

107<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

# H. R. 2041

To amend the Internal Revenue Code of 1986 to exclude from gross income gain from the sale of securities which are used to pay for higher education expenses.

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## IN THE HOUSE OF REPRESENTATIVES

MAY 26 (legislative day, MAY 25), 2001

Mr. KNOLLENBERG 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 exclude from gross income gain from the sale of securities which are used to pay for higher education expenses.

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 “Equity in Education  
5 Act of 2001”.

1 **SEC. 2. EXCLUSION FROM GROSS INCOME FOR GAIN FROM**  
2 **SALE OF SECURITIES USED TO PAY HIGHER**  
3 **EDUCATION EXPENSES.**

4 (a) IN GENERAL.—Part III of subchapter B of chap-  
5 ter 1 of the Internal Revenue Code of 1986 (relating to  
6 items specifically excluded from gross income) is amended  
7 by redesignating section 139 as section 139A and by in-  
8 serting after section 138 the following new section:

9 **“SEC. 139. EXCLUSION FROM GROSS INCOME FOR GAIN**  
10 **FROM SALE OF SECURITIES USED TO PAY**  
11 **HIGHER EDUCATION EXPENSES.**

12 “(a) GENERAL RULE.—In the case of an individual  
13 who elects the application of this section and who pays  
14 qualified higher education expenses during the taxable  
15 year, no amount shall be includible in gross income by rea-  
16 son of the sale during such year of any qualified security.

17 “(b) LIMITATION WHERE GAIN ON SALE OR EX-  
18 CHANGE EXCEEDS HIGHER EDUCATION EXPENSES.—

19 “(1) IN GENERAL.—If—

20 “(A) the aggregate gain on the sale of any  
21 qualified securities by the taxpayer during the  
22 taxable year exceeds

23 “(B) the qualified higher education ex-  
24 penses paid by the taxpayer during such taxable  
25 year,

1 the amount excludable from gross income under sub-  
2 section (a) shall not exceed the applicable fraction of  
3 the amount excludable from gross income under sub-  
4 section (a) without regard to this subsection.

5 “(2) APPLICABLE FRACTION.—For purposes of  
6 subparagraph (A), the term ‘applicable fraction’  
7 means the fraction the numerator of which is the  
8 amount described in paragraph (1)(B) and the de-  
9 nominator of which is the amount described in para-  
10 graph (1)(A).

11 “(c) DEFINITIONS AND SPECIAL RULE.—For pur-  
12 poses of this section—

13 “(1) QUALIFIED SECURITY.—

14 “(A) IN GENERAL.—The term ‘qualified  
15 security’ means any security (as defined in sec-  
16 tion 1236(c)) which is traded on an established  
17 securities market.

18 “(B) EXCEPTION.—Such term shall not in-  
19 clude any security held in a qualified retirement  
20 plan (as defined in section 4974(c)) or in an ac-  
21 count or under an arrangement which is exempt  
22 from tax under this title.

23 “(2) QUALIFIED HIGHER EDUCATION EX-  
24 PENSES.—The term ‘qualified higher education ex-  
25 penses’ has the meaning given such term by section

1 530(b)(2), reduced by the amount of such expenses  
2 taken into account for purposes of any other provi-  
3 sion of this chapter.

4 “(3) EXCLUSION NOT APPLICABLE TO GAIN  
5 TREATED AS ORDINARY INCOME.—This section shall  
6 not apply to any gain which is treated as ordinary  
7 income for purposes of this subtitle.”.

8 (b) CLERICAL AMENDMENT.—The table of sections  
9 for part III of subchapter B of chapter 1 of such Code  
10 is amended by striking the item relating to section 139  
11 and inserting the following new items:

“Sec. 139. Exclusion from gross income for gain from sale of se-  
curities used to pay higher education expenses.

“Sec. 139A. Cross references to other Acts.”.

12 (c) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to expenses paid after December  
14 31, 2001 (in taxable years beginning after such date), for  
15 education furnished in academic periods beginning after  
16 such date.

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