCATION EXPENSES.—

2                   “(A) IN GENERAL.—The term ‘qualified  
3 education expenses’ means—

4                           “(i) qualified higher education ex-  
5 penses (as defined in section 529(e)(3)),  
6 and

7                           “(ii) qualified elementary and sec-  
8 ondary education expenses (as defined in  
9 paragraph (4)).

10                   “(B) QUALIFIED STATE TUITION PRO-  
11 GRAMS.—Such term shall include any contribu-  
12 tion to a qualified State tuition program (as de-  
13 fined in section 529(b)) on behalf of the des-  
14 ignated beneficiary (as defined in section  
15 529(e)(1)); but there shall be no increase in the  
16 investment in the contract for purposes of ap-  
17 plying section 72 by reason of any portion of  
18 such contribution which is not includible in  
19 gross income by reason of subsection (d)(2).”.

20                   (2) QUALIFIED ELEMENTARY AND SECONDARY  
21 EDUCATION EXPENSES.—Section 530(b) (relating to  
22 definitions and special rules) is amended by adding  
23 at the end the following new paragraph:

24                           “(4) QUALIFIED ELEMENTARY AND SECONDARY  
25 EDUCATION EXPENSES.—

1           “(A) IN GENERAL.—The term ‘qualified el-  
2 elementary and secondary education expenses’  
3 means—

4           “(i) expenses for tuition, fees, aca-  
5 demic tutoring, special needs services,  
6 books, supplies, computer equipment (in-  
7 cluding related software and services), and  
8 other equipment which are incurred in con-  
9 nection with the enrollment or attendance  
10 of the designated beneficiary of the trust  
11 as an elementary or secondary school stu-  
12 dent at a public, private, or religious  
13 school, and

14           “(ii) expenses for room and board,  
15 uniforms, transportation, and supple-  
16 mentary items and services (including ex-  
17 tended day programs) which are required  
18 or provided by a public, private, or reli-  
19 gious school in connection with such enroll-  
20 ment or attendance.

21           “(B) SCHOOL.—The term ‘school’ means  
22 any school which provides elementary education  
23 or secondary education (kindergarten through  
24 grade 12), as determined under State law.”.

1           (3) CONFORMING AMENDMENTS.—Section 530  
2           is amended—

3                   (A) by striking “higher” each place it ap-  
4                   pears in subsections (b)(1) and (d)(2), and

5                   (B) by striking “HIGHER” in the heading  
6                   for subsection (d)(2).

7           (d) WAIVER OF AGE LIMITATIONS FOR CHILDREN  
8 WITH SPECIAL NEEDS.—Section 530(b)(1) (defining edu-  
9 cation individual retirement account) is amended by add-  
10 ing at the end the following flush sentence:

11           “The age limitations in subparagraphs (A)(ii) and  
12           (E), and paragraphs (5) and (6) of subsection (d),  
13           shall not apply to any designated beneficiary with  
14           special needs (as determined under regulations pre-  
15           scribed by the Secretary).”

16           (e) ENTITIES PERMITTED TO CONTRIBUTE TO AC-  
17 COUNTS.—Section 530(c)(1) (relating to reduction in per-  
18 mitted contributions based on adjusted gross income) is  
19 amended by striking “The maximum amount which a con-  
20 tributor” and inserting “In the case of a contributor who  
21 is an individual, the maximum amount the contributor”.

22           (f) TIME WHEN CONTRIBUTIONS DEEMED MADE.—

23                   (1) IN GENERAL.—Section 530(b) (relating to  
24                   definitions and special rules), as amended by sub-

1 section (c)(2), is amended by adding at the end the  
2 following new paragraph:

3 “(5) TIME WHEN CONTRIBUTIONS DEEMED  
4 MADE.—An individual shall be deemed to have made  
5 a contribution to an education individual retirement  
6 account on the last day of the preceding taxable year  
7 if the contribution is made on account of such tax-  
8 able year and is made not later than the time pre-  
9 scribed by law for filing the return for such taxable  
10 year (not including extensions thereof).”.

11 (2) EXTENSION OF TIME TO RETURN EXCESS  
12 CONTRIBUTIONS.—Subparagraph (C) of section  
13 530(d)(4) (relating to additional tax for distribu-  
14 tions not used for educational expenses) is  
15 amended—

16 (A) by striking clause (i) and inserting the  
17 following new clause:

18 “(i) such distribution is made before  
19 the first day of the sixth month of the tax-  
20 able year following the taxable year, and”,  
21 and

22 (B) by striking “DUE DATE OF RETURN”  
23 in the heading and inserting “CERTAIN DATE”.

1 (g) COORDINATION WITH HOPE AND LIFETIME  
2 LEARNING CREDITS AND QUALIFIED TUITION PRO-  
3 GRAMS.—

4 (1) IN GENERAL.—Section 530(d)(2)(C) is  
5 amended to read as follows:

6 “(C) COORDINATION WITH HOPE AND  
7 LIFETIME LEARNING CREDITS AND QUALIFIED  
8 TUITION PROGRAMS.—For purposes of subpara-  
9 graph (A)—

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

14 “(I) as provided in section  
15 25A(g)(2), and

16 “(II) by the amount of such ex-  
17 penses which were taken into account  
18 in determining the credit allowed to  
19 the taxpayer or any other person  
20 under section 25A.

21 “(ii) COORDINATION WITH QUALIFIED  
22 TUITION PROGRAMS.—If, with respect to  
23 an individual for any taxable year—

24 “(I) the aggregate distributions  
25 during such year to which subpara-

1 graph (A) and section 529(c)(3)(B)  
2 apply, exceed

3 “(II) the total amount of quali-  
4 fied education expenses (after the ap-  
5 plication of clause (i)) for such year,  
6 the taxpayer shall allocate such expenses  
7 among such distributions for purposes of  
8 determining the amount of the exclusion  
9 under subparagraph (A) and section  
10 529(c)(3)(B).”.

11 (2) CONFORMING AMENDMENTS.—

12 (A) Subsection (e) of section 25A is  
13 amended to read as follows:

14 “(e) ELECTION NOT TO HAVE SECTION APPLY.—A  
15 taxpayer may elect not to have this section apply with re-  
16 spect to the qualified tuition and related expenses of an  
17 individual for any taxable year.”.

18 (B) Section 135(d)(2)(A) is amended by  
19 striking “allowable” and inserting “allowed”.

20 (C) Section 530(d)(2)(D) is amended—

21 (i) by striking “or credit”, and

22 (ii) by striking “CREDIT OR” in the  
23 heading.

24 (D) Section 4973(e)(1) is amended by add-  
25 ing “and” at the end of subparagraph (A), by

1 striking subparagraph (B), and by redesignating  
2 subparagraph (C) as subparagraph (B).

3 (h) RENAMING EDUCATION INDIVIDUAL RETIRE-  
4 MENT ACCOUNTS AS COVERDELL EDUCATION SAVINGS  
5 ACCOUNTS.—

6 (1) IN GENERAL.—

7 (A) Section 530 (as amended by the pre-  
8 ceding provisions of this section) is amended by  
9 striking “an education individual retirement ac-  
10 count” each place it appears and inserting “a  
11 Coverdell education savings account”.

12 (B) Section 530(a) is amended—

13 (i) by striking “An education indi-  
14 vidual retirement account” and inserting  
15 “A Coverdell education savings account”,  
16 and

17 (ii) by striking “the education indi-  
18 vidual retirement account” and inserting  
19 “the Coverdell education savings account”.

20 (C) Section 530(b)(1) is amended—

21 (i) by striking “education individual  
22 retirement account” in the text and insert-  
23 ing “Coverdell education savings account”,  
24 and

1 (ii) by striking “EDUCATION INDI-  
 2 VIDUAL RETIREMENT ACCOUNT” in the  
 3 heading and inserting “COVERDELL EDU-  
 4 CATION SAVINGS ACCOUNT”.

5 (D) Sections 530(d)(5) and 530(e) are  
 6 amended by striking “any education individual  
 7 retirement account” each place it appears and  
 8 inserting “any Coverdell education savings ac-  
 9 count”.

10 (E) The heading for section 530 is amend-  
 11 ed to read as follows:

12 **“SEC. 530. COVERDELL EDUCATION SAVINGS ACCOUNTS.”**

13 (F) The item in the table of contents for  
 14 part VII of subchapter F of chapter 1 relating  
 15 to section 530 is amended to read as follows:

“Sec. 530. Coverdell education savings accounts.”.

16 (2) CONFORMING AMENDMENTS.—

17 (A) The following provisions are amended  
 18 by striking “an education individual retire-  
 19 ment” each place it appears and inserting “a  
 20 Coverdell education savings”:

21 (i) Section 72(e)(9).

22 (ii) Section 135(c)(2)(C).

23 (iii) Section 4973(a).

24 (iv) Subsections (c) and (e) of section  
 25 4975.

1 (B) The following provisions are amended  
2 by striking “education individual retirement”  
3 each place it appears in the text and inserting  
4 “Coverdell education savings”:

5 (i) Section 26(b)(2)(E).

6 (ii) Section 4973(e).

7 (iii) Section 6693(a)(2)(D).

8 (C) The headings for the following provi-  
9 sions are amended by striking “EDUCATION IN-  
10 DIVIDUAL RETIREMENT ACCOUNTS” each place  
11 it appears and inserting “COVERDELL EDU-  
12 CATION SAVINGS ACCOUNTS”.

13 (i) Section 72(e)(9).

14 (ii) Section 135(c)(2)(C).

15 (iii) Section 4973(e).

16 (iv) Section 4975(c)(5).

17 (i) EFFECTIVE DATES.—

18 (1) IN GENERAL.—Except as provided in para-  
19 graph (2), the amendments made by this section  
20 shall apply to taxable years beginning after Decem-  
21 ber 31, 2001.

22 (2) SUBSECTION (h).—The amendments made  
23 by subsection (h) shall take effect on the date of the  
24 enactment of this Act.

1 **SEC. 102. MODIFICATIONS TO QUALIFIED TUITION PRO-**  
 2 **GRAMS.**

3 (a) **ELIGIBLE EDUCATIONAL INSTITUTIONS PER-**  
 4 **MITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.—**

5 (1) **IN GENERAL.—**Section 529(b)(1) (defining  
 6 qualified State tuition program) is amended—

7 (A) by inserting “or by 1 or more eligible  
 8 educational institutions” after “maintained by a  
 9 State or agency or instrumentality thereof” in  
 10 the matter preceding subparagraph (A), and

11 (B) by adding at the end the following new  
 12 flush sentence:

13 “Except to the extent provided in regulations, a pro-  
 14 gram established and maintained by 1 or more eligi-  
 15 ble educational institutions shall not be treated as a  
 16 qualified tuition program unless such program has  
 17 received a ruling or determination that such pro-  
 18 gram meets the applicable requirements for a  
 19 qualified tuition program.”.

20 (2) **PRIVATE QUALIFIED TUITION PROGRAMS**  
 21 **LIMITED TO BENEFIT PLANS.—**Clause (ii) of section  
 22 529(b)(1)(A) is amended by inserting “in the case of  
 23 a program established and maintained by a State or  
 24 agency or instrumentality thereof,” before “may  
 25 make”.

26 (3) **CONFORMING AMENDMENTS.—**

1           (A) Sections 72(e)(9), 135(c)(2)(C),  
2           135(d)(1)(D), 529, 530(b)(2)(B), 4973(e), and  
3           6693(a)(2)(C) are amended by striking “quali-  
4           fied State tuition” each place it appears and in-  
5           serting “qualified tuition”.

6           (B) The headings for sections 72(e)(9) and  
7           135(c)(2)(C) are amended by striking “QUALI-  
8           FIED STATE TUITION” each place it appears  
9           and inserting “QUALIFIED TUITION”.

10          (C) The headings for sections 529(b) and  
11          530(b)(2)(B) are amended by striking “QUALI-  
12          FIED STATE TUITION” each place it appears  
13          and inserting “QUALIFIED TUITION”.

14          (D) The heading for section 529 is amend-  
15          ed by striking “**STATE**”.

16          (E) The item relating to section 529 in the  
17          table of sections for part VIII of subchapter F  
18          of chapter 1 is amended by striking “State”.

19          (b) EXCLUSION FROM GROSS INCOME OF EDU-  
20          CATION DISTRIBUTIONS FROM QUALIFIED TUITION PRO-  
21          GRAMS.—

22               (1) IN GENERAL.—Section 529(c)(3)(B) (relat-  
23          ing to distributions) is amended to read as follows:

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

4           “(i) IN-KIND DISTRIBUTIONS.—No  
5 amount shall be includible in gross income  
6 under subparagraph (A) by reason of a  
7 distribution which consists of providing a  
8 benefit to the distributee which, if paid for  
9 by the distributee, would constitute pay-  
10 ment of a qualified higher education ex-  
11 pense.

12           “(ii) CASH DISTRIBUTIONS.—In the  
13 case of distributions not described in  
14 clause (i), if—

15           “(I) such distributions do not ex-  
16 ceed the qualified higher education ex-  
17 penses (reduced by expenses described  
18 in clause (i)), no amount shall be in-  
19 cludible in gross income, and

20           “(II) in any other case, the  
21 amount otherwise includible in gross  
22 income shall be reduced by an amount  
23 which bears the same ratio to such  
24 amount as such expenses bear to such  
25 distributions.

1           “(iii) EXCEPTION FOR INSTITUTIONAL  
2 PROGRAMS.—In the case of any taxable  
3 year beginning before January 1, 2004,  
4 clauses (i) and (ii) shall not apply with re-  
5 spect to any distribution during such tax-  
6 able year under a qualified tuition program  
7 established and maintained by 1 or more  
8 eligible educational institutions.

9           “(iv) TREATMENT AS DISTRIBU-  
10 TIONS.—Any benefit furnished to a des-  
11 ignated beneficiary under a qualified tui-  
12 tion program shall be treated as a distribu-  
13 tion to the beneficiary for purposes of this  
14 paragraph.

15           “(v) COORDINATION WITH HOPE AND  
16 LIFETIME LEARNING CREDITS.—The total  
17 amount of qualified higher education ex-  
18 penses with respect to an individual for the  
19 taxable year shall be reduced—

20                   “(I) as provided in section  
21 25A(g)(2), and

22                   “(II) by the amount of such ex-  
23 penses which were taken into account  
24 in determining the credit allowed to

1 the taxpayer or any other person  
2 under section 25A.

3 “(vi) COORDINATION WITH COVER-  
4 DELL EDUCATION SAVINGS ACCOUNTS.—If,  
5 with respect to an individual for any tax-  
6 able year—

7 “(I) the aggregate distributions  
8 to which clauses (i) and (ii) and sec-  
9 tion 530(d)(2)(A) apply, exceed

10 “(II) the total amount of quali-  
11 fied higher education expenses other-  
12 wise taken into account under clauses  
13 (i) and (ii) (after the application of  
14 clause (v)) for such year,

15 the taxpayer shall allocate such expenses  
16 among such distributions for purposes of  
17 determining the amount of the exclusion  
18 under clauses (i) and (ii) and section  
19 530(d)(2)(A).”.

20 (2) CONFORMING AMENDMENTS.—

21 (A) Section 135(d)(2)(B) is amended by  
22 striking “the exclusion under section  
23 530(d)(2)” and inserting “the exclusions under  
24 sections 529(c)(3)(B) and 530(d)(2)”.

1 (B) Section 221(e)(2)(A) is amended by  
2 inserting “529,” after “135,”.

3 (c) ROLLOVER TO DIFFERENT PROGRAM FOR BEN-  
4 EFIT OF SAME DESIGNATED BENEFICIARY.—Section  
5 529(e)(3)(C) (relating to change in beneficiaries) is  
6 amended—

7 (1) by striking “transferred to the credit” in  
8 clause (i) and inserting “transferred—

9 “(I) to another qualified tuition  
10 program for the benefit of the des-  
11 ignated beneficiary, or

12 “(II) to the credit”,

13 (2) by adding at the end the following new  
14 clause:

15 “(iii) LIMITATION ON CERTAIN ROLL-  
16 OVERS.—Clause (i)(I) shall only apply to  
17 the first 3 transfers with respect to a des-  
18 ignated beneficiary.”, and

19 (3) by inserting “OR PROGRAMS” after “BENE-  
20 FICIARIES” in the heading.

21 (d) MEMBER OF FAMILY INCLUDES FIRST COUS-  
22 IN.—Section 529(e)(2) (defining member of family) is  
23 amended by striking “and” at the end of subparagraph  
24 (B), by striking the period at the end of subparagraph

1 (C) and by inserting “; and”, and by adding at the end  
2 the following new subparagraph:

3 “(D) any first cousin of such beneficiary.”.

4 (e) ADJUSTMENT OF LIMITATION ON ROOM AND  
5 BOARD DISTRIBUTIONS.—Section 529(e)(3)(B)(ii) is  
6 amended to read as follows:

7 “(ii) LIMITATION.—The amount treat-  
8 ed as qualified higher education expenses  
9 by reason of clause (i) shall not exceed—

10 “(I) the allowance (applicable to  
11 the student) for room and board in-  
12 cluded in the cost of attendance (as  
13 defined in section 472 of the Higher  
14 Education Act of 1965 (20 U.S.C.  
15 10871l), as in effect on the date of the  
16 enactment of the Affordable Edu-  
17 cation Act of 2001) as determined by  
18 the eligible educational institution for  
19 such period, or

20 “(II) if greater, the actual invoice  
21 amount the student residing in hous-  
22 ing owned or operated by the eligible  
23 educational institution is charged by  
24 such institution for room and board  
25 costs for such period.”.

1 (f) TECHNICAL AMENDMENTS.—Section  
2 529(e)(3)(D) is amended—

3 (1) by inserting “except to the extent provided  
4 by the Secretary,” before “all distributions” in  
5 clause (ii), and

6 (2) by inserting “except to the extent provided  
7 by the Secretary,” before “the value” in clause (iii).

8 (g) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to taxable years beginning after  
10 December 31, 2001.

## 11 **TITLE II—EDUCATIONAL** 12 **ASSISTANCE**

### 13 **SEC. 201. PERMANENT EXTENSION OF EXCLUSION FOR EM-** 14 **PLOYER-PROVIDED EDUCATIONAL ASSIST-** 15 **ANCE.**

16 (a) IN GENERAL.—Section 127 (relating to exclusion  
17 for educational assistance programs) is amended by strik-  
18 ing subsection (d) and by redesignating subsection (e) as  
19 subsection (d).

20 (b) REPEAL OF LIMITATION ON GRADUATE EDU-  
21 CATION.—The last sentence of section 127(c)(1) is amend-  
22 ed by striking “, and such term also does not include any  
23 payment for, or the provision of any benefits with respect  
24 to, any graduate level course of a kind normally taken by  
25 an individual pursuing a program leading to a law, busi-

1 ness, medical, or other advanced academic or professional  
2 degree”.

3 (c) CONFORMING AMENDMENT.—Section  
4 51A(b)(5)(B)(iii) is amended by striking “or would be so  
5 excludable but for section 127(d)”.

6 (d) EFFECTIVE DATE.—The amendments made by  
7 this section shall apply with respect to expenses relating  
8 to courses beginning after December 31, 2001.

9 **SEC. 202. ELIMINATION OF 60-MONTH LIMIT AND INCREASE**  
10 **IN INCOME LIMITATION ON STUDENT LOAN**  
11 **INTEREST DEDUCTION.**

12 (a) ELIMINATION OF 60-MONTH LIMIT.—

13 (1) IN GENERAL.—Section 221 (relating to in-  
14 terest on education loans), as amended by section  
15 102(b)(2)(B), is amended by striking subsection (d)  
16 and by redesignating subsections (e), (f), and (g) as  
17 subsections (d), (e), and (f), respectively.

18 (2) CONFORMING AMENDMENT.—Section  
19 6050S(e) is amended by striking “section 221(e)(1)”  
20 and inserting “section 221(d)(1)”.

21 (3) EFFECTIVE DATE.—The amendments made  
22 by this subsection shall apply with respect to any  
23 loan interest paid after December 31, 2001, in tax-  
24 able years ending after such date.

25 (b) INCREASE IN INCOME LIMITATION.—

1           (1) IN GENERAL.—Section 221(b)(2)(B) (relat-  
2           ing to amount of reduction) is amended by striking  
3           clauses (i) and (ii) and inserting the following:

4                           “(i) the excess of—

5                                   “(I) the taxpayer’s modified ad-  
6                                   justed gross income for such taxable  
7                                   year, over

8                                   “(II) \$50,000 (\$100,000 in the  
9                                   case of a joint return), bears to

10                                   “(ii) \$15,000 (\$30,000 in the case of  
11                                   a joint return).”.

12           (2) CONFORMING AMENDMENT.—Section  
13           221(g)(1) is amended by striking “\$40,000 and  
14           \$60,000 amounts” and inserting “\$50,000 and  
15           \$100,000 amounts”.

16           (3) EFFECTIVE DATE.—The amendments made  
17           by this subsection shall apply to taxable years end-  
18           ing after December 31, 2001.

1 **SEC. 203. EXCLUSION OF CERTAIN AMOUNTS RECEIVED**  
2 **UNDER THE NATIONAL HEALTH SERVICE**  
3 **CORPS SCHOLARSHIP PROGRAM AND THE F.**  
4 **EDWARD HEBERT ARMED FORCES HEALTH**  
5 **PROFESSIONS SCHOLARSHIP AND FINANCIAL**  
6 **ASSISTANCE PROGRAM.**

7 (a) IN GENERAL.—Section 117(c) (relating to the ex-  
8 clusion from gross income amounts received as a qualified  
9 scholarship) is amended—

10 (1) by striking “Subsections (a)” and inserting  
11 the following:

12 “(1) IN GENERAL.—Except as provided in para-  
13 graph (2), subsections (a)”, and

14 (2) by adding at the end the following new  
15 paragraph:

16 “(2) EXCEPTIONS.—Paragraph (1) shall not  
17 apply to any amount received by an individual  
18 under—

19 “(A) the National Health Service Corps  
20 Scholarship Program under section  
21 338A(g)(1)(A) of the Public Health Service  
22 Act, or

23 “(B) the Armed Forces Health Professions  
24 Scholarship and Financial Assistance program  
25 under subchapter I of chapter 105 of title 10,  
26 United States Code.”.

1 (b) EFFECTIVE DATE.—The amendments made by  
2 subsection (a) shall apply to amounts received in taxable  
3 years beginning after December 31, 2001.

4 **SEC. 204. EXCLUSION FROM INCOME OF CERTAIN**  
5 **AMOUNTS CONTRIBUTED TO COVERDELL**  
6 **EDUCATION SAVINGS ACCOUNTS.**

7 (a) IN GENERAL.—Section 127 (relating to education  
8 assistance programs), as amended by section 201(a), is  
9 amended by redesignating subsection (d) as subsection (e)  
10 and by inserting after subsection (e) the following new  
11 subsection:

12 “(d) QUALIFIED COVERDELL EDUCATION SAVINGS  
13 ACCOUNT CONTRIBUTIONS.—

14 “(1) IN GENERAL.—Gross income of an em-  
15 ployee shall not include amounts paid or incurred by  
16 the employer for a qualified Coverdell education sav-  
17 ings account contribution on behalf of the employee.

18 “(2) QUALIFIED COVERDELL EDUCATION SAV-  
19 INGS ACCOUNT CONTRIBUTION.—For purposes of  
20 this subsection—

21 “(A) IN GENERAL.—The term ‘qualified  
22 Coverdell education savings account contribu-  
23 tion’ means an amount contributed pursuant to  
24 an educational assistance program described in  
25 subsection (b) by an employer to a Coverdell

1 education savings account established and  
2 maintained for the benefit of an employee or  
3 the employee's spouse, or any lineal descendent  
4 of either.

5 “(B) DOLLAR LIMIT.—A contribution by  
6 an employer to a Coverdell education savings  
7 account shall not be treated as a qualified  
8 Coverdell education savings account contribu-  
9 tion to the extent that the contribution, when  
10 added to prior contributions by the employer  
11 during the calendar year to Coverdell education  
12 savings accounts established and maintained for  
13 the same beneficiary, exceeds \$500.

14 “(3) SPECIAL RULES.—

15 “(A) CONTRIBUTIONS NOT TREATED AS  
16 EDUCATIONAL ASSISTANCE IN DETERMINING  
17 MAXIMUM EXCLUSION.—For purposes of sub-  
18 section (a)(2), qualified Coverdell education sav-  
19 ings account contributions shall not be treated  
20 as educational assistance.

21 “(B) SELF-EMPLOYED NOT TREATED AS  
22 EMPLOYEE.—For purposes of this subsection,  
23 subsection (c)(2) shall not apply.

24 “(C) ADJUSTED GROSS INCOME PHASEOUT  
25 OF ACCOUNT CONTRIBUTION NOT APPLICABLE

1 TO INDIVIDUAL EMPLOYERS.—The limitation  
2 under section 530(c) shall not apply to a quali-  
3 fied Coverdell education savings account con-  
4 tribution made by an employer who is an indi-  
5 vidual.

6 “(D) CONTRIBUTIONS NOT TREATED AS  
7 AN INVESTMENT IN THE CONTRACT.—For pur-  
8 poses of section 530(d), a qualified Coverdell  
9 education savings account contribution shall not  
10 be treated as an investment in the contract.”.

11 (b) REPORTING REQUIREMENT.—Section 6051(a)  
12 (relating to receipts for employees) is amended by striking  
13 “and” at the end of paragraph (10), by striking the period  
14 at the end of paragraph (11) and inserting “, and”, and  
15 by adding at the end the following new paragraph:

16 “(12) the amount of any qualified Coverdell  
17 education savings account contribution under section  
18 127(d) with respect to such employee.”.

19 (c) CONFORMING AMENDMENT.—Section  
20 221(e)(2)(A) is amended by inserting “(other than under  
21 subsection (d) thereof)” after “section 127”.

22 (d) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to contributions made in taxable  
24 years beginning after December 31, 2001.

1 **TITLE III—LIBERALIZATION OF**  
2 **TAX-EXEMPT FINANCING**  
3 **RULES FOR PUBLIC SCHOOL**  
4 **CONSTRUCTION**

5 **SEC. 301. ADDITIONAL INCREASE IN ARBITRAGE REBATE**  
6 **EXCEPTION FOR GOVERNMENTAL BONDS**  
7 **USED TO FINANCE EDUCATIONAL FACILI-**  
8 **TIES.**

9 (a) IN GENERAL.—Section 148(f)(4)(D)(vii) (relat-  
10 ing to increase in exception for bonds financing public  
11 school capital expenditures) is amended by striking  
12 “\$5,000,000” the second place it appears and inserting  
13 “\$10,000,000”.

14 (b) EFFECTIVE DATE.—The amendment made by  
15 subsection (a) shall apply to obligations issued in calendar  
16 years beginning after December 31, 2001.

17 **SEC. 302. TREATMENT OF QUALIFIED PUBLIC EDU-**  
18 **CATIONAL FACILITY BONDS AS EXEMPT FA-**  
19 **CILITY BONDS.**

20 (a) TREATMENT AS EXEMPT FACILITY BOND.—Sub-  
21 section (a) of section 142 (relating to exempt facility  
22 bond) is amended by striking “or” at the end of paragraph  
23 (11), by striking the period at the end of paragraph (12)  
24 and inserting “, or”, and by adding at the end the fol-  
25 lowing new paragraph:

1           “(13) qualified public educational facilities.”.

2           (b) QUALIFIED PUBLIC EDUCATIONAL FACILI-  
3 TIES.—Section 142 (relating to exempt facility bond) is  
4 amended by adding at the end the following new sub-  
5 section:

6           “(k) QUALIFIED PUBLIC EDUCATIONAL FACILI-  
7 TIES.—

8           “(1) IN GENERAL.—For purposes of subsection  
9 (a)(13), the term ‘qualified public educational facil-  
10 ity’ means any school facility which is—

11                   “(A) part of a public elementary school or  
12 a public secondary school, and

13                   “(B) owned by a private, for-profit cor-  
14 poration pursuant to a public-private partner-  
15 ship agreement with a State or local edu-  
16 cational agency described in paragraph (2).

17           “(2) PUBLIC-PRIVATE PARTNERSHIP AGREE-  
18 MENT DESCRIBED.—A public-private partnership  
19 agreement is described in this paragraph if it is an  
20 agreement—

21                   “(A) under which the corporation agrees—

22                           “(i) to do 1 or more of the following:  
23 construct, rehabilitate, refurbish, or equip  
24 a school facility, and

1                   “(ii) at the end of the term of the  
2                   agreement, to transfer the school facility to  
3                   such agency for no additional consider-  
4                   ation, and

5                   “(B) the term of which does not exceed the  
6                   term of the issue to be used to provide the  
7                   school facility.

8                   “(3) SCHOOL FACILITY.—For purposes of this  
9                   subsection, the term ‘school facility’ means—

10                   “(A) any school building,

11                   “(B) any functionally related and subordi-  
12                   nate facility and land with respect to such  
13                   building, including any stadium or other facility  
14                   primarily used for school events, and

15                   “(C) any property, to which section 168  
16                   applies (or would apply but for section 179), for  
17                   use in a facility described in subparagraph (A)  
18                   or (B).

19                   “(4) PUBLIC SCHOOLS.—For purposes of this  
20                   subsection, the terms ‘elementary school’ and ‘sec-  
21                   ondary school’ have the meanings given such terms  
22                   by section 14101 of the Elementary and Secondary  
23                   Education Act of 1965 (20 U.S.C. 8801), as in ef-  
24                   fect on the date of the enactment of this subsection.

1           “(5) ANNUAL AGGREGATE FACE AMOUNT OF  
2 TAX-EXEMPT FINANCING.—

3           “(A) IN GENERAL.—An issue shall not be  
4 treated as an issue described in subsection  
5 (a)(13) if the aggregate face amount of bonds  
6 issued by the State pursuant thereto (when  
7 added to the aggregate face amount of bonds  
8 previously so issued during the calendar year)  
9 exceeds an amount equal to the greater of—

10           “(i) \$10 multiplied by the State popu-  
11 lation, or

12           “(ii) \$5,000,000.

13           “(B) ALLOCATION RULES.—

14           “(i) IN GENERAL.—Except as other-  
15 wise provided in this subparagraph, the  
16 State may allocate the amount described in  
17 subparagraph (A) for any calendar year in  
18 such manner as the State determines ap-  
19 propriate.

20           “(ii) RULES FOR CARRYFORWARD OF  
21 UNUSED LIMITATION.—A State may elect  
22 to carry forward an unused limitation for  
23 any calendar year for 3 calendar years fol-  
24 lowing the calendar year in which the un-  
25 used limitation arose under rules similar to

1           the rules of section 146(f), except that the  
2           only purpose for which the carryforward  
3           may be elected is the issuance of exempt  
4           facility bonds described in subsection  
5           (a)(13).”.

6           (c) EXEMPTION FROM GENERAL STATE VOLUME  
7 CAPS.—Paragraph (3) of section 146(g) (relating to ex-  
8 ception for certain bonds) is amended—

9           (1) by striking “or (12)” and inserting “(12),  
10          or (13)”, and

11          (2) by striking “and environmental enhance-  
12          ments of hydroelectric generating facilities” and in-  
13          serting “environmental enhancements of hydro-  
14          electric generating facilities, and qualified public  
15          educational facilities”.

16          (d) EXEMPTION FROM LIMITATION ON USE FOR  
17 LAND ACQUISITION.—Section 147(h) (relating to certain  
18 rules not to apply to mortgage revenue bonds, qualified  
19 student loan bonds, and qualified 501(c)(3) bonds) is  
20 amended by adding at the end the following new para-  
21 graph:

22           “(3) EXEMPT FACILITY BONDS FOR QUALIFIED  
23          PUBLIC-PRIVATE SCHOOLS.—Subsection (c) shall not  
24          apply to any exempt facility bond issued as part of

1 an issue described in section 142(a)(13) (relating to  
2 qualified public educational facilities).”.

3 (e) CONFORMING AMENDMENT.—The heading for  
4 section 147(h) is amended by striking “MORTGAGE REV-  
5 ENUE BONDS, QUALIFIED STUDENT LOAN BONDS, AND  
6 QUALIFIED 501(c)(3) BONDS” and inserting “CERTAIN  
7 BONDS”.

8 (f) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to bonds issued after December  
10 31, 2001.



**Calendar No. 34**

107<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

**S. 763**

**[Report No. 107-12]**

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**A BILL**

To amend the Internal Revenue Code of 1986 to allow tax-free expenditures from education individual retirement accounts for elementary and secondary school expenses, to increase the maximum annual amount of contributions to such accounts, and for other purposes.

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APRIL 24, 2001

Read twice and placed on the calendar