

109TH CONGRESS
1ST SESSION

S. 1964

To amend the Internal Revenue Code of 1986 to modify the determination and deduction of interest on qualified education loans.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 4, 2005

Ms. SNOWE (for herself and Mr. SCHUMER) 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 modify the determination and deduction of interest on qualified education loans.

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. INTEREST DETERMINATIONS ON STUDENT**
4 **LOANS.**

5 (a) IN GENERAL.—Section 221 of the Internal Rev-
6 enue Code of 1986 (relating to interest on education
7 loans) is amended by redesignating subsection (f) as sub-
8 section (g) and by inserting after subsection (e) the fol-
9 lowing new subsection:

1 “(f) DETERMINATION OF INTEREST PAID.—In the
2 case of a qualified education loan made after December
3 31, 2004, for purposes of this section and notwithstanding
4 any other provision of this title—

5 “(1) IN GENERAL.—

6 “(A) TREATMENT AS INTEREST.—Any
7 payment on such loan shall be treated as a pay-
8 ment of interest to the extent of the balance,
9 immediately before such payment, in the accu-
10 mulated interest account with respect to such
11 loan.

12 “(B) EXCEPTION.—Subparagraph (A)
13 shall not apply to any payment of collection
14 costs, late fees, and penalties.

15 “(2) ACCUMULATED INTEREST ACCOUNT.—

16 “(A) IN GENERAL.—The term ‘accumu-
17 lated interest account’ means an account which
18 is adjusted in accordance with this paragraph.

19 “(B) INCREASES.—The balance in the ac-
20 cumulated interest account shall be increased
21 for any period by the sum of—

22 “(i) the loan origination fees incurred
23 by the borrower in such period,

24 “(ii) the amount of stated interest on
25 the loan for such period, and

1 “(iii) the amount of any fee imposed
2 under section 428(b)(1)(H) of the Higher
3 Education Act of 1965 (20 U.S.C.
4 1078(b)(1)(H)).

5 “(C) DECREASES.—The balance in the ac-
6 cumulated interest account shall be decreased
7 (but not below zero) by payments made on the
8 loan to the extent treated as interest under this
9 section.

10 “(3) LOAN ORIGINATION FEES.—

11 “(A) FEDERAL PROGRAMS.—The term
12 ‘loan origination fee’ includes any fee imposed
13 under any of the following provisions of the
14 Higher Education Act of 1965:

15 “(i) Section 438(c) (20 U.S.C. 1087–
16 1(c)).

17 “(ii) Section 455(c) (20 U.S.C.
18 1087e(c)).

19 “(B) FEES FOR SERVICES OR PROPERTY
20 EXCLUDED.—Except as provided under sub-
21 paragraph (A), the term ‘loan origination fee’
22 does not include any fee which is a fee for serv-
23 ices or property.

24 “(4) STATED INTEREST.—The term ‘stated in-
25 terest’ means, with respect to any period, the

1 amount of interest determined for the period based
2 on the stated rate of interest applicable to the period
3 (whether or not the interest is required to be paid
4 in such period).

5 “(5) ANTI-ABUSE RULE.—The Secretary may
6 prescribe rules to prevent the acceleration or decel-
7 eration of additions to the accumulated interest ac-
8 count where the loan origination fees or stated inter-
9 est do not properly reflect the substance of the
10 loan.”.

11 (b) INFORMATION RETURNS.—

12 (1) INTEREST AND LOAN ORIGINATION FEE DE-
13 FINED.—Subsection (e) of section 6050S of such
14 Code (relating to the general rule for form and man-
15 ner of returns) is amended by inserting before the
16 period at the end the following: “, and the term ‘in-
17 terest’ has the same meaning as when used in sec-
18 tion 221”.

19 (2) PRE-2005 LOANS.—The regulations under
20 section 6050S of the Internal Revenue Code of 1986
21 which are applicable to loans made before September
22 1, 2004, shall also apply to loans made on or after
23 such date which are made before January 1, 2005.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2004.

○