

113TH CONGRESS
1ST SESSION

H. R. 3476

To amend the Internal Revenue Code of 1986 to extend and modify the American Opportunity Tax Credit, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 13, 2013

Mr. ISRAEL introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to extend and modify the American Opportunity Tax Credit, 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 “Middle Class College
5 Tuition Tax Credit Expansion Act”.

6 **SEC. 2. EXTENSION AND MODIFICATION OF AMERICAN OP-**
7 **PORTUNITY TAX CREDIT.**

8 (a) IN GENERAL.—Section 25A of the Internal Rev-
9 enue Code of 1986 is amended to read as follows:

1 **“SEC. 25A. AMERICAN OPPORTUNITY TAX CREDIT.**

2 “(a) ALLOWANCE OF CREDIT.—In the case of an in-
3 dividual who is an eligible student for any taxable year,
4 there shall be allowed as a credit against the tax imposed
5 by this chapter for such taxable year the amount deter-
6 mined under subsection (b) with respect to such indi-
7 vidual.

8 “(b) AMOUNT OF CREDIT.—

9 “(1) STUDENT ENROLLED AT LEAST $\frac{1}{2}$ TIME.—
10 In the case of an eligible student who is carrying at
11 least $\frac{1}{2}$ the normal full-time workload for the course
12 of study the student is pursuing, the amount deter-
13 mined under this subsection with respect to such in-
14 dividual is the sum of—

15 “(A) 100 percent of so much of the quali-
16 fied tuition and related expenses paid by the
17 taxpayer during the taxable year (for education
18 furnished to the eligible student during any
19 academic period beginning in such taxable year)
20 as does not exceed \$2,500, plus

21 “(B) 50 percent of such expenses so paid
22 as exceeds \$2,500 but does not exceed \$7,500.

23 “(2) OTHER STUDENTS.—In the case of an eli-
24 gible student not described in paragraph (1), the
25 amount determined under this subsection with re-
26 spect to such individual is 50 percent of so much of

1 the qualified tuition and related expenses paid by
2 the taxpayer during the taxable year (for education
3 furnished to the eligible student during any aca-
4 demic period beginning in such taxable year) as does
5 not exceed \$10,000.

6 “(c) DOLLAR LIMITATIONS.—

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

9 “(A) IN GENERAL.—The amount which
10 would (but for this paragraph) be taken into ac-
11 count under this section for the taxable year
12 shall be reduced (but not below zero) by the
13 amount determined under paragraph (2).

14 “(B) AMOUNT OF REDUCTION.—The
15 amount determined under this paragraph is the
16 amount which bears the same ratio to the
17 amount which would be so taken into account
18 as—

19 “(i) the excess of—

20 “(I) the taxpayer’s modified ad-
21 justed gross income for such taxable
22 year, over

23 “(II) \$160,000 (twice such
24 amount in the case of a joint return),
25 bears to

1 “(ii) \$20,000 (\$40,000 in the case of
2 a joint return).

3 “(C) MODIFIED ADJUSTED GROSS IN-
4 COME.—For purposes of this paragraph, the
5 term ‘modified adjusted gross income’ means
6 the adjusted gross income of the taxpayer for
7 the taxable year increased by any amount ex-
8 cluded from gross income under section 911,
9 931, or 933.

10 “(D) INFLATION ADJUSTMENT.—In the
11 case of any taxable year beginning after 2014,
12 the \$160,000 amount in subparagraph
13 (B)(i)(II) shall be increased by an amount
14 equal to—

15 “(i) such dollar amount, multiplied by

16 “(ii) the cost-of-living adjustment de-
17 termined under section 1(f)(3) for the cal-
18 endar year in which the taxable year be-
19 gins, determined by substituting ‘calendar
20 year 2013’ for ‘calendar year 1992’ in sub-
21 paragraph (B) thereof.

22 Any increase determined under the preceding
23 sentence shall be rounded to the nearest mul-
24 tiple of \$1,000.

1 “(2) LIMITATION BASED ON AMOUNT OF
2 TAX.—The credit allowed under this section shall
3 not exceed the excess of—

4 “(A) the sum of the regular tax liability
5 (as defined in section 26(b)) plus the tax im-
6 posed by section 55, over

7 “(B) the sum of the credits allowable
8 under this subpart (other than this subsection
9 and sections 23, 25D, and 30D) and section 27
10 for the taxable year.

11 “(d) OTHER LIMITATIONS AND SPECIAL RULES.—
12 For purposes of this section:

13 “(1) LIFETIME DOLLAR LIMITATION.—In the
14 case of qualified tuition and related expenses with
15 respect to any individual, the aggregate amount of
16 the credits claimed under this section for all taxable
17 years shall not exceed \$25,000, determined without
18 regard to whether—

19 “(A) such credits are claimed on the re-
20 turn of tax filed by the individual or by another
21 taxpayer, or

22 “(B) such expenses are treated as paid by
23 the individual or by another taxpayer.

24 “(2) REPORTING.—No credit shall be allowed
25 under this section to a taxpayer with respect to the

1 qualified tuition and related expenses of an eligible
2 student unless the taxpayer includes the name and
3 taxpayer identification number of such eligible stu-
4 dent on the return of tax for the taxable year.

5 “(3) ADJUSTMENT FOR CERTAIN SCHOLAR-
6 SHIPS, ETC.—

7 “(A) IN GENERAL.—The amount of quali-
8 fied tuition and related expenses otherwise
9 taken into account under this section with re-
10 spect to an individual for an academic period
11 shall be reduced (before the application of sub-
12 sections (b) and (c)) by the sum of any
13 amounts paid for the benefit of such individual
14 which are allocable to such period as—

15 “(i) a qualified scholarship which is
16 excludable from gross income under section
17 117,

18 “(ii) an educational assistance allow-
19 ance under chapter 30, 31, 32, 34, or 35
20 of title 38, United States Code, or under
21 chapter 1606 of title 10, United States
22 Code, and

23 “(iii) a payment (other than a gift,
24 bequest, devise, or inheritance within the
25 meaning of section 102(a)) for such indi-

1 vidual’s educational expenses, or attrib-
2 utable to such individual’s enrollment at an
3 eligible educational institution, which is ex-
4 cludable from gross income under any law
5 of the United States.

6 “(B) COORDINATION WITH PELL GRANTS
7 NOT USED FOR QUALIFIED TUITION AND RE-
8 LATED EXPENSES.—Any amount determined
9 with respect to an individual under subpara-
10 graph (A) which is attributable to a Federal
11 Pell Grant under section 401 of the Higher
12 Education Act of 1965 shall be reduced (but
13 not below zero) by the amount of the expenses
14 (other than qualified tuition and related ex-
15 penses) which are taken into account in deter-
16 mining the cost of attendance (as defined in
17 section 472 of the Higher Education Act of
18 1965, as in effect on the date of the enactment
19 of the Middle Class College Tuition Tax Credit
20 Expansion Act) of such individual at an eligible
21 educational institution for the academic period
22 for which the credit under this section is being
23 determined.

24 “(4) TREATMENT OF EXPENSES PAID BY DE-
25 PENDENT.—If a deduction under section 151 with

1 respect to an individual is allowed to another tax-
2 payer for a taxable year beginning in the calendar
3 year in which such individual's taxable year begins—

4 “(A) no credit shall be allowed under this
5 section to such individual for such individual's
6 taxable year, and

7 “(B) qualified tuition and related expenses
8 paid by such individual during such individual's
9 taxable year shall be treated for purposes of
10 this section as paid by such other taxpayer.

11 “(5) TREATMENT OF CERTAIN PREPAY-
12 MENTS.—If qualified tuition and related expenses
13 are paid by the taxpayer during a taxable year for
14 an academic period which begins during the first 3
15 months following such taxable year, such academic
16 period shall be treated for purposes of this section
17 as beginning during such taxable year.

18 “(6) DENIAL OF DOUBLE BENEFIT.—No credit
19 shall be allowed under this section for any expense
20 for which a deduction is allowed under any other
21 provision of this chapter.

22 “(7) NO CREDIT FOR MARRIED INDIVIDUALS
23 FILING SEPARATE RETURNS.—If the taxpayer is a
24 married individual (within the meaning of section
25 7703), this section shall apply only if the taxpayer

1 and the taxpayer's spouse file a joint return for the
2 taxable year.

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

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

13 “(f) DEFINITIONS.—For purposes of this section:

14 “(1) ELIGIBLE STUDENT.—The term ‘eligible
15 student’ means, with respect to any taxable year, an
16 individual who—

17 “(A) is enrolled for at least one academic
18 period which begins during such taxable year at
19 an eligible educational institution, and

20 “(B) meets the requirements of section
21 484(a)(1) of the Higher Education Act of 1965,
22 as in effect on the date of the enactment of the
23 Middle Class College Tuition Tax Credit Ex-
24 pansion Act.

1 “(2) QUALIFIED TUITION AND RELATED EX-
2 PENSES.—

3 “(A) IN GENERAL.—The term ‘qualified
4 tuition and related expenses’ means tuition,
5 fees, and course materials required for the en-
6 rollment or attendance of—

7 “(i) the taxpayer,

8 “(ii) the taxpayer’s spouse, or

9 “(iii) any dependent of the taxpayer
10 with respect to whom the taxpayer is al-
11 lowed a deduction under section 151,

12 at an eligible educational institution for courses
13 of instruction of such individual at such institu-
14 tion.

15 “(B) EXCEPTION FOR EDUCATION INVOLV-
16 ING SPORTS, ETC.—Such term does not include
17 expenses with respect to any course or other
18 education involving sports, games, or hobbies,
19 unless such course or other education is part of
20 the individual’s degree program.

21 “(C) EXCEPTION FOR NONACADEMIC
22 FEES.—Such term does not include student ac-
23 tivity fees, athletic fees, insurance expenses, or
24 other expenses unrelated to an individual’s aca-
25 demic course of instruction.

1 “(D) COMPUTER TECHNOLOGY AND
2 EQUIPMENT.—Such term includes expenses for
3 the purchase of computer technology or equip-
4 ment (as defined in section 170(e)(6)(F)(i)), or
5 Internet access and related services, only to the
6 extent the purchase of such technology, equip-
7 ment, or services is specifically required by the
8 individual’s academic course of instruction or
9 degree program.

10 “(3) ELIGIBLE EDUCATIONAL INSTITUTION.—
11 The term ‘eligible educational institution’ means an
12 institution—

13 “(A) which is described in section 481 of
14 the Higher Education Act of 1965, as in effect
15 on the date of the enactment of the Middle
16 Class College Tuition Tax Credit Expansion
17 Act, and

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

20 “(g) PORTION OF CREDIT REFUNDABLE.—Fifty per-
21 cent of the credit allowed under this section (determined
22 after application of subsections (e)(1) and (d) and without
23 regard to this subsection and subsection (c)(2), as the case
24 may be) shall be treated as a credit allowable under sub-
25 part C (and not allowed under this section). The preceding

1 sentence shall not apply to any taxpayer for any taxable
2 year if such taxpayer is a child to whom subsection (g)
3 of section 1 applies for such taxable year.

4 “(h) REGULATIONS.—The Secretary may prescribe
5 such regulations as may be necessary or appropriate to
6 carry out this section, including regulations providing for
7 a recapture of the credit allowed under this section in
8 cases where there is a refund in a subsequent taxable year
9 of any amount which was taken into account in deter-
10 mining the amount of such credit.”.

11 (b) CLERICAL AMENDMENT.—The item relating to
12 section 25A in the table of sections for subpart A of part
13 IV of subchapter A of chapter 1 of the Internal Revenue
14 Code of 1986 is amended to read as follows:

“Sec. 25A. American Opportunity Tax Credit.”.

15 (c) CONFORMING AMENDMENTS.—

16 (1) Subparagraph (B) of section 72(t)(7) of
17 such Code is amended by striking “25A(g)(2)” and
18 inserting “25A(d)(3)”.

19 (2) Paragraph (2) of section 221(d) of such
20 Code is amended—

21 (A) by striking “25A(g)(2)” in subpara-
22 graph (B) and inserting “25A(d)(3)”, and

23 (B) by striking “25A(f)(2)” and inserting
24 “25A(f)(3)”.

1 (3) Paragraph (3) of section 221(d) of such
2 Code is amended by striking “25A(b)(3)” and in-
3 sserting “25A(f)(1) (but only with respect to a stu-
4 dent who is carrying at least $\frac{1}{2}$ the normal full-time
5 workload for the course of study the student is pur-
6 suing)”.

7 (4) Clause (v) of section 529(c)(3)(B) of such
8 Code is amended—

9 (A) by striking “25A(g)(2)” in subclause
10 (I) and inserting “25A(d)(3)”, and

11 (B) by striking “HOPE AND LIFETIME
12 LEARNING CREDITS” in the heading and insert-
13 ing “AMERICAN OPPORTUNITY CREDIT”.

14 (5) Clause (i) of section 529(e)(3)(B) of such
15 Code is amended by striking “25A(b)(3)” and in-
16 sserting “25A(f)(1) (but only with respect to a stu-
17 dent who is carrying at least $\frac{1}{2}$ the normal full-time
18 workload for the course of study the student is pur-
19 suing)”.

20 (6) Subparagraph (C) of section 530(d)(2) of
21 such Code is amended—

22 (A) by striking “25A(g)(2)” in clause (i)(I)
23 and inserting “25A(d)(3)”, and

1 (B) by striking “HOPE AND LIFETIME
2 LEARNING CREDITS” in the heading and insert-
3 ing “AMERICAN OPPORTUNITY CREDIT”.

4 (7) Clause (iii) of section 530(d)(4)(B) of such
5 Code is amended by striking “25A(g)(2)” and in-
6 serting “25A(d)(3)”.

7 (8) Section 1400O of such Code is amended—

8 (A) by striking “25A(f)(2)” and inserting
9 “25A(f)(3)”,

10 (B) by inserting “(as in effect on the date
11 of the enactment of this section)” after
12 “25A(b)(1)” in paragraph (2), and

13 (C) by inserting “(as in effect on the date
14 of the enactment of this section)” after
15 “25A(c)(1)” in paragraph (3).

16 (9) Subsection (e) of section 6050S of such
17 Code is amended by striking “subsection (g)(2)” and
18 inserting “subsection (d)(3)”.

19 (10) Subparagraph (A) of section 6211(b)(4) of
20 such Code is amended by striking “subsection
21 (i)(6)” and inserting “subsection (g)”.

22 (11) Subparagraph (J) of section 6213(g)(2) of
23 such Code is amended by striking “25A(g)(1)” and
24 inserting “25A(d)(2)”.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2013.

4 **SEC. 3. EXPANSION OF PELL GRANT EXCLUSION FROM**
5 **GROSS INCOME.**

6 (a) IN GENERAL.—Paragraph (1) of section 117(b)
7 of the Internal Revenue Code of 1986 is amended by strik-
8 ing “received by an individual” and all that follows and
9 inserting “received by an individual—

10 “(A) as a scholarship or fellowship grant
11 to the extent the individual establishes that, in
12 accordance with the conditions of the grant,
13 such amount was used for qualified tuition and
14 related expenses, or

15 “(B) as a Federal Pell Grant under section
16 401 of the Higher Education Act of 1965 (as
17 in effect on the date of the enactment of the
18 Middle Class College Tuition Tax Credit Ex-
19 pansion Act).”.

20 (b) EFFECTIVE DATE.—The amendment made by
21 this section shall apply to taxable years beginning after
22 December 31, 2013.

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