UNITED STATES DEPARTMENT OF EDUCATION

THE DEPUTY SECRETARY

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TO: Bill Kincaid

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FROM: Sarah Lichtman

NUMBER OF PAGES TO FOLLOW, INCLUDING COVER SHEET: 4

IF YOU DID NOT RECEIVE THE COMPLETE TRANSMISSION, PLEASE CALL (202) 401-1000.

MESSAGE:

Good to talk to you.

Hope this helps.

- Sarah

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

Congressman Rangel

SUMMARY OF EDUCATION BILL

Title I - Education Below the College Level

Education Zone Academies

- Established through the formation of public-private partnerships with involvement of educators, labor, and businesses to create education zone academies.

- These academies would be financed through: (1) interest-free capital from the educational institution, (2) contributions of equipment, training, services, or other required resources by businesses, and (3) Federal tax subsidy of interest payments to the holders of the indebtedness issued for (or by) the educational institutions.

- The academies would offer curricula designed to prepare its students for the rigors of college or the skills needed to compete effectively in the global economy of the 21st century.

- An education zone academy would any institution that is located in an empowerment zone or enterprise community (including designations made after the date of enactment of this bill), or an institution where more than ___ percent of students attending such institution will be members of families with annual incomes of 70 percent or less of Bureau of Labor Statistics lower living standard.

- An employer would be entitled to a tax credit of ___ percent of the current WOTC for each student employed within 6 months of graduating from an education zone academy.

- The provision would be effective for obligations issued after the date of enactment and for students beginning employment after this date.

Title II - Education at the College Level

Hope Scholarship Tax Credit

- The Hope Credit would be a **nonrefundable** credit for individuals with sufficient income tax liability to receive the full benefit of the credit, and a **refundable** credit for individuals who would not have sufficient income tax liability to enjoy the full benefit of the credit.

- The **maximum credit** would be **$1500** for a **full-time** student and **$750** for **at least a half-time** student for the **first two years** of college, and **$1000** for a **full-time** student and **$500** for **at least a half-time** student in the **third and fourth year** of college. (**No** separate deduction for tuition costs would be included).

- The nonrefundable credit would be paid by the Internal Revenue Service and the refundable credit would be paid by the educational institution that the student is attending. The refundable credit amount would be paid in a manner similar to other Federal educational assistance.

- The student must maintain satisfactory academic progress (rather than a "B" average) and remain drug free (not convicted of a felony involving drugs).

- The credit would be phased out for **joint filers** between $80,000 - $100,00, and **unmarried** filers between $50,000 - $70,000 (adjusted gross income).

- The provision would be effective for expenses paid after December 31, 1996 for education furnished in academic periods beginning after June 30, 1997.

Employer Provided Education Exclusion

- The employer provided education exclusion would be extended permanently. The exclusion for graduate studies would be reinstated for courses taken on or after June 30, 1996.

Small Business Credit for Employee Training

- Businesses with average annual gross receipts of $10 million for the prior 3 years would be eligible for a tax credit equal to 10 percent of amounts spent on educational assistance for employees. The education would have to be provided by third parties.
- Amounts subject to the credit would not be available for a deduction by the employer.

Tax-Free Student Loan Forgiveness for Community Service

- Certain debt from direct student loans would be eligible to be forgiven without triggering "discharge of indebtedness income" if the student works in certain community or public service jobs for a specified period of time.
- The provision would be effective for discharges of indebtedness after the date of enactment.

CHARLES B. RANGEL
15TH CONGRESSIONAL DISTRICT
NEW YORK

DEPUTY WHIP

COMMITTEE
WAYS AND MEANS
RANKING MEMBER
SUBCOMMITTEE ON TRADE
JOINT COMMITTEE ON TAXATION

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PLEASE RESPOND TO
OFFICE CHECKED

May 1, 1997

MAY 5 - 2:19

President William Jefferson Clinton
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mr. President:

As you know, I am a strong supporter of your educational proposal. Furthermore, I am pleased that you have made this issue a high priority in your Administration.

During our recent discussions, I indicated that I would introduce legislation which would augment your education bill. My legislation addresses educational improvements at the K-12 levels and modifies the Administration's Higher Education proposal. For your convenience, I have enclosed a copy of H.R. 1512, the Education Opportunities Tax Act of 1997, bill summary and an introductory statement.

Hopefully, you will consider this legislation for inclusion in your budget. If I may be of assistance to you, please do not hesitate to contact my office. I look forward to working with you on this important issue.

Sincerely,

Charlie

CHARLES B. RANGEL
Member of Congress

CBR/db

SUMMARY OF CONGRESSMAN RANGEL'S EDUCATION BILL

The Education Opportunities Tax Act of 1997

Title I - Education Below the College Level

Education Zone Academies

- Education zone academies would be established through the formation of public-private partnerships, with the involvement of educators, labor, and businesses.

- The cost of underwriting these academies would be accomplished, in large part, through: (1) the issuance of no-cost capital by local governments; (2) contributions of equipment, training, services, or other required resources by businesses; and (3) Federal tax credits to the holders of the indebtedness issued for (or by) the educational institutions as a subsidy for the no-cost capital.

- The academies would offer curricula designed to prepare its students for the rigors of college or give them the skills needed to compete effectively in the global economy of the 21st century.

- An education zone academy would be any institution that is located in an empowerment zone or enterprise community (including designations made after the date of enactment of this bill), <u>or</u> an institution where at least 35 percent of students attending such institution will be members of families with annual incomes of 70 percent or less of the Bureau of Labor Statistics lower living standard.

- An employer would be entitled to a tax credit of 20 percent of the first $6,000 of wages paid to each student during the first year of employment if the student is hired within 6 months of graduating from an education zone academy.

- These provisions would be effective for obligations issued after the date of enactment and for students beginning employment after this date.

THE HONORABLE CHARLES B. RANGEL
INTRODUCTORY STATEMENT

H.R. 1512
THE EDUCATION OPPORTUNITIES TAX ACT OF 1997

MAY 1, 1997

Mr. Speaker, today, I am introducing legislation, entitled the Education Opportunities Tax Act of 1997, which consists of tax provisions that are designed to expand educational opportunities in this country.

My bill would expand opportunities for students in K-12 and beyond. This goal is crucial to the country's social and economic well being. It's a well known fact, that without the proper educational tools, young people lose hope for the future. We have only to look at the high levels of crime, drug use, juvenile delinquency, teen pregnancy, and unemployment to know the value of a good education. Without basic academic opportunities, the future is bleak. My bill identifies communities that shoulder a disproportionate share of these social problems and offers a solution for hope.

The bill that I am introducing today is based largely on education tax incentives contained in the President's budget recommendations. My bill modifies the President's proposals in two major ways. Both modifications reflect <u>many</u> meetings with education providers and the business community over the last several years.

First, I believe that providing additional financial resources to assist families in meeting the cost of higher education is vitally important but not enough. We must do more to ensure that those students who wish to pursue higher education are prepared for the challenges of a college education. We also must work harder both to educate and train those students who choose or need to earn a full-time living after high school. In pursuit of this goal my bill would permit qualifying educational institutions to make this a reality. Therefore, my bill includes provisions to enhance academic achievement below the college level through public-private education partnerships. I believe that we must have greater private-sector involvement in our educational system, and my bill contains tax provisions designed to encourage that involvement. Those tax provisions, called "education zone" tax incentives, are based on the principles of public-private partnerships that underlie the empowerment zone legislation.

Currently, this Nation is enjoying one of the longest periods of economic expansion in its history, with low unemployment and continued creation of new jobs. Much of the credit for that rests with the deficit reduction efforts of the Clinton Administration and the technological advantages that our industries enjoy over their competitors in other countries.

We will not remain competitive in the world economy unless we invest in our human capital to maintain that technological advantage. Any resources available after deficit reduction should be invested in human capital. A recent survey of economists by the *Wall Street Journal* found that 43 percent of the economists surveyed stated that increased spending on education and research and development would be the one policy with the most positive impact on the economy.

Amazingly, while the concept of investing in human capital goes unchallenged in debate, elected leaders are still spending more of our nation's limited budget resources on back-end, punitive programs like law enforcement and prisons, rather than front-end investments like education and training that can really pay off in increased workforce productivity.

Unfortunately, these skewed priorities are present at the local level, too. New York City spends $84,000 per year to keep a young man in Riker's Island Prison, yet only $7,000 each year to educate a child in Harlem.

We must change our priorities. Let's invest in the future of this country through our children. Let's bring the same zeal to encouraging and educating our children that we now apply to punishment and incarceration.

The following is a brief summary of the provisions contained in my bill:

1. Public-Private Partnerships

The bill contains a financing mechanism designed to provide needed capital and expertise to establish partnerships between public educational institutions and private businesses.

(a) Local governments would be authorized to issue special bonds (or otherwise borrow money) to cover the cost of establishing specialized academic institutions. These institutions would have to be located in empowerment zones or enterprise communities or primarily serve disadvantaged students. Because of the tax credit described in subparagraph (b), this capital could be raised with no interest cost to the local government. No bonds could be issued for any school unless there were assurances of private business participation described in subparagraph (c). The required private business contributions and the terms governing the financing would be designed so that each member of the partnership would provide equal contributions.

(b) The Federal Government would provide a tax credit to purchasers of the special bonds (or holders of other evidence of indebtedness) described in subparagraph (a). The credit would be paid annually in an amount equal to a percentage of the bond (or indebtedness) face amount that would permit the raising of interest-free capital by the local government. There would be an overall national limit on the amount of financing eligible for the credit. The annual limitation would be $6 billion for 1998, 1999, and 2000. Unless the program were extended by the Congress, no additional limitation would be provided after the year 2000. In order to avoid creating a tax-exempt bond with a substantial Federal guarantee, the credit would be included in income of the recipient and subject to tax.

(c) In order to be eligible for the special interest-free capital, the local government would have to secure written assurances of contributions from private business. Such contributions could consist of goods, expertise, training, or services. The businesses would benefit from current-law tax deductions for charitable contributions.

The bill also provides a tax credit to employers for hiring recent graduates of the schools established through these partnerships. The amount of the credit would be 20 percent of the first $6,000 of wages paid during the first year of employment if the student is hired before a 6-month period after graduation.

2. <u>HOPE SCHOLARSHIP TAX CREDIT</u>

The bill includes a nonrefundable and a refundable HOPE scholarship credit. The nonrefundable credit would be claimed by taxpayers on their income tax returns if they have sufficient tax liability to fully utilize the credit. This credit would be administered by the Internal Revenue Service. Taxpayers with incomes too low to receive the benefit of the full amount of the nonrefundable credit would be entitled to a refundable HOPE credit. The refundable credit would be paid by the institution at which the student is enrolled under procedures similar to those used in providing other Federal educational assistance.

- For the <u>first two years</u> of college, the <u>maximum</u> amount of the <u>credit</u> would be <u>$1,500</u> for a <u>full-time student</u> and <u>$750</u> for a <u>half-time student</u>. For the <u>third and fourth</u>

years of college, the maximum amount of the credit would be $1,000 for full-time and $500 for half-time. The limitations will be indexed for inflation.

- The credit would be available for the first four years of post-secondary education. A part-time student would have to be at least a half-time student for the year.

- The credit would be available on a per-student basis. To be eligible for the credit, the student would have to maintain satisfactory academic progress and remain "drug free" (not convicted of a felony involving drugs).

- The credit would be available for qualified expenses incurred by the taxpayer, taxpayer's spouse, or taxpayer's dependent (as defined in Code section 151). Qualified expenses consist of tuition and fees required for enrollment or attendance. The credit would not be available to married taxpayers unless they file a joint return, and would not be available to nonresident aliens.

- Expenses for this purpose would be net of grants, scholarships, and fellowships. Pell Grants and other nontaxable Federal scholarship assistance would not reduce the dollar limitation on the credit but like other scholarships would be offset against qualified expenses in determining the amount of credit.

- The credit would be phased out over the following adjusted gross income levels: Joint filers, $80,000 - $100,000; and Unmarried filers, $50,000 - $70,000 (indexed for inflation beginning in year 2000).

- The credit would be effective for expenses paid after December 31, 1996, for education furnished in academic periods beginning on or after July 1, 1997 (the beginning of the 1998 academic year).

105TH CONGRESS
1ST SESSION

H. R. 1512

IN THE HOUSE OF REPRESENTATIVES

Mr. RANGEL introduced the following bill; which was referred to the Committee on ____________________

A BILL

To amend the Internal Revenue Code of 1986 to provide incentives for public-private educational partnerships for public educational institutions serving disadvantaged students and to provide tax relief to families who are struggling to pay for college.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.

(a) SHORT TITLE.—This Act may be cited as the "Education Opportunities Tax Act of 1997".

SEC. 102. INCENTIVES FOR EDUCATION ZONES.

(a) IN GENERAL.—Part III of subchapter U of chapter 1 (relating to additional incentives for empowerment zones), as amended by subsection (b), is amended by inserting after subpart B the following new subpart:

"Subpart C—Incentives for Education Zones

"SEC. 1397B. CREDIT TO HOLDERS OF QUALIFIED ZONE ACADEMY BONDS.

"(a) ALLOWANCE OF CREDIT.—In the case of a taxpayer who holds a qualified zone academy bond on the credit allowance date of such bond which occurs during the taxable year, there shall be allowed as a credit against the tax imposed by this chapter for such taxable year the amount determined under subsection (b).

"(b) AMOUNT OF CREDIT.—

"(1) IN GENERAL.—The amount of the credit determined under this subsection with respect to any qualified zone academy bond is the amount equal to the product of—

"(A) the credit rate determined by the Secretary under paragraph (2) for the month in which such bond was issued, multiplied by

"(A) 95 percent or more of the proceeds of such issue are to be used for a qualified purpose with respect to a qualified zone academy,

"(B) the bond is issued by a State or local government within the jurisdiction of which such academy is located,

"(C) the issuer—

"(i) designates such bond for purposes of this section, and

"(ii) certifies that it has written assurances that the private business contribution requirement of paragraph (2) will be met with respect to such academy, and

"(D) the term of each bond which is part of such issue does not exceed the maximum term permitted under paragraph (3).

"(2) PRIVATE BUSINESS CONTRIBUTION REQUIREMENT.—

"(A) IN GENERAL.—For purposes of paragraph (1), the private business contribution requirement of this paragraph is met with respect to any issue if the qualified zone academy has written commitments from private entities to make qualified contributions having a present value (as of the date of issuance of the issue)

Secretary estimates will result in the present value of the obligation to repay the principal on the bond being equal to 50 percent of the face amount of the bond. Such present value shall be determined using as a discount rate the average annual interest rate of tax-exempt obligations having a term of 10 years or more which are issued during the month. If the term as so determined is not a multiple of a whole year, such term shall be rounded to the next highest whole year.

"(4) QUALIFIED ZONE ACADEMY.—

"(A) IN GENERAL.—The term 'qualified zone academy' means any public educational institution described in subparagraph (B) which provides education or training below the college level if such institution is operated under a special academic program designed in cooperation with business to enhance the academic curriculum, increase graduation and employment rates, and better prepare students for the rigors of college and the increasingly complex workforce.

"(B) EDUCATION ZONE INSTITUTION.—For purposes of subparagraph (A), an educational institution is described in this subparagraph if—

"(1) NATIONAL LIMITATION.—There is a national zone academy bond limitation for each calendar year. Such limitation is $6.000.000.000 for 1998, 1999, and 2000 and zero thereafter.

"(2) ALLOCATION OF LIMITATION.—The national zone academy bond limitation for a calendar year shall be allocated by the Secretary among the States on the basis of their respective populations of individuals below the poverty line (as defined by the Office of Management and Budget). The limitation amount allocated to a State under the preceding sentence shall be allocated by the State education agency to qualified zone academies within such State.

"(3) DESIGNATION SUBJECT TO LIMITATION AMOUNT.—The maximum aggregate face amount of bonds issued during any calendar year which may be designated under subsection (d)(1) with respect to any qualified zone academy shall not exceed the limitation amount allocated to such academy under paragraph (2) for such calendar year.

"(4) CARRYOVER OF USED LIMITATION.—If for any calendar year—

"(A) the limitation amount for any State, exceeds

"SEC. 1397C. CREDIT FOR EMPLOYING RECENT QUALIFIED ZONE ACADEMY GRADUATES.

"(a) IN GENERAL.—For purposes of subpart F of part IV of subchapter A (relating to rules for computing work opportunity credit), an individual shall be treated as a member of a targeted group if such individual is certified by the designated local agency (as defined in section 51(d)(10))—

"(1) as having graduated from a qualified zone academy (as defined in section 1397B(d)(4)), and

"(2) as having a hiring date (as defined in section 51(d)(9)) which is not more than 6 months after the date of such graduation.

"(b) SPECIAL RULES.—

"(1) LOWER CREDIT.—In the case of an individual who is a member of a targeted group solely by reason of subsection (a), section 51(a) shall be applied by substituting '20 percent' for '35 percent'.

"(2) CREDIT PERMANENT.—Paragraph (4) of section 51(c) (relating to termination) shall not apply for purposes of determining the credit allowable by reason of this section."

(b) CONFORMING AMENDMENTS.—

(1) Subchapter U of chapter 1 (as in effect before the amendment made by subsection (a)) is amended by redesignating subpart C as subpart D,

shall apply to obligations issued after December 31, 1997, and

(2) to the extent related to section 1397C of such Code (as so added) shall apply to individuals who begin work for the employer after such date.

TITLE II—HOPE SCHOLARSHIP CREDIT

SEC. 201. HOPE SCHOLARSHIP CREDIT.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to nonrefundable personal credits) is amended by inserting after section 23 the following new section:

"SEC. 24. HOPE SCHOLARSHIP CREDIT.

"(a) ALLOWANCE OF CREDIT.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year the amount of qualified higher education expenses paid by the taxpayer during such taxable year for education furnished during any academic period beginning in such year.

"(b) LIMITATIONS.—

"(1) DOLLAR LIMITATION.—The amount allowed as a credit under subsection (a) for any taxable year with respect to the qualified higher education expenses of any 1 individual shall not exceed expenses of an individual if the individual has completed (before the beginning of such taxable year) the first 4 years of postsecondary education at an institution of higher education.

"(c) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

"(1) IN GENERAL.—The amount which would (but for this subsection) be taken into account under subsection (a) for the taxable year shall be reduced (but not below zero) by the amount determined under paragraph (2).

"(2) AMOUNT OF REDUCTION.—The amount determined under this paragraph is the amount which bears the same ratio to the amount which would be so taken into account as—

"(A) the excess of—

"(i) the taxpayer's modified adjusted gross income for such taxable year, over

"(ii) $50,000 ($80,000 in the case of a joint return), bears to

"(B) $20,000.

"(3) MODIFIED ADJUSTED GROSS INCOME.— The term 'modified adjusted gross income' means the adjusted gross income of the taxpayer for the

"(B) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC.—Such term does not include expenses with respect to any course or other education involving sports, games, or hobbies, unless such course or other education is part of the individual's degree program.

"(C) EXCEPTION FOR NONACADEMIC FEES.—Such term does not include student activity fees, athletic fees, insurance expenses, or other expenses unrelated to an individual's academic course of instruction.

"(2) INSTITUTION OF HIGHER EDUCATION.—The term 'institution of higher education' means an institution—

"(A) which is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on the date of the enactment of this section, and

"(B) which is eligible to participate in a program under title IV of such Act.

"(3) ELIGIBLE STUDENT.—The term 'eligible student' means, with respect to any academic period, a student who—

"(A) meets the requirements of section 484(a)(1) of the Higher Education Act of 1965

"(1) DENIAL OF CREDIT IF INDIVIDUAL CONVICTED OF DRUG OFFENSE.—No credit shall be allowed under subsection (a) with respect to the qualified higher education expenses of an individual for any taxable year if the individual has been convicted before the end of such year of a Federal or State felony offense consisting of the possession or distribution of a controlled substance.

"(2) DENIAL OF CREDIT IF INDIVIDUAL FAILS TO MAKE SATISFACTORY ACADEMIC PROGRESS.—If—

"(A) an election was in effect under this section with respect to the qualified higher education expenses of an individual for any taxable year, and

"(B) such individual failed to make satisfactory academic progress described in section 484(c) of the Higher Education Act of 1965 during such year,

no credit shall be allowed under subsection (a) with respect to qualified higher education expenses of such individual for a succeeding taxable year.

"(3) NO DOUBLE BENEFIT.—No credit shall be allowed under subsection (a) for any taxable year for chapter 1606 of title 10, United States Code.

"(iii) a payment which is excludable from gross income under section 127, or

"(iv) a payment (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)) for such individual's educational expenses, or attributable to such individual's enrollment at an institution of higher education, which is excludable from gross income under any law of the United States, and

"(B) the amount excludable from gross income under section 135 which is allocable to such expenses with respect to such individual for such period.

"(6) NO CREDIT FOR MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—If the taxpayer is a married individual (within the meaning of section 7703), this section shall apply only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

"(7) NONRESIDENT ALIENS.—If the taxpayer is a nonresident alien individual for any portion of the

"(B) ROUNDING.—If any amount as adjusted under subparagraph (A) is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.

"(2) INCOME LIMITS.—

"(A) IN GENERAL.—In the case of a taxable year beginning after 2000, the $50,000 and $80,000 amounts in subsection (c)(2) shall each be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1999' for 'calendar year 1992' in subparagraph (B) thereof.

"(B) ROUNDING.—If any amount as adjusted under subparagraph (A) is not a multiple of $5,000, such amount shall be rounded to the next lowest multiple of $5,000.

"(j) CREDIT TO BE REFUNDABLE.—

"(1) IN GENERAL.—Each qualified student shall be entitled to the refundable Hope Credit.

"(2) PAYMENT BY EDUCATIONAL INSTITUTION.—Each institution of higher education shall

"(D) such applicable taxpayer irrevocably waives the right to claim such credit for such year.

For purposes of this subsection, the applicable taxpayer is the student or, if any other taxpayer is allowed a deduction under section 151 for such student, such other taxpayer.

"(4) REFUNDABLE HOPE CREDIT.—For purposes of this subsection, the term 'refundable Hope Credit' means, with respect to a student, the amount of the credit provided by subsection (a) which would have been allowable to the applicable taxpayer with respect to such student but for the waiver under paragraph (3)(D) and the limitation based on such taxpayer's income tax liability.

"(5) PAYMENTS TO ELIGIBLE EDUCATIONAL INSTITUTIONS.—The Secretary of the Treasury shall pay, either in advance or by way of reimbursement, to each institution of higher education an amount equal to the aggregate payments made under this subsection by such institution to qualified students. Section 1324 of title 31, United States Code, shall apply to the payments required under this paragraph in the same manner as if such payments were refunds of overpayments of tax.

"(I) an omission of a correct TIN required under section 24(h)(4) (relating to higher education tuition and fees) to be included on a return."

(c) RETURNS RELATING TO HIGHER EDUCATION EXPENSES.—

(1) IN GENERAL.—Subpart B of part III of subchapter A of chapter 61 (relating to information concerning transactions with other persons) is amended by inserting after section 6050R the following new section:

"SEC. 6050S. RETURNS RELATING TO HIGHER EDUCATION EXPENSES.

"(a) IN GENERAL.—Any person—

"(1) which is an institution of higher education which receives payments for qualified higher education expenses with respect to any individual for any calendar year or which pays any amount under section 24(j) with respect to any individual for any calendar year, or

"(2) which is engaged in a trade or business which, in the course of such trade or business makes payments during any calendar year to any individual which constitute reimbursements or refunds (or "(i) aggregate amount of payments for qualified higher education expenses received with respect to the individual described in subparagraph (A) during the calendar year, and

"(ii) aggregate amount of reimbursements or refunds (or similar amounts) paid to such individual during the calendar year, and

"(D) such other information as the Secretary may prescribe.

"(c) APPLICATION TO GOVERNMENTAL UNITS.—For purposes of this section—

"(1) a governmental unit or any agency or instrumentality thereof shall be treated as a person, and

"(2) any return required under subsection (a) by such governmental entity shall be made by the officer or employee appropriately designated for the purpose of making such return.

"(d) STATEMENTS TO BE FURNISHED TO INDIVIDUALS WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—Every person required to make a return under subsection (a) shall furnish to each individual whose name "(g) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the provisions of this section. No penalties shall be imposed under section 6724 with respect to any return or statement required under this section until such time as such regulations are issued."

(2) ASSESSABLE PENALTIES.—Section 6724(d) (relating to definitions) is amended—

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

"(x) section 6050S (relating to returns relating to payments for qualified higher education expenses),", and

(B) by striking "or" at the end of the next to last subparagraph, by striking the period at the end of the last subparagraph and inserting ", or", and by adding at the end the following new subparagraph:

"(Z) section 6050S(d) (relating to returns relating to qualified higher education expenses)."

Congressman Rangel

SUMMARY OF EDUCATION BILL

Title I - Education Below the College Level

Education Zone Academies

- Established through the formation of public-private partnerships with involvement of educators, labor, and businesses to create education zone academies.

- These academies would be financed through: (1) interest-free capital from the educational institution, (2) contributions of equipment, training, services, or other required resources by businesses, and (3) Federal tax subsidy of interest payments to the holders of the indebtedness issued for (or by) the educational institutions.

- The academies would offer curricula designed to prepare its students for the rigors of college or the skills needed to compete effectively in the global economy of the 21st century.

- An education zone academy would be any institution that is located in an empowerment zone or enterprise community (including designations made after the date of enactment of this bill), <u>or</u> an institution where more than ___ percent of students attending such institution will be members of families with annual incomes of 70 percent or less of Bureau of Labor Statistics lower living standard.

- An employer would be entitled to a tax credit of ___ percent of the current WOTC for each student employed within 6 months of graduating from an education zone academy.

- The provision would be effective for obligations issued ~~after~~ the date of enactment and for students beginning employment after this date.

Title II - Education at the College Level

Hope Scholarship Tax Credit

- The Hope Credit would be a **nonrefundable** credit for individuals with sufficient income tax liability to receive the full benefit of the credit, and a **refundable** credit for individuals who would not have sufficient income tax liability to enjoy the full benefit of the credit.

- The **maximum credit** would be **$1500** for a **full-time** student and **$750** for **at least a half-time** student for the **first two years** of college, and **$1000** for a **full-time** student and **$500** for **at least a half-time** student in the **third and fourth year** of college. (No separate deduction for tuition costs would be included).

- The nonrefundable credit would be paid by the Internal Revenue Service and the refundable credit would be paid by the educational institution that the student is attending. The refundable credit amount would be paid in a manner similar to other Federal educational assistance.

- The student must maintain satisfactory academic progress (rather than a "B" average) and remain drug free (not convicted of a felony involving drugs).

- The credit would be phased out for **joint filers** between $80,000 - $100,00, and **unmarried** filers between $50,000 - $70,000 (adjusted gross income).

- The provision would be effective for expenses paid after December 31, 1996 for education furnished in academic periods beginning after June 30, 1997.

Employer Provided Education Exclusion

- The employer provided education exclusion would be extended permanently. The exclusion for graduate studies would be reinstated for courses taken on or after June 30, 1996.

Small Business Credit for Employee Training

- Businesses with average annual gross receipts of $10 million for the prior 3 years would be eligible for a tax credit equal to 10 percent of amounts spent on educational assistance for employees. The education would have to be provided by third parties.

- Amounts subject to the credit would not be available for a deduction by the employer.

Tax-Free Student Loan Forgiveness for Community Service

- Certain debt from direct student loans would be eligible to be forgiven without triggering "discharge of indebtedness income" if the student works in certain community or public service jobs for a specified period of time.

- The provision would be effective for discharges of indebtedness after the date of enactment.

[DISCUSSION DRAFT]

MAY 1, 1997

105TH CONGRESS
1ST SESSION

H. R. 1512 – old version

IN THE HOUSE OF REPRESENTATIVES

Mr. RANGEL introduced the following bill; which was referred to the Committee on ______________

A BILL

To amend the Internal Revenue Code of 1986 to provide incentives for public-private educational partnerships for public educational institutions serving disadvantaged students, to provide tax relief to families who are struggling to pay for college, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.

(a) SHORT TITLE.—This Act may be cited as the "____ Act of 1997".

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

TITLE I—PUBLIC-PRIVATE EDUCATION PARTNERSHIPS

SEC. 101. PURPOSE.

The purpose of this title is to facilitate the establishment of working partnerships of educators, businesses, labor, and community groups to—

(1) enhance the academic curriculum for education or training below the college level,

(2) increase graduation and employment rates,

(3) better prepare students for the rigors of college and the increasingly complex workforce, and

(4) promote the global leadership position of the United States economy,

by providing a no-cost source of capital to cover the cost of establishing specialized academies in distressed areas (referred to as "education zones") and by providing tax credits to employers who hire recent graduates of such academies.

SEC. 102. INCENTIVES FOR EDUCATION ZONES.

(a) IN GENERAL.—Part III of subchapter U of chapter 1 (relating to additional incentives for empowerment zones), as amended by subsection (b), is amended by inserting after subpart B the following new subpart:

"Subpart C—Incentives for Education Zones

"SEC. 1397B. CREDIT TO HOLDERS OF QUALIFIED ZONE ACADEMY BONDS.

"(a) ALLOWANCE OF CREDIT.—In the case of a taxpayer who holds a qualified zone academy bond on the credit allowance date of such bond which occurs during the taxable year, there shall be allowed as a credit against the tax imposed by this chapter for such taxable year the amount determined under subsection (b).

"(b) AMOUNT OF CREDIT.—

"(1) IN GENERAL.—The amount of the credit determined under this subsection with respect to any qualified zone academy bond is the amount equal to the product of—

"(A) the credit rate determined by the Secretary under paragraph (2) for the month in which such bond was issued, multiplied by

"(B) the face amount of the bond held by the taxpayer on the credit allowance date.

"(2) DETERMINATION.—During each calendar month, the Secretary shall determine a credit rate which shall apply to bonds issued during the following calendar month. The credit rate for any month is the percentage which the Secretary estimates will permit the issuance of qualified zone academy bonds without discount and without interest cost to the issuer.

"(c) LIMITATION BASED ON AMOUNT OF TAX.—The credit allowed under subsection (a) for any taxable year shall not exceed the excess of—

"(1) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over

"(2) the sum of the credits allowable under part IV of subchapter A (other than subpart C thereof, relating to refundable credits).

"(d) QUALIFIED ZONE ACADEMY BOND.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified zone academy bond' means any bond issued as part of an issue if—

"(A) 95 percent or more of the proceeds of such issue are to be used for a qualified purpose with respect to a qualified zone academy,

"(B) the bond is issued by a State or local government within the jurisdiction of which such academy is located,

"(C) the issuer—

"(i) designates such bond for purposes of this section, and

"(ii) certifies that it has written assurances that the private business contribution requirement of paragraph (2) will be met with respect to such academy, and

"(D) the term of each bond which is part of such issue does not exceed the maximum term permitted under paragraph (3).

"(2) PRIVATE BUSINESS CONTRIBUTION REQUIREMENT.—

"(A) IN GENERAL.—For purposes of paragraph (1), the private business contribution requirement of this paragraph is met with respect to any issue if the qualified zone academy has written commitments from private entities to make qualified contributions having a present value (as of the date of issuance of the issue) of not less than 50 percent of the proceeds of the issue.

"(B) QUALIFIED CONTRIBUTIONS.—For purposes of subparagraph (A), the term 'qualified contribution' means any contribution (of a type and quality acceptable to the academy) of—

"(i) equipment for use in the qualified zone academy,

"(ii) technical assistance in developing curriculum or in training teachers in order to promote appropriate market driven technology in the classroom,

"(iii) services of employees as mentors or classroom teachers,

"(iv) internships, fieldtrips, or other educational opportunities outside the academy for students, or

"(v) any other property or service specified by the academy.

"(3) TERM REQUIREMENT.—During each calendar month, the Secretary shall determine the maximum term permitted under this paragraph for bonds issued during the following calendar month. Such maximum term shall be the term which the

Secretary estimates will result in the present value of the obligation to repay the principal on the bond being equal to 50 percent of the face amount of the bond. Such present value shall be determined using as a discount rate the average annual interest rate of tax-exempt obligations having a term of 10 years or more which are issued during the month. If the term as so determined is not a multiple of a whole year, such term shall be rounded to the next highest whole year.

"(4) QUALIFIED ZONE ACADEMY.—

"(A) IN GENERAL.—The term 'qualified zone academy' means any public educational institution described in subparagraph (B) which provides education or training below the college level if such institution is operated under a special academic program designed in cooperation with business to enhance the academic curriculum, increase graduation and employment rates, and better prepare students for the rigors of college and the increasingly complex workforce.

"(B) EDUCATION ZONE INSTITUTION.—For purposes of subparagraph (A), an educational institution is described in this subparagraph if—

"(i) such institution is located in an empowerment zone or enterprise community (including any such zone or community designated after the date of the enactment of this section), or

"(ii) there is a reasonable expectation (as of the date of issuance of the bonds) that more than ____ percent of the students attending such institution will be members of families which have incomes which on an annual basis are 70 percent or less of the Bureau of Labor Statistics lower living standard.

"(5) QUALIFIED PURPOSE.—The term 'qualified purpose' means, with respect to any qualified zone academy—

"(A) constructing or renovating such an academy,

"(B) providing equipment for use at such academy,

"(C) developing course materials for education to be provided at such academy, and

"(D) training teachers for such academy.

would not use bonds for this.

"(e) LIMITATION ON AMOUNT OF BONDS DESIGNATED.—

"(1) NATIONAL LIMITATION.—There is a national zone academy bond limitation for each calendar year of $________________.

"(2) ALLOCATION OF LIMITATION.—The national zone academy bond limitation for a calendar year shall be allocated by the Secretary among the States on the basis of their respective populations of individuals below the poverty line (as defined by the Office of Management and Budget). The limitation amount allocated to a State under the preceding sentence shall be allocated by the State education agency to qualified zone academies within such State.

"(3) DESIGNATION SUBJECT TO LIMITATION AMOUNT.—The maximum aggregate face amount of bonds issued during any calendar year which may be designated under subsection (d)(1) with respect to any qualified zone academy shall not exceed the limitation amount allocated to such academy under paragraph (2) for such calendar year.

"(4) CARRYOVER OF USED LIMITATION.—If for any calendar year—

"(A) the limitation amount for any State, exceeds

"(B) the amount of bonds issued during such year which are designated under subsection (d)(1) with respect to qualified zone academies within such State,

the limitation amount for such State for the following calendar year shall be increased by the amount of such excess.

"(f) OTHER DEFINITIONS.—For purposes of this section—

"(1) CREDIT ALLOWANCE DATE.—The term 'credit allowance date' means, with respect to any issue, the last day of the 1-year period beginning on the date of issuance of such issue and the last day of each successive 1-year period thereafter.

"(2) BOND.—The term 'bond' includes any obligation.

"(3) STATE.—The term 'State' includes the District of Columbia and any possession of the United States.

"(g) CREDIT INCLUDED IN GROSS INCOME.—Gross income includes the amount of the credit allowed to the taxpayer under this section.

"SEC. 1397C. CREDIT FOR EMPLOYING RECENT QUALIFIED ZONE ACADEMY GRADUATES.

"(a) IN GENERAL.—For purposes of subpart F of part IV of subchapter A (relating to rules for computing work opportunity credit), an individual shall be treated as a member of a targeted group if such individual is certified by the designated local agency (as defined in section 51(d)(10))—

"(1) as having graduated from a qualified zone academy (as defined in section 1397B(d)(4)), and

"(2) as having a hiring date (as defined in section 51(d)(9)) which is not more than 6 months after the date of such graduation.

"(b) SPECIAL RULES.—

"(1) LOWER CREDIT.—In the case of an individual who is a member of a targeted group solely by reason of subsection (a), section 51(a) shall be applied by substituting '____ percent' for '35 percent'.

"(2) CREDIT PERMANENT.—Paragraph (4) of section 51(c) (relating to termination) shall ~~not~~ apply to wages paid to individuals who meet the requirements of subsection (a)."

(b) CONFORMING AMENDMENTS.—

(1) Subchapter U of chapter 1 (as in effect before the amendment made by subsection (a)) is

amended by redesignating subpart C as subpart D, and by redesignating sections 1397B, 1397C, and 1397D as sections 1397D, 1397E, and 1397F, respectively.

(2) Subsection (b) of section 1394 is amended—

(A) by striking "section 1397C" in paragraph (2) and inserting "section 1397E", and

(B) by striking "section 1397B" in paragraph (3) and inserting "section 1397D".

(3) The table of subparts for part III of subchapter U of chapter 1 is amended by striking the last item and inserting the following:

"Subpart C. Incentives for education zones.
"Subpart D. General provisions."

(4) The table of sections for subpart D of such part III, as so redesignated, is amended to read as follows:

"Sec. 1397D. Enterprise zone business defined.
"Sec. 1397E. Qualified zone property defined."

(5) The table of sections for part IV of subchapter U of chapter 1 is amended to read as follows:

"Sec. 1397F. Regulations."

(c) EFFECTIVE DATE.—The amendments made by this section—

(1) to the extent related to 1397B of the Internal Revenue Code of 1986 (as added by this section) shall apply to obligations issued after the date of the enactment of this Act, and

(2) to the extent related to section 1397C of such Code (as so added) shall apply to individuals who begin work for the employer after such date.

TITLE II—TAX INCENTIVES FOR HIGHER EDUCATION

SEC. 201. HOPE SCHOLARSHIP CREDIT.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to nonrefundable personal credits) is amended by inserting after section 23 the following new section:

"SEC. 24. HOPE SCHOLARSHIP CREDIT.

"(a) ALLOWANCE OF CREDIT.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year the amount of qualified higher education expenses paid by the taxpayer during such taxable year for education furnished during any academic period beginning in such year.

"(b) LIMITATIONS.—

"(1) DOLLAR LIMITATION.—The amount allowed as a credit under subsection (a) for any taxable year with respect to the qualified higher education expenses of any 1 individual shall not exceed $1,500 ($1,000 if the individual was an eligible student in 2 or more prior taxable years).

"(2) CREDIT ALLOWED FOR ONLY 4 TAXABLE YEARS.—No credit shall be allowed under subsection (a) for a taxable year with respect to the qualified higher education expenses of an individual unless the taxpayer elects to have this section apply with respect to such individual for such year. An election under this paragraph shall not take effect with respect to an individual for any taxable year if an election under this paragraph (by the taxpayer or any other individual) is in effect with respect to such individual for any 4 prior taxable years.

"(3) CREDIT ALLOWED FOR YEAR ONLY IF INDIVIDUAL IS AT LEAST ½ TIME STUDENT FOR PORTION OF YEAR.—No credit shall be allowed under subsection (a) for a taxable year with respect to the qualified higher education expenses of an individual unless such individual is an eligible student for at least one academic period which begins during such year.

"(4) CREDIT ALLOWED ONLY FOR FIRST 4 YEARS OF POSTSECONDARY EDUCATION.—No credit shall be allowed under subsection (a) for a taxable year with respect to the qualified higher education expenses of an individual if the individual has completed (before the beginning of such taxable year) the first 4 years of postsecondary education at an institution of higher education.

"(c) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

"(1) IN GENERAL.—The amount which would (but for this subsection) be taken into account under subsection (a) for the taxable year shall be reduced (but not below zero) by the amount determined under paragraph (2).

"(2) AMOUNT OF REDUCTION.—The amount determined under this paragraph is the amount which bears the same ratio to the amount which would be so taken into account as—

"(A) the excess of—

"(i) the taxpayer's modified adjusted gross income for such taxable year, over

"(ii) $50,000 ($80,000 in the case of a joint return), bears to

"(B) $20,000.

"(3) MODIFIED ADJUSTED GROSS INCOME.— The term 'modified adjusted gross income' means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911, 931, or 933.

"(d) LIMITATION BASED ON AMOUNT OF TAX.—The credit allowed under subsection (a) for any taxable year shall not exceed the excess of—

"(1) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over

"(2) the sum of the credits allowable under part IV of subchapter A (other than subpart C thereof, relating to refundable credits).

"(e) DEFINITIONS.—For purposes of this section—

"(1) QUALIFIED HIGHER EDUCATION EXPENSES.—

"(A) IN GENERAL.—The term 'qualified higher education expenses' means tuition and fees required for the enrollment or attendance of—

"(i) the taxpayer,

"(ii) the taxpayer's spouse, or

"(iii) any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151,

at an institution of higher education.

"(B) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC.—Such term does not include expenses with respect to any course or other education involving sports, games, or hobbies, unless such course or other education is part of the individual's degree program.

"(C) EXCEPTION FOR NONACADEMIC FEES.—Such term does not include student activity fees, athletic fees, insurance expenses, or other expenses unrelated to an individual's academic course of instruction.

"(2) INSTITUTION OF HIGHER EDUCATION.—The term 'institution of higher education' means an institution—

"(A) which is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on the date of the enactment of this section, and

"(B) which is eligible to participate in a program under title IV of such Act.

"(3) ELIGIBLE STUDENT.—The term 'eligible student' means, with respect to any academic period, a student who—

"(A) meets the requirements of section 484(a)(1) of the Higher Education Act of 1965

(20 U.S.C. 1091(a)(1)), as in effect on the date of the enactment of this section, and

"(B) is carrying at least ½ the normal full-time work load for the course of study the student is pursuing.

"(f) TREATMENT OF EXPENSES PAID BY DEPENDENT.—If a deduction under section 151 with respect to an individual is allowed to another taxpayer for a taxable year beginning in the calendar year in which such individual's taxable year begins—

"(1) no credit shall be allowed under subsection (a) to such individual for such individual's taxable year, and

"(2) qualified higher education expenses paid by such individual during such individual's taxable year shall be treated for purposes of this section as paid by such other taxpayer.

"(g) TREATMENT OF CERTAIN PREPAYMENTS.—If qualified higher education expenses are paid by the taxpayer during a taxable year for an academic period which begins during the first 3 months following such taxable year, such academic period shall be treated for purposes of this section as beginning during such taxable year.

"(h) SPECIAL RULES.—

"(1) DENIAL OF CREDIT IF INDIVIDUAL CONVICTED OF DRUG OFFENSE.—No credit shall be allowed under subsection (a) with respect to the qualified higher education expenses of an individual for any taxable year if the individual has been convicted before the end of such year of a Federal or State felony offense consisting of the possession or distribution of a controlled substance.

"(2) DENIAL OF CREDIT IF INDIVIDUAL FAILS TO MAKE SATISFACTORY ACADEMIC PROGRESS.—If—

"(A) an election was in effect under this section with respect to the qualified higher education expenses of an individual for any taxable year, and

"(B) such individual failed to make satisfactory academic progress described in section 484(c) of the Higher Education Act of 1965 during such year,

no credit shall be allowed under subsection (a) with respect to qualified higher education expenses of such individual for a succeeding taxable year.

"(3) NO DOUBLE BENEFIT.—No credit shall be allowed under subsection (a) for any taxable year for any expense for which a deduction is allowed under any other provision of this chapter.

"(4) IDENTIFICATION REQUIREMENT.—No credit shall be allowed under subsection (a) to a taxpayer with respect to the qualified higher education expenses of an individual unless the taxpayer includes the name and taxpayer identification number of such individual on the return of tax for the taxable year.

"(5) ADJUSTMENT FOR CERTAIN SCHOLARSHIPS.—The amount of qualified higher education expenses otherwise taken into account under subsection (a) with respect to an individual for an academic period shall be reduced (before the application of subsections (b) and (c)) by the sum of—

"(A) any amounts paid for the benefit of such individual which are allocable to such period as—

"(i) a qualified scholarship which is excludable from gross income under section 117,

"(ii) an educational assistance allowance under chapter 30, 31, 32, 34, or 35 of title 38, United States Code, or under chapter 1606 of title 10, United States Code,

"(iii) a payment which is excludable from gross income under section 127, or

"(iv) a payment (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)) for such individual's educational expenses, or attributable to such individual's enrollment at an institution of higher education, which is excludable from gross income under any law of the United States, and

"(B) the amount excludable from gross income under section 135 which is allocable to such expenses with respect to such individual for such period.

"(6) NO CREDIT FOR MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—If the taxpayer is a married individual (within the meaning of section 7703), this section shall apply only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

"(7) NONRESIDENT ALIENS.—If the taxpayer is a nonresident alien individual for any portion of the taxable year, this section shall apply only if such individual is treated as a resident alien of the United States for purposes of this chapter by reason of an election under subsection (g) or (h) of section 6013.

"(8) COORDINATION WITH OTHER STUDENT FINANCIAL ASSISTANCE.—The credit provided under subsection (a), and any payment provided under subsection (j), shall not be taken into account for purposes of determining eligibility for, or the amount of, any student financial assistance provided under the Higher Education Act of 1965.

"(i) INFLATION ADJUSTMENTS.—

"(1) DOLLAR LIMITATION ON AMOUNT OF CREDIT.—

"(A) IN GENERAL.—In the case of a taxable year beginning after 1997, the $1,500 and $1,000 amounts in subsection (b)(1)(A) shall be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1996' for 'calendar year 1992' in subparagraph (B) thereof.

"(B) ROUNDING.—If any amount as adjusted under subparagraph (A) is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.

"(2) INCOME LIMITS.—

"(A) IN GENERAL.—In the case of a taxable year beginning after 2000, the $50,000 and $80,000 amounts in subsection (c)(2) shall each be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1999' for 'calendar year 1992' in subparagraph (B) thereof.

"(B) ROUNDING.—If any amount as adjusted under subparagraph (A) is not a multiple of $5,000, such amount shall be rounded to the next lowest multiple of $5,000.

"(j) CREDIT TO BE REFUNDABLE.—

"(1) IN GENERAL.—Each qualified student shall be entitled to the refundable Hope Credit.

"(2) PAYMENT BY EDUCATIONAL INSTITUTION.—Each institution of higher education shall pay, as an agent of the Secretary of the Treasury, the refundable Hope Credit to each qualified student attending such institution.

"(3) QUALIFIED STUDENT.—For purposes of this subsection, the term 'qualified student' means, with respect to any calendar year, any eligible student if—

"(A) the credit provided by subsection (a) would have been allowable to the applicable taxpayer with respect to such student but for the waiver under subparagraph (D) and the limitation based on such taxpayer's income tax liability,

"(B) the applicable taxpayer certifies to the institution that it is reasonable to expect that such taxpayer will not be allowed the maximum credit under this section by reason of having insufficient income tax liability,

"(C) such applicable taxpayer provides to the institution of higher education such information as is necessary to determine the amount of the refundable Hope credit to which the student is entitled, and

"(D) such applicable taxpayer irrevocably waives the right to claim such credit for such year.

For purposes of this subsection, the applicable taxpayer is the student or, if any other taxpayer is allowed a deduction under section 151 for such student, such other taxpayer.

"(4) REFUNDABLE HOPE CREDIT.—For purposes of this subsection, the term 'refundable Hope Credit' means, with respect to a student, the amount of the credit provided by subsection (a) which would have been allowable to the applicable taxpayer with respect to such student but for the waiver under paragraph (3)(C) and the limitation based on such taxpayer's income tax liability.

"(5) PAYMENTS TO ELIGIBLE EDUCATIONAL INSTITUTIONS.—The Secretary of the Treasury shall pay, either in advance or by way of reimbursement, to each institution of higher education an amount equal to the aggregate payments made under this subsection by such institution to qualified students. Section 1324 of title 31, United States Code, shall apply to the payments required under this paragraph in the same manner as if such payments were refunds of overpayments of tax.

"(6) RECAPTURE IF PAYMENT EXCEEDS CORRECT AMOUNT.—If the payments made under this subsection with respect to any qualified student for any calendar year exceed the amount of the refundable Hope credit to which the applicable taxpayer with respect to such student is entitled, such excess shall be assessed and collected in the same manner as an underpayment of tax imposed by this chapter for such year on such taxpayer.

"(k) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including regulations providing for a recapture of credit allowed under this section in cases where there is a refund in a subsequent taxable year of any amount which was taken into account in determining the amount of such credit."

(b) EXTENSION OF PROCEDURES APPLICABLE TO MATHEMATICAL OR CLERICAL ERRORS.—Paragraph (2) of section 6213(g) (relating to the definition of mathematical or clerical errors) is amended by striking "and" at the end of subparagraph (G), by striking the period at the end of subparagraph (H) and inserting ", and", and by inserting after subparagraph (H) the following new subparagraph:

"(I) an omission of a correct TIN required under section 24(h)(4) (relating to higher education tuition and fees) to be included on a return."

(c) RETURNS RELATING TO HIGHER EDUCATION EXPENSES.—

(1) IN GENERAL.—Subpart B of part III of subchapter A of chapter 61 (relating to information concerning transactions with other persons) is amended by inserting after section 6050R the following new section:

"SEC. 6050S. RETURNS RELATING TO HIGHER EDUCATION EXPENSES.

"(a) IN GENERAL.—Any person—

"(1) which is an institution of higher education which receives payments for qualified higher education expenses with respect to any individual for any calendar year or which pays any amount under section 24(j) with respect to any individual for any calendar year, or

"(2) which is engaged in a trade or business which, in the course of such trade or business makes payments during any calendar year to any individual which constitute reimbursements or refunds (or similar amounts) of qualified higher education expenses of such individual,

shall make the return described in subsection (b) with respect to the individual at such time as the Secretary may by regulations prescribe.

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

"(1) is in such form as the Secretary may prescribe,

"(2) contains—

"(A) the name, address, and TIN of the individual with respect to whom payments described in subsection (a) were received from (or were paid to),

"(B) the name, address, and TIN of any individual certified by the individual described in subparagraph (A) as the taxpayer who will claim the individual as a dependent for purposes of the deduction allowable under section 151 for any taxable year ending with or within the calendar year,

"(C) the—

"(i) aggregate amount of payments for qualified higher education expenses received with respect to the individual described in subparagraph (A) during the calendar year, and

"(ii) aggregate amount of reimbursements or refunds (or similar amounts) paid to such individual during the calendar year, and

"(D) such other information as the Secretary may prescribe.

"(c) APPLICATION TO GOVERNMENTAL UNITS.—For purposes of this section—

"(1) a governmental unit or any agency or instrumentality thereof shall be treated as a person, and

"(2) any return required under subsection (a) by such governmental entity shall be made by the officer or employee appropriately designated for the purpose of making such return.

"(d) STATEMENTS TO BE FURNISHED TO INDIVIDUALS WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—Every person required to make a return under subsection (a) shall furnish to each individual whose name is required to be set forth in such return under subparagraph (A) or (B) of subsection (b)(2) a written statement showing—

"(1) the name, address, and phone number of the information contact of the person required to make such return, and

"(2) the aggregate amounts described in subparagraph (C) of subsection (b)(2).

The written statement required under the preceding sentence shall be furnished on or before January 31 of the year following the calendar year for which the return under subsection (a) was required to be made.

"(e) DEFINITIONS.—For purposes of this section, the terms 'institution of higher education' and 'qualified higher education expenses' have the respective meanings given such terms by section 24.

"(f) RETURNS WHICH WOULD BE REQUIRED TO BE MADE BY 2 OR MORE PERSONS.—Except to the extent provided in regulations prescribed by the Secretary, in the case of any amount received by any person on behalf of another person, only the person first receiving such amount shall be required to make the return under subsection (a).

"(g) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the provisions of this section. No penalties shall be imposed under section 6724 with respect to any return or statement required under this section until such time as such regulations are issued."

(2) ASSESSABLE PENALTIES.—Section 6724(d) (relating to definitions) is amended—

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

"(x) section 6050S (relating to returns relating to payments for qualified higher education expenses),", and

(B) by striking "or" at the end of the next to last subparagraph, by striking the period at the end of the last subparagraph and inserting ", or", and by adding at the end the following new subparagraph:

"(Z) section 6050S(d) (relating to returns relating to qualified higher education expenses)."

(3) CLERICAL AMENDMENT.—The table of sections for subpart B of part III of subchapter A of chapter 61 is amended by inserting after the item relating to section 6050R the following new item:

"Sec. 6050S. Returns relating to higher education expenses."

(d) CONFORMING AMENDMENTS.—

(1) Subsection (a) of section 26 is amended by inserting "(other than section 24)" after "amount of credits".

(2) The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 23 the following new item:

"Sec. 24. Hope scholarship credit.".

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to expenses paid after December 31, 1996 (in taxable years ending after such date), for education furnished in academic periods beginning after June 30, 1997.

SEC. 202. TREATMENT OF CANCELLATION OF CERTAIN STUDENT LOANS.

(a) CERTAIN DIRECT STUDENT LOANS THE REPAYMENT OF WHICH IS INCOME CONTINGENT.—Paragraph (1) of section 108(f) is amended by striking "any student loan if" and all that follows and inserting "any student loan if—

"(A) such discharge was pursuant to a provision of such loan under which all or part of the indebtedness of the individual would be discharged if the individual worked for a certain period of time in certain professions for any of a broad class of employers, or

"(B) in the case of a loan made under part D of title IV of the Higher Education Act of 1965 which has a repayment schedule established under section 455(e)(4) of such Act (relating to income contingent repayments), such discharge is after the maximum repayment period under such loan (as prescribed under such part)."

(b) CERTAIN LOANS BY EXEMPT ORGANIZATIONS.—

(1) IN GENERAL.—Paragraph (2) of section 108(f) (defining student loan) is amended by striking "or" at the end of subparagraphs (B) and (C) and by striking subparagraph (D) and inserting the following:

"(D) any organization described in section 501(c)(3) and exempt from tax under section 501(a), or

"(E) any educational organization described in section 170(b)(1)(A)(ii) pursuant to an agreement with any entity described in subparagraph (A), (B), (C), or (D) under which the funds from which the loan was made were provided to such educational organization.

The term 'student loan' includes any loan made by an organization described in subparagraph (D) to refinance a loan meeting the requirements of the preceding sentence."

(2) EXCEPTION FOR DISCHARGES ON ACCOUNT OF SERVICES PERFORMED FOR CERTAIN LENDERS.—Subsection (f) of section 108 is amended by adding at the end the following new paragraph:

"(3) EXCEPTION FOR DISCHARGES ON ACCOUNT OF SERVICES PERFORMED FOR CERTAIN LENDERS.—Paragraph (1) shall not apply to the discharge of a loan made by an organization described in paragraph (2)(D) (or by an organization described in paragraph (2)(E) from funds provided by an organization described in paragraph (2)(D)) if the discharge is on account of services performed for either such organization."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to discharges of indebtedness after the date of the enactment of this Act.

SEC. 203. EMPLOYER-PROVIDED EDUCATIONAL ASSISTANCE PROGRAMS.

(a) PERMANENT EXTENSION.—Section 127 (relating to exclusion for educational assistance programs) is amended by striking subsection (d) and by redesignating subsection (e) as subsection (d).

(b) REPEAL OF LIMITATION ON GRADUATE EDUCATION.—The last sentence of section 127(c)(1) is amended by striking ", and such term also does not include any payment for, or the provision of any benefits with respect to, any graduate level course of a kind normally taken by an individual pursuing a program leading to a law, business, medical, or other advanced academic or professional degree".

(c) EFFECTIVE DATES.—

(1) EXTENSION.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1996.

(2) GRADUATE EDUCATION.—The amendment made by subsection (b) shall apply with respect to expenses relating to courses beginning after June 30, 1996.

(3) EXPEDITED PROCEDURES.—The Secretary of the Treasury shall establish expedited procedures for the refund of any overpayment of taxes imposed by the Internal Revenue Code of 1986 which is attributable to amounts excluded from gross income during 1996 or 1997 under section 127 of such Code, including procedures waiving the requirement that an employer obtain an employee's signature where the employer demonstrates to the satisfaction

of the Secretary that any refund collected by the employer on behalf of the employee will be paid to the employee.

SEC. 204. SMALL BUSINESS EDUCATIONAL ASSISTANCE CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits) is amended by adding at the end the following new section:

"SEC. 45D. SMALL BUSINESS EDUCATIONAL ASSISTANCE CREDIT.

"(a) GENERAL RULE.—For purposes of section 38, the small business educational assistance credit for any taxable year is an amount equal to 10 percent of the qualified educational assistance expenses of the taxpayer for the taxable year.

"(b) QUALIFIED EDUCATIONAL ASSISTANCE EXPENSES.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified educational assistance expenses' means any amount paid or incurred by an eligible small employer for educational assistance furnished to an employee of the employer by a person other than such employer (or an employee of such employer) under an educational assistance program described in section 127(b).

"(2) EDUCATIONAL ASSISTANCE.—The term 'educational assistance' has the meaning given such term by section 127(c)(1) (determined without regard to subparagraph (B) thereof).

"(3) LIMITATIONS.—

"(A) DOLLAR LIMITATION PER EMPLOYEE.—The aggregate amount which may be taken into account under paragraph (1) with respect to any employee for any taxable year shall not exceed $5,250.

"(B) PAYMENTS TO RELATED PERSONS.—

"(i) IN GENERAL.—No amount shall be taken into account under paragraph (1) if such amount is to be paid to a related person with respect to the employer.

"(ii) RELATED PERSON.—For purposes of this subparagraph, a person shall be related to the employer if—

"(I) such person is a 5-percent owner (within the meaning of section 416(i)(1)(B)(i)) of the employer, or

"(II) such person bears a relationship to the employer or such a 5-

percent owner which is described in section 267(b) or 707(b)(1).

"(C) TRADE OR BUSINESS.—No amount shall be taken into account under paragraph (1) unless it is incurred in the active conduct of a trade or business by the taxpayer.

"(c) ELIGIBLE SMALL EMPLOYER.—For purposes of this section—

"(1) IN GENERAL.—A taxpayer shall be treated as an eligible small employer for any taxable year if the average annual gross receipts of the taxpayer for the 3-taxable year period ending with the preceding taxable year are $10,000,000 or less.

"(2) SPECIAL RULES.—Section 448(c)(3) shall apply for purposes of this subsection.

"(d) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) DEFINITIONS.—The terms 'employee' and 'employer' have the meanings given such terms by paragraphs (2) and (3) of section 127(c), respectively.

"(2) AGGREGATION.—

"(A) IN GENERAL.—All persons treated as a single employer under subsection (a) or (b) of section 52 or subsection (m) or (o) of section 414 shall be treated as a single employer.

"(B) ALLOCATION OF CREDIT.—The credit (if any) determined under this section with respect to each person described in subparagraph (A) shall be its proportionate share of the qualified educational assistance expenses giving rise to such credit.

"(3) SHORT TAXABLE YEARS.—For any taxable year having less than 12 months, the credit determined under this section shall be multiplied by a fraction, the numerator of which is the number of days in the taxable year and the denominator of which is 365.

"(4) DISALLOWANCE OF DEDUCTION.—

"For disallowance of deduction for expenses for which credit allowable, see section 280C(d)."

(b) DISALLOWANCE OF DEDUCTIONS.—Section 280C (relating to certain expenses for which credits are allowable) is amended by adding at the end the following new subsection:

"(d) CREDIT FOR SMALL BUSINESS EDUCATIONAL ASSISTANCE EXPENSES.—

"(1) IN GENERAL.—No deduction shall be allowed for that portion of the qualified educational assistance expenses (as defined in section 45D(b)) otherwise allowable as a deduction for the taxable year which is equal to the amount of the credit determined for such taxable year under section 45D.

"(2) ELECTION OF REDUCED CREDIT.—

"(A) IN GENERAL.—In the case of any taxable year for which an election is made under this paragraph—

"(i) paragraph (1) shall not apply, and

"(ii) the amount of the credit under section 45D(a) shall be the amount determined under subparagraph (B).

"(B) AMOUNT OF REDUCED CREDIT.—The amount of the credit determined under this subparagraph for any taxable year shall be the amount equal to the excess of—

"(i) the amount of credit determined under section 45D(a) without regard to this paragraph, over

"(ii) the product of—

"(I) the amount described in clause (i), and

"(II) the maximum rate of tax under section 11(b)(1).

"(C) ELECTION.—An election under this paragraph for any taxable year shall be made not later than the time for filing the return of tax for such year (including extensions), shall be made on such return, and shall be made in such manner as the Secretary may prescribe. Such an election, once made, shall be irrevocable.

"(3) CONTROLLED GROUPS.—Paragraph (3) of subsection (b) shall apply for purposes of this subsection."

(c) GENERAL BUSINESS CREDIT.—Subsection (b) of section 38 (relating to general business credit) is amended by striking "plus" at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting ", plus", and by adding at the end the following new paragraph:

"(13) the small business educational assistance credit determined under section 45D(a)."

(d) CONFORMING AMENDMENTS.—

(1) NO CARRYBACK.—Subsection (d) of section 39 (relating to carryback and carryforward of unused credits) is amended by adding at the end the following new paragraph:

"(8) NO CARRYBACK OF SECTION 45D CREDIT BEFORE ENACTMENT.—No portion of the unused business credit for any taxable year which is attributable to the credit determined under section 45D may be carried back to a taxable year ending before the date of the enactment of section 45D."

(2) The table of sections for subpart D of such part IV is amended by adding at the end the following new item:

"Sec. 45D. Small business educational assistance credit."

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to education and training furnished in taxable years beginning after December 31, 1997.

PARTICIPANTS

CONGRESSMAN RANGEL'S ROUNDTABLE ON EDUCATION, TRAINING AND US GLOBAL COMPETITIVENESS

Friday, Feb. 28th 9:00 am - 11:00 am

H-137

- Trish McNeil, Asst. Secretary for Vocational and Adult Education- Dept. of Education
- Ray Uhalde, Acting Asst. Secretary for Employment & Training- Dept. of Labor
- Stanley Litow, President - IBM International Foundation
- Ralph Caulo, President of Education Group- Simon & Schuster
- Arte Nathan, Executive VP for Human Resources- Mirage Resorts Inc.
- Michael Casserly, Executive Director- Council of the Great City Schools
- Leo Reddy, President- National Coalition for Advanced Manufacturing (NACFAM)
- Stephen Chaudet, VP State and Local Gov't. Affairs- Lockheed Martin, Business Roundtable Representative
- Adele Robinson and Patricia Collins Murdoch, Senior Professional Associates, Government Relations- NEA
- Theodore Gershon, Director-Princeton Training Associates
- John Dow, Jr., President- Academy of Finance
- Chris Bowlin, Manager, Government Relations- TRW Inc.
- Thomas Troyer, Caplin & Drysdale Law Offices, Counsel- Council on Foundations
- Bob Shireman, Office of Management and Budget
- Tom Kelley, Office of Legislation- Dept. Of Education
- Cynthia Pantazis, Leg. Affairs Associate- American Society for Training and Development
- Eliza Patterson, President- Education Fund- Consumers for World Trade
- Rachelle Bernstein, Office of Fed. Tax Services- Arthur Anderson
- Howard Rosen, Executive Director- Competitiveness Policy Council
- Milt Goldberg, Executive VP for Education- National Alliance of Business
- Jessie Colgate, Senior VP, Gov't. Affairs- New York Life
- Scott Brumburgh, Senior Partner- Vital Linkages
- Jim Clawson, Acting Secretary of National Council on Int'l. Trade Development
- Sara Melnick, Director of Development- National Association of Partners in Education
- Steve Hopkins, Director- Government Relations, CITICORP
- Doris Harris, Principal- Cole Manor Elementary School, Business, Industry & School Council
- Cheryl Birdsall, Assistant Director of Legislation- AFT
- Ted Knappen, Government Affairs- Greyhound Lines, Inc.
- Steven Menchini, Executive Director- Mentoring USA
- Phyllis Eisen, Sr. Policy Director- National Association of Manufacturers
- Janice Mays, Democratic Staff Director- Ways and Means Committee
- John Buckley, Democratic Tax Counsel- Ways and Means Committee
- Mark Zuckerman, representing Rep. Bill Clay
- Cathy Dente, representing Rep. Gephardt
- Jennifer Gable, representing Rep. Matsui
- Eric Elk, representing Rep. Crane
- Melanie Merola, representing Rep. Goodling