

105TH CONGRESS  
1ST SESSION

# S. 930

To amend the Internal Revenue Code of 1986 to provide tax incentives for education, and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

JUNE 18 (Legislative day, JUNE 17), 1997

Ms. COLLINS introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to provide tax incentives for education, 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,*

3 **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “College Affordability  
5 and Access Act of 1997”.

6 **SEC. 2. EMPLOYER-PROVIDED EDUCATIONAL ASSISTANCE**  
7 **PROGRAMS.**

8       (a) PERMANENT EXTENSION.—Section 127 of the  
9 Internal Revenue Code of 1986 (relating to exclusion for  
10 educational assistance programs) is amended by striking

1 subsection (d) and by redesignating subsection (e) as sub-  
2 section (d).

3 (b) REPEAL OF LIMITATION ON GRADUATE EDU-  
4 CATION.—The last sentence of section 127(c)(1) of such  
5 Code is amended by striking “, and such term also does  
6 not include any payment for, or the provision of any bene-  
7 fits with respect to, any graduate level course of a kind  
8 normally taken by an individual pursuing a program lead-  
9 ing to a law, business, medical, or other advanced aca-  
10 demic or professional degree”.

11 (c) EFFECTIVE DATES.—

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

15 (2) GRADUATE EDUCATION.—The amendment  
16 made by subsection (b) shall apply with respect to  
17 expenses relating to courses beginning after June  
18 30, 1996.

19 **SEC. 3. DEDUCTION FOR INTEREST ON EDUCATION LOANS.**

20 (a) IN GENERAL.—Part VII of subchapter B of chap-  
21 ter 1 of the Internal Revenue Code of 1986 (relating to  
22 additional itemized deductions for individuals) is amended  
23 by redesignating section 221 as section 222 and by insert-  
24 ing after section 220 the following new section:

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

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

7       “(b) MAXIMUM DEDUCTION.—

8           “(1) IN GENERAL.—Except as provided in para-  
9 graph (2), the deduction allowed by subsection (a)  
10 for the taxable year shall not exceed \$2,750.

11           “(2) LIMITATION BASED ON MODIFIED AD-  
12 JUSTED GROSS INCOME.—

13           “(A) IN GENERAL.—If the modified ad-  
14 justed gross income of the taxpayer for the tax-  
15 able year exceeds \$45,000 (\$65,000 in the case  
16 of a joint return), the amount which would (but  
17 for this paragraph) be allowable as a deduction  
18 under this section shall be reduced (but not  
19 below zero) by the amount which bears the  
20 same ratio to the amount which would be so al-  
21 lowable as such excess bears to \$20,000.

22           “(B) MODIFIED ADJUSTED GROSS IN-  
23 COME.—The term ‘modified adjusted gross in-  
24 come’ means adjusted gross income deter-  
25 mined—

1 “(i) without regard to this section and  
2 sections 135, 911, 931, and 933, and

3 “(ii) after application of sections 86,  
4 219, and 469.

5 For purposes of sections 86, 135, 219, and  
6 469, adjusted gross income shall be determined  
7 without regard to the deduction allowed under  
8 this section.

9 “(C) INFLATION ADJUSTMENT.—In the  
10 case of any taxable year beginning after 1998,  
11 the \$45,000 and \$65,000 amounts referred to  
12 in subparagraph (A) shall be increased by an  
13 amount equal to—

14 “(i) such dollar amount, multiplied by

15 “(ii) the cost-of-living adjustment de-  
16 termined under section (1)(f)(3) for the  
17 calendar year in which the taxable year be-  
18 gins, by substituting ‘1997’ for ‘1992’.

19 “(D) ROUNDING.—If any amount as ad-  
20 justed under subparagraph (C) is not a multiple  
21 of \$50, such amount shall be rounded to the  
22 nearest multiple of \$50.

23 “(e) DEPENDENTS NOT ELIGIBLE FOR DEDUC-  
24 TION.—No deduction shall be allowed by this section to  
25 an individual for the taxable year if a deduction under sec-

1 tion 151 with respect to such individual is allowed to an-  
2 other taxpayer for the taxable year beginning in the cal-  
3 endar year in which such individual's taxable year begins.

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

5 “(1) QUALIFIED EDUCATION LOAN.—The term  
6 ‘qualified education loan’ means any indebtedness  
7 incurred to pay qualified higher education ex-  
8 penses—

9 “(A) which are incurred on behalf of the  
10 taxpayer,

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

14 “(C) which are attributable to education  
15 furnished during a period during which the tax-  
16 payer was at least a half-time student.

17 Such term includes indebtedness used to refinance  
18 indebtedness which qualifies as a qualified education  
19 loan. The term ‘qualified education loan’ shall not  
20 include any indebtedness owed to a person who is re-  
21 lated (within the meaning of section 267(b) or  
22 707(b)(1)) to the taxpayer.

23 “(2) QUALIFIED HIGHER EDUCATION EX-  
24 PENSES.—The term ‘qualified higher education ex-  
25 penses’ means the cost of attendance (as defined in

1 section 472 of the Higher Education Act of 1965,  
2 20 U.S.C. 1087ll, as in effect on the day before the  
3 date of the enactment of this Act) of the taxpayer  
4 at an eligible educational institution, reduced by the  
5 sum of—

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

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

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

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

24 “(e) SPECIAL RULES.—

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

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

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

13          (b) DEDUCTION ALLOWED WHETHER OR NOT TAX-  
14          PAYER ITEMIZES OTHER DEDUCTIONS.—Subsection (a)  
15          of section 62 of such Code is amended by inserting after  
16          paragraph (16) the following new paragraph:

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

19          (c) REPORTING REQUIREMENT.—

20                 (1) IN GENERAL.—Subpart B of part III of  
21                 subchapter A of chapter 61 of such Code (relating  
22                 to information concerning transactions with other  
23                 persons) is amended by inserting after section  
24                 6050R the following new section:

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

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

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

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

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

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

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

19 “(2) contains—

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13           (d) CLERICAL AMENDMENT.—The table of sections  
 14           for part VII of subchapter B of chapter 1 of such Code  
 15           is amended by striking the last item and inserting the fol-  
 16           lowing new items:

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

17           (e) EFFECTIVE DATE.—The amendments made by  
 18           this section shall apply to any qualified education loan (as  
 19           defined in section 221(d)(1) of the Internal Revenue Code  
 20           of 1986, as added by this section) incurred on, before, or  
 21           after the date of the enactment of this Act, but only with  
 22           respect to any loan interest payment due after December  
 23           31, 1997.

1 **SEC. 4. HIGHER EDUCATION SAVINGS ACCOUNTS.**

2 (a) IN GENERAL.—Part VIII of subchapter F of  
3 chapter 1 of the Internal Revenue Code of 1986 (relating  
4 to qualified State tuition programs) is amended by adding  
5 at the end the following new section:

6 **“SEC. 530. HIGHER EDUCATION SAVINGS ACCOUNTS.**

7 “(a) GENERAL RULE.—A higher education savings  
8 account shall be exempt from taxation under this subtitle.  
9 Notwithstanding the preceding sentence, the higher edu-  
10 cation savings account shall be subject to the taxes im-  
11 posed by section 511 (relating to imposition of tax on un-  
12 related business income of charitable organizations).

13 “(b) LIMITATIONS ON ACCOUNTS.—

14 “(1) ACCOUNT MAY NOT BE ESTABLISHED FOR  
15 BENEFIT OF MORE THAN 1 INDIVIDUAL.—A higher  
16 education savings account may not be established for  
17 the benefit of more than 1 individual.

18 “(2) SPECIAL RULE WHERE MORE THAN 1 AC-  
19 COUNT.—If, at any time during a calendar year, 2  
20 or more higher education savings accounts are main-  
21 tained for the benefit of an individual, only the ac-  
22 count first established shall be treated as a higher  
23 education savings account for purposes of this sec-  
24 tion. This paragraph shall not apply to the extent  
25 more than 1 account exists solely by reason of a roll-  
26 over contribution.

1       “(c) DEFINITIONS AND SPECIAL RULES.—For pur-  
2 poses of this section—

3               “(1) HIGHER EDUCATION SAVINGS ACCOUNT.—

4       The term ‘higher education savings account’ means  
5 a trust created or organized in the United States ex-  
6 clusively for the purpose of paying the qualified  
7 higher education expenses of the account holder, but  
8 only if the written governing instrument creating the  
9 trust meets the following requirements:

10               “(A) No contribution will be accepted—

11                       “(i) unless it is in cash,

12                       “(ii) except in the case of rollover con-  
13 tributions from another higher education  
14 savings account, in excess of \$1,000 for  
15 any calendar year, and

16                       “(iii) after the date on which the ac-  
17 count holder attains age 18.

18               “(B) The trustee is a bank (as defined in  
19 section 408(n)) or another person who dem-  
20 onstrates to the satisfaction of the Secretary  
21 that the manner in which that person will ad-  
22 minister the trust will be consistent with the re-  
23 quirements of this section.

24               “(C) No part of the trust assets will be in-  
25 vested in life insurance contracts (other than

1 contracts the beneficiary of which is the trust  
2 and the face amount of which does not exceed  
3 the amount by which the maximum amount  
4 which can be contributed to the higher edu-  
5 cation savings account exceeds the sum of the  
6 amounts contributed to the account for all tax-  
7 able years).

8 “(D) The assets of the trust shall not be  
9 commingled with other property except in a  
10 common trust fund or common investment  
11 fund.

12 “(E) Any balance in the higher education  
13 savings account on the day after the later of—

14 “(i) the date on which the individual  
15 for whose benefit the trust is established  
16 attains age 30 (or, if earlier, the date on  
17 which such individual dies), or

18 “(ii) if, on the date of attaining such  
19 age such individual is enrolled in an eligi-  
20 ble educational institution, the date such  
21 enrollment ends,

22 shall be distributed within 30 days of such date  
23 to the account holder (or in the case of death,  
24 the beneficiary).

1           “(2) LIMITATION BASED ON MODIFIED AD-  
2 JUSTED GROSS INCOME.—

3           “(A) IN GENERAL.—If the modified ad-  
4 justed gross income of the taxpayer for the tax-  
5 able year exceeds \$45,000 (\$65,000 in the case  
6 of a joint return), the amount which would (but  
7 for this paragraph) be allowable as a contribu-  
8 tion under this section shall be reduced (but not  
9 below zero) by the amount which bears the  
10 same ratio to the amount which would be so al-  
11 lowable as such excess bears to \$20,000.

12           “(B) MODIFIED ADJUSTED GROSS IN-  
13 COME.—The term ‘modified adjusted gross in-  
14 come’ means adjusted gross income deter-  
15 mined—

16                   “(i) without regard to this section and  
17 sections 135, 911, 931, and 933, and

18                   “(ii) after application of sections 86,  
19 219, and 469.

20 For purposes of sections 86, 135, 219, and  
21 469, adjusted gross income shall be determined  
22 without regard to the deduction allowed under  
23 this section.

24           “(C) INFLATION ADJUSTMENT.—In the  
25 case of any taxable year beginning after 1998,

1 the \$45,000 and \$65,000 amounts referred to  
2 in subparagraph (A) shall be increased by an  
3 amount equal to—

4 “(i) such dollar amount, multiplied by

5 “(ii) the cost-of-living adjustment de-  
6 termined under section (1)(f)(3) for the  
7 calendar year in which the taxable year be-  
8 gins, by substituting ‘1997’ for ‘1992’.

9 “(D) ROUNDING.—If any amount as ad-  
10 justed under subparagraph (C) is not a multiple  
11 of \$50, such amount shall be rounded to the  
12 nearest multiple of \$50.

13 “(3) TIME WHEN CONTRIBUTIONS DEEMED  
14 MADE.—A taxpayer shall be deemed to have made a  
15 contribution on the last day of the preceding taxable  
16 year if the contribution is made on account of such  
17 taxable year and is made not later than the time  
18 prescribed by law for filing the return for such tax-  
19 able year (including extensions thereof).

20 “(4) QUALIFIED HIGHER EDUCATION EX-  
21 PENSES.—

22 “(A) IN GENERAL.—The term ‘qualified  
23 higher education expenses’ has the same mean-  
24 ing given such term by section 529(e)(3), ex-  
25 cept that such expenses shall be reduced by any



1 amount described in section 135(d)(1) (relating  
2 to certain scholarships and veterans benefits).

3 “(B) STATE TUITION PLANS.—Such term  
4 shall include amounts paid or incurred to pur-  
5 chase tuition credits or certificates, or to make  
6 contributions to an account, under a qualified  
7 State tuition program (as defined in section  
8 529(b)).

9 “(5) ELIGIBLE EDUCATIONAL INSTITUTION.—  
10 The term ‘eligible educational institution’ has the  
11 meaning given such term by section 135(e)(3).

12 “(6) ACCOUNT HOLDER.—The term ‘account  
13 holder’ means the individual for whose benefit the  
14 higher education savings account is established.

15 “(d) TAX TREATMENT OF DISTRIBUTIONS.—

16 “(1) IN GENERAL.—Except as otherwise pro-  
17 vided in this subsection, any amount paid or distrib-  
18 uted out of a higher education savings account shall  
19 be included in gross income of the payee or distribu-  
20 tee for the taxable year in the manner prescribed by  
21 section 72. For purposes of the preceding sentence,  
22 rules similar to the rules of section 408(d)(2) shall  
23 apply.

24 “(2) DISTRIBUTION USED TO PAY EDU-  
25 CATIONAL EXPENSES.—Paragraph (1) shall not

1 apply to any payment or distribution out of a higher  
2 education savings account to the extent such pay-  
3 ment or distribution is used exclusively to pay the  
4 qualified higher education expenses of the account  
5 holder.

6 “(3) SPECIAL RULE FOR APPLYING SECTION  
7 2503.—If any payment or distribution from a higher  
8 education savings account is used exclusively for the  
9 payment to an eligible educational institution of the  
10 qualified higher education expenses of the account  
11 holder, such payment shall be treated as a qualified  
12 transfer for purposes of section 2503(e).

13 “(4) ADDITIONAL TAX FOR DISTRIBUTIONS NOT  
14 USED FOR EDUCATIONAL EXPENSES.—

15 “(A) IN GENERAL.—The tax imposed by  
16 this chapter for any taxable year on any tax-  
17 payer who receives a payment or distribution  
18 from a higher education savings account which  
19 is includible in gross income under paragraph  
20 (1) shall be increased by 10 percent of the  
21 amount which is so includible.

22 “(B) EXCEPTION FOR DISABILITY, DEATH,  
23 OR SCHOLARSHIP.—Subparagraph (A) shall not  
24 apply if the payment or distribution is—

1           “(i) made on account of the death or  
2           disability of the account holder, or

3           “(ii) made on account of a scholarship  
4           (or allowance or payment described in sec-  
5           tion 135(d)(1) (B) or (C)) received by the  
6           account holder to the extent the amount of  
7           the payment or distribution does exceed  
8           the amount of the scholarship, allowance,  
9           or payment.

10           “(C) EXCESS CONTRIBUTIONS RETURNED  
11           BEFORE DUE DATE OF RETURN.—Subpara-  
12           graph (A) shall not apply to the distribution to  
13           a contributor of any contribution paid during a  
14           taxable year to a higher education savings ac-  
15           count to the extent that such contribution,  
16           when added to previous contributions to the ac-  
17           count during the taxable year, exceeds the  
18           amount allowable as a contribution under this  
19           section for the taxable year if—

20           “(i) such distribution is received on or  
21           before the day prescribed by law (including  
22           extensions of time) for filing such contribu-  
23           tor’s return for such taxable year, and

1                   “(ii) such distribution is accompanied  
2                   by the amount of net income attributable  
3                   to such excess contribution.

4                   Any net income described in clause (ii) shall be  
5                   included in the gross income of the contributor  
6                   for the taxable year in which such excess con-  
7                   tribution was made.

8                   “(5) ROLLOVER CONTRIBUTIONS.—Paragraph  
9                   (1) shall not apply to any amount paid or distrib-  
10                  uted from a higher education savings account to the  
11                  extent that the amount received is paid into another  
12                  higher education savings account for the benefit of  
13                  the account holder not later than the 60th day after  
14                  the day on which the holder receives the payment or  
15                  distribution. The preceding sentence shall not apply  
16                  to any payment or distribution if it applied to any  
17                  prior payment or distribution during the 12-month  
18                  period ending on the date of the payment or dis-  
19                  tribution.

20                  “(6) SPECIAL RULES FOR DEATH AND DI-  
21                  VORCE.—Rules similar to the rules of section 220(f)  
22                  (7) and (8) shall apply.

23                  “(e) TAX TREATMENT OF ACCOUNTS.—Rules similar  
24                  to the rules of paragraphs (2) and (4) of section 408(e)  
25                  shall apply to any higher education savings account, and

1 any amount treated as distributed under such rules shall  
2 be treated as not used to pay qualified higher education  
3 expenses.

4 “(f) COMMUNITY PROPERTY LAWS.—This section  
5 shall be applied without regard to any community property  
6 laws.

7 “(g) CUSTODIAL ACCOUNTS.—For purposes of this  
8 section, a custodial account shall be treated as a trust if  
9 the assets of such account are held by a bank (as defined  
10 in section 408(n)) or another person who demonstrates,  
11 to the satisfaction of the Secretary, that the manner in  
12 which he will administer the account will be consistent  
13 with the requirements of this section, and if the custodial  
14 account would, except for the fact that it is not a trust,  
15 constitute an account described in subsection (b)(1). For  
16 purposes of this title, in the case of a custodial account  
17 treated as a trust by reason of the preceding sentence,  
18 the custodian of such account shall be treated as the trust-  
19 ee thereof.

20 “(h) REPORTS.—The trustee of a higher education  
21 savings account shall make such reports regarding such  
22 account to the Secretary and to the account holder with  
23 respect to contributions, distributions, and such other  
24 matters as the Secretary may require under regulations.  
25 The reports required by this subsection shall be filed at

1 such time and in such manner and furnished to such indi-  
2 viduals at such time and in such manner as may be re-  
3 quired by those regulations.”

4 (b) TAX ON PROHIBITED TRANSACTIONS.—Section  
5 4975 of such Code (relating to prohibited transactions)  
6 is amended—

7 (1) by adding at the end of subsection (c) the  
8 following new paragraph:

9 “(5) SPECIAL RULE FOR HIGHER EDUCATION  
10 SAVINGS ACCOUNTS.—An individual for whose bene-  
11 fit a higher education savings account is established  
12 and any contributor to such account shall be exempt  
13 from the tax imposed by this section with respect to  
14 any transaction concerning such account (which  
15 would otherwise be taxable under this section) if,  
16 with respect to such transaction, the account ceases  
17 to be a higher education savings account by reason  
18 of the application of section 530 to such account.”;  
19 and

20 (2) in subsection (e)(1), by striking “or” at the  
21 end of subparagraph (D), by redesignating subpara-  
22 graph (E) as subparagraph (F), and by inserting  
23 after subparagraph (D) the following new subpara-  
24 graph:

1           “(E) a higher education savings account  
2           described in section 530, or”.

3           (c) **FAILURE TO PROVIDE REPORTS ON HIGHER**  
4 **EDUCATION SAVINGS ACCOUNTS.**—Section 6693 of such  
5 Code (relating to failure to provide reports on individual  
6 retirement accounts or annuities) is amended—

7           (1) by inserting “**OR ON HIGHER EDU-**  
8 **CATION SAVINGS ACCOUNTS**” after “**ANNU-**  
9 **ITIES**” in the heading of such section, and

10           (2) in subsection (a)(2), by striking “and” at  
11 the end of subparagraph (A), by striking the period  
12 at the end of subparagraph (B) and inserting “,  
13 and”, and by adding at the end the following new  
14 subparagraph:

15           “(C) section 530(h) (relating to higher  
16 education savings accounts).”

17           (d) **COORDINATION WITH SAVINGS BOND EXCLU-**  
18 **SION.**—Section 135(d)(1) of such Code (relating to adjust-  
19 ment for certain scholarships and veterans benefits) is  
20 amended by striking “or” at the end of subparagraph (C),  
21 by striking the period at the end of subparagraph (D) and  
22 inserting “, or”, and by inserting at the end the following  
23 new subparagraph:

1           “(E) a payment or distribution from a  
2           higher education savings account (as defined in  
3           section 530).”

4           (e) CLERICAL AMENDMENTS.—

5           (1) The table of sections for part VIII of sub-  
6           chapter F of chapter 1 of such Code is amended by  
7           adding at the end the following new item:

          “Sec. 530. Higher education savings accounts.”

8           (2)(A) The heading for part VIII of subchapter  
9           F of chapter 1 of such Code is amended to read as  
10          follows:

11         **“PART VIII—HIGHER EDUCATION SAVINGS**  
12                 **ENTITIES”.**

13          (B) The table of parts for subchapter F of  
14          chapter 1 of such Code is amended by striking the  
15          item relating to part VIII and inserting:

          “Part VIII. Higher education savings entities.”

16          (3) The table of sections for subchapter B of  
17          chapter 68 of such Code is amended by striking the  
18          item relating to section 6693 and inserting the fol-  
19          lowing new item:

          “Sec. 6693. Failure to provide reports on individual retirement  
          accounts or annuities or on higher education sav-  
          ings accounts.”



1       (f) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 1997.

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