

**DESCRIPTION OF THE CHAIRMAN'S MARK  
OF MODIFICATIONS TO THE TREATMENT  
OF INCOME RECEIVED UNDER STUDENT  
WORK-LEARNING-SERVICE PROGRAMS**

Scheduled for Markup  
by the  
SENATE COMMITTEE ON FINANCE  
on February 11, 2015

Prepared by the Staff  
of the  
JOINT COMMITTEE ON TAXATION



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## INTRODUCTION

The Senate Committee on Finance has scheduled a committee markup on February 11, 2015, of a proposal providing modifications to the treatment of income received under comprehensive student work-learning-service programs operated by a work college. This document,<sup>1</sup> prepared by the staff of the Joint Committee on Taxation, provides a description of the proposal.

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<sup>1</sup> This document may be cited as follows: Joint Committee on Taxation, *Description of Chairman's Mark of Modifications to the Treatment of Income Received Under Student Work-Learning-Service Programs* (JCX-27-15), February 9, 2015. This document can also be found on the Joint Committee on Taxation website at [www.jct.gov](http://www.jct.gov).

**A. Exclusion for Amounts Received Under Student  
Work-Learning-Service Programs**

**Present Law**

Under present law, an individual who is a candidate for a degree at a qualifying educational organization may exclude amounts received as a qualified scholarship from gross income and wages. In addition, present law provides an exclusion from gross income and wages for qualified tuition reductions for certain education provided to employees of certain educational organizations. The exclusions for qualified scholarships and qualified tuition reductions do not apply to any amount received by a student that represents payment for teaching, research, or other services by the student required as a condition for receiving the scholarship or tuition reduction. Payments for such services are includible in gross income and wages. An exception to this rule applies in the case of the National Health Services Corps Scholarship Program and the F. Edward Herbert Armed Forces Health Professions Scholarship and Financial Assistance Program.

**Description of Proposal**

The proposal exempts from gross income any payments from a comprehensive student work-learning-service program (as defined in section 448(e) of the Higher Education Act of 1965) operated by a work college (as defined in such section). Specifically, a work college must require resident students to participate in a work-learning-service program that is an integral and stated part of the institution's educational philosophy and program.

**Effective Date**

The proposal is effective for amounts received in taxable years beginning after the date of enactment.

## B. Estimated Revenue Effects

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Fiscal Years [Millions of Dollars]												
<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2015-20</u>	<u>2015-25</u>
---	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[1]	-1	-2

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**NOTE:** Details do not add to totals due to rounding.

[1] Loss of less than \$500,000.

## **C. Increase Continuous Levy Authority on Payments to Medicare Providers and Suppliers**

### **Present Law**

#### **In general**

Levy is the administrative authority of the IRS to seize a taxpayer's property, or rights to property, to pay the taxpayer's tax liability.<sup>2</sup> Generally, the IRS is entitled to seize a taxpayer's property by levy if a Federal tax lien has attached to such property,<sup>3</sup> the property is not exempt from levy,<sup>4</sup> and the IRS has provided both notice of intention to levy<sup>5</sup> and notice of the right to an administrative hearing (the notice is referred to as a "collections due process notice" or "CDP notice" and the hearing is referred to as the "CDP hearing")<sup>6</sup> at least 30 days before the levy is made. A levy on salary or wages generally is continuously in effect until released.<sup>7</sup> A Federal tax lien arises automatically when: (1) a tax assessment has been made; (2) the taxpayer has been given notice of the assessment stating the amount and demanding payment; and (3) the taxpayer has failed to pay the amount assessed within 10 days after the notice and demand.<sup>8</sup>

The notice of intent to levy is not required if the Secretary finds that collection would be jeopardized by delay. The standard for determining whether jeopardy exists is similar to the standard applicable when determining whether assessment of tax without following the normal deficiency procedures is permitted.<sup>9</sup>

The CDP notice (and pre-levy CDP hearing) is not required if: (1) the Secretary finds that collection would be jeopardized by delay; (2) the Secretary has served a levy on a State to collect a Federal tax liability from a State tax refund; (3) the taxpayer subject to the levy requested a CDP hearing with respect to unpaid employment taxes arising in the two-year period before the beginning of the taxable period with respect to which the employment tax levy is served; or (4) the Secretary has served a Federal contractor levy. In each of these four cases,

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<sup>2</sup> Sec. 6331(a). Levy specifically refers to the legal process by which the IRS orders a third party to turn over property in its possession that belongs to the delinquent taxpayer named in a notice of levy. Unless otherwise stated, all section references are to the Internal Revenue Code of 1986, as amended (the "Code").

<sup>3</sup> *Ibid.*

<sup>4</sup> Sec. 6334.

<sup>5</sup> Sec. 6331(d).

<sup>6</sup> Sec. 6330. The notice and the hearing are referred to collectively as the CDP requirements.

<sup>7</sup> Secs. 6331(e) and 6343.

<sup>8</sup> Sec. 6321.

<sup>9</sup> Secs. 6331(d)(3) and 6861.

however, the taxpayer is provided an opportunity for a hearing within a reasonable period of time after the levy.<sup>10</sup>

### **Federal payment levy program**

To help the IRS collect taxes more effectively, the Taxpayer Relief Act of 1997<sup>11</sup> authorized the establishment of the Federal Payment Levy Program (“FPLP”), which allows the IRS to continuously levy up to 15 percent of certain “specified payments” by the Federal government if the payees are delinquent on their tax obligations. With respect to payments to vendors of goods, services, or property sold or leased to the Federal government, the continuous levy may be up to 100 percent of each payment.<sup>12</sup> For payments to Medicare providers and suppliers, the levy is up to 15 percent for payments made within 180 days after December 19, 2014. For payments made after that date, the levy is up to 30 percent.<sup>13</sup>

Under FPLP, the IRS matches its accounts receivable records with Federal payment records maintained by Treasury’s Bureau of Fiscal Service (“BFS”), such as certain Social Security benefit and Federal wage records. When these records match, the delinquent taxpayer is provided both the notice of intention to levy and the CDP notice. If the taxpayer does not respond after 30 days, the IRS can instruct BFS to levy the taxpayer’s Federal payments. Subsequent payments are continuously levied until such time that the tax debt is paid or the IRS releases the levy.

### **Description of Proposal**

The proposal provides that the present limitation of 30 percent of certain specified payments be increased by an amount sufficient to offset the estimated revenue loss of the provision described in Part A, above.

### **Effective Date**

The proposal is effective for payments made after 180 days after the date of enactment.

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<sup>10</sup> Sec. 6330(f).

<sup>11</sup> Pub. L. No. 105-34.

<sup>12</sup> Sec. 6331(h)(3).

<sup>13</sup> Pub. L. No. 113-295, Division B.