

**DESCRIPTION OF REVISED MODIFICATIONS
TO CHAIRMAN'S MARK
OF AN AMENDMENT TO S. 1133
("PARENT AND STUDENT SAVINGS ACCOUNT PLUS ACT")**

Scheduled for Markup

By the

SENATE COMMITTEE ON FINANCE

on February 10, 1998

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

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INTRODUCTION

The Senate Committee on Finance has scheduled a markup on February 10, 1998, on a proposed Chairman's amendment ("Chairman's mark") to S. 1133 ("Parent and Student Savings Account Plus Act"). A description of the proposed Chairman's amendment in the nature of a substitute is contained in *Description of Chairman's Mark of an Amendment to S. 1133 ("Parent and Student Savings Account Plus Act")* (JCX-5-98), February 6, 1998, prepared by the staff of the Joint Committee on Taxation. A description of certain modifications to the proposed Chairman's mark is contained in *Description of Modifications to Chairman's Mark of an Amendment to S. 1133 ("Parent and Student Savings Account Plus Act")* (JCX-7-98), February 10, 1998, prepared by the staff of the Joint Committee on Taxation.

This document,¹ prepared by the staff of the Joint Committee on Taxation, provides a description of revised modifications to the Chairman's mark. It contains a description of a provisions that increase the arbitrage rebate exception for public school bonds issued by small governments; revise the treatment of National Health Corps Scholarships; clarify the treatment of after-school programs for purposes of education IRAs; and modify the foreign tax credit carryover rules.

¹ This document may be cited as follows: Joint Committee on Taxation, *Description of Revised Modifications to Chairman's Mark of an Amendment to S. 1133 ("Parent and Student Savings Account Plus Act")* (JCX-9-98), February 10, 1998.

1. Increase arbitrage rebate exception for public school bonds issued by small governments

Present Law

Interest on State and local government bonds generally is excluded from income if the bonds are issued to finance activities carried out and paid for with revenues of these governments. Interest on bonds issued by these governments to finance activities of other persons (e.g. private activity bonds) is taxable unless a specific exception is included in the Code. In the case of bonds, the interest on which is excluded from income, generally, all arbitrage profits earned on investments unrelated to the purpose of the borrowing ("nonpurpose investments") must be rebated to the Federal Government. An exception (the "small issuer exception") allows governmental units having general taxing powers to issue up to \$5 million of governmental bonds during a calendar year without being subject to the arbitrage rebate requirement. This limit is increased to \$10 million for governmental units that issue at least \$5 million of public school bonds during the calendar year.

Description of Proposal

The proposal would increase the small issuer exception to \$15 million, provided that at least \$10 million of the bonds are issued to finance public schools.

Effective Date

The proposal would apply to bonds issued in calendar years beginning after December 31, 1998.

2. Clarification of treatment of after-school program K-12 expenses for purposes of education IRAs.

Present Law

Amounts distributed from education IRAs (as described in sec. 530) are excludable from gross income to the extent that the amounts distributed do not exceed qualified higher education expenses of the designated beneficiary during the year the distribution is made (provided that a HOPE credit or Lifetime Learning credit is not claimed under sec. 25A with respect to the beneficiary for the same taxable year.

Description of Chairman's Mark

For purposes of the Chairman's mark--which, with respect to contributions made during the period 1999 through 2002 (and earnings attributable thereto), would allow tax-free distributions from education IRAs to cover qualified elementary and secondary education expenses--the proposal would clarify that such expenses would include expenses incurred in connection with after-school programs administered for students enrolled in the grades K through 12.

Effective Date

The proposal would be effective for expenses paid in taxable years beginning after December 31, 1998.

3. National Health Corps Scholarship exclusion

Present Law

Section 117 excludes from gross income amounts received as a qualified scholarship by an individual who is a candidate for a degree and used for tuition and fees required for the enrollment or attendance (or for fees, books, supplies, and equipment required for courses of instruction) at a primary, secondary, or post-secondary educational institution. The tax-free treatment provided by section 117 does not extend to scholarship amounts covering regular living expenses, such as room and board. In addition to the exclusion for qualified scholarship, section 117 provides an exclusion from gross income for qualified tuition reductions for certain education provided to employees (and their spouses and dependents) of certain educational organizations.

Section 117(c) specifically provides that the exclusion for qualified scholarships and qualified tuition reductions does 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.

Description of Chairman's Mark

S. 1286 (introduced by Senator Jeffords on October 9, 1997) would provide that amounts received by an individual under the National Health Corps Scholarship Program--administered under section 338A(g)(1)(A) of the Public Health Service Act--would be eligible for tax-free treatment as a qualified scholarship under section 117, without regard to the fact that the recipient of the scholarship is obligated to later provide medical services in a geographic area (or to an underserved population group or designated facility) identified by the Public Health Service as having a shortage of health care professionals. The tax-free treatment would not apply to amounts received by students to cover living regular living expenses, such as room and board.

Effective Date

The proposal would apply to amounts received in taxable years beginning after December 31, 1993.

4. Modify foreign tax credit carryover rules

Present Law

U.S. persons may credit foreign taxes against U.S. tax on foreign source income. The amount of foreign tax credits that can be claimed in a year is subject to a limitation that prevents taxpayers from using foreign tax credits to offset U.S. tax on U.S. source income. Separate foreign tax credit limitations are applied to specific categories of income.

The amount of creditable taxes paid or accrued (or deemed paid) in any taxable year which exceeds the foreign tax credit limitation is permitted to be carried back two years and forward five years. The amount carried over may be used as a credit in a carryover year to the extent the taxpayer otherwise has excess foreign tax credit limitation for such year. The separate foreign tax credit limitations apply for purposes of the carryover rules.

Description of Chairman's Mark

The revised Chairman's mark would modify the effective date of the proposal reducing the foreign tax credit carryback from two years to one year and extending the foreign tax credit carryforward from five years to seven years.

Effective Date

Under the proposal, the modifications to the foreign tax credit carryover rules would be effective for foreign taxes paid or accrued in taxable years beginning after December 31, 1999.