

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.

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## IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 13, 2013

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

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## 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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