



DESCRIPTION OF MODIFICATIONS TO THE CHAIRMAN'S MARK OF THE "AFFORDABLE EDUCATION ACT OF 2001"

This document, prepared by the staff of the Joint Committee on Taxation, provides a description of modifications to the Senate Finance Committee Chairman's mark of the Affordable Education Act of 2001.¹

The Chairman's mark would be modified as follows:

1. Exclusion from income of education distributions from qualified tuition programs

The Chairman's mark would provide an exclusion from gross income for distributions from qualified tuition programs to the extent the distribution is used to pay for qualified higher education expenses. The exclusion would be effective for distributions from qualified State tuition plans after December 31, 2001, and for distributions from private tuition plans after December 31, 2003. Under present law and the Chairman's mark, qualified higher education expenses would include room and board expenses up to the minimum room and board allowance applicable to the student in calculating costs of attendance for Federal financial aid programs under section 472 of the Higher Education Act of 1965, as in effect on the date of enactment of the Small Business Job Protection Act of 1996 (August 20, 1996). Thus, room and board expenses cannot exceed: (1) in the case of a student living at home with parents or guardians, \$1,500 per academic year; (2) for a student living in housing owned or operated by the eligible education institution, the institution's "normal" room and board charge; and (3) for all other students, \$2,500 per academic year.

The modification to the Chairman's mark would provide that, for purposes of the exclusion for distributions from qualified tuition plans, the maximum room and board allowance would be the amount applicable to the student in calculating costs of attendance for Federal financial aid programs under section 472 of the Higher Education Act of 1965, as in effect on the date of enactment of this Act, or, in the case of a student living in housing owned or operated by

¹ A description of the Chairman's mark is contained in Joint Committee on Taxation, *Description of Chairman's Mark of the "Affordable Education Act of 2001"* (JCX-9-01), March 9, 2001.

an eligible educational institution, the actual amount charged the student by the educational institution for room and board.²

2. Income limits for individual contributions to education IRAs

Under present law, the annual contribution limits for education IRAs is generally phased out for contributors with modified adjusted gross income (“AGI”) between \$95,000 to \$110,000. The phase-out range for married taxpayers filing a joint return is \$150,000 to \$160,000 of modified AGI.

The modification to the Chairman’s mark would increase the phase-out range for married taxpayers filing a joint return so that it is twice the range for single taxpayers. Thus, the phase-out range for married taxpayers filing a joint return would be \$190,000 to \$220,000.

The provision would be effective for taxable years beginning after December 31, 2001.

² This definition would also apply to distributions from educational IRAs.