

110TH CONGRESS  
1ST SESSION

# H. R. 2901

To amend the Internal Revenue Code of 1986 to establish a program demonstrating multiple approaches to Lifelong Learning Accounts, which are portable, worker-owned savings accounts that can be used by workers to help finance education, training, and apprenticeships and which are intended to supplement both public and employer-provided education and training resources, and for other purposes

---

## IN THE HOUSE OF REPRESENTATIVES

JUNE 28, 2007

Mr ALLEN (for himself and Mr MICHAUD) introduced the following bill;  
which was referred to the Committee on Ways and Means

---

## A BILL

To amend the Internal Revenue Code of 1986 to establish a program demonstrating multiple approaches to Lifelong Learning Accounts, which are portable, worker-owned savings accounts that can be used by workers to help finance education, training, and apprenticeships and which are intended to supplement both public and employer-provided education and training resources, 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,*

1 **SECTION 1. SHORT TITLE..**

2 This Act may be cited as the "Lifelong Learning Ac-  
3 counts Act of 2007"

4 **SEC. 2. ESTABLISHMENT OF LIFELONG LEARNING AC-  
5 COUNTS.**

6 (a) **IN GENERAL** — Part VII of subchapter B of chap-  
7 ter 1 of the Internal Revenue Code of 1986 (relating to  
8 computation of taxable income) is amended by redesi-  
9 gnating section 224 as section 225 and inserting after sec-  
10 tion 223 the following new section:

11 **"SEC. 224. LIFELONG LEARNING ACCOUNTS.**

12 "(a) **DEDUCTION ALLOWED** —In the case of any eli-  
13 gible individual, there shall be allowed as a deduction for  
14 the taxable year an amount equal to the aggregate amount  
15 paid in cash during such taxable year by or on behalf of  
16 such individual to a lifelong learning account of such indi-  
17 vidual

18 "(b) **LIFELONG LEARNING ACCOUNTS** —For pur-  
19 poses of this title, the term 'lifelong learning account'  
20 means a trust created or organized in the United States  
21 for the exclusive benefit of an eligible individual, but only  
22 if the written governing instrument creating the trust  
23 meets the following requirements:

24 "(1) No contribution will be accepted unless it  
25 is in cash

1           "(2) The trustee is a bank (as defined in sec-  
2           tion 408(n)), an agency or instrumentality of a  
3           State, or another person who demonstrates to the  
4           satisfaction of the Secretary that the manner in  
5           which that person will administer the trust will be  
6           consistent with the requirements of this section

7           "(3) No part of the trust assets will be invested  
8           in any collectible (as defined in section 408(m))

9           "(4) The assets of the trust will not be commin-  
10          gled with other property except in a common trust  
11          fund or common investment fund

12          “(c) TAX TREATMENT OF DISTRIBUTIONS —

13           “(1) IN GENERAL — Except as otherwise pro-  
14          vided in this subsection, any amount distributed out  
15          of a lifelong learning account shall be included in  
16          gross income by the distributee

17           “(2) QUALIFIED HIGHER EDUCATION EX-  
18          PENSES —

19           “(A) IN GENERAL — No amount shall be  
20          includible in gross income under paragraph (1)  
21          if the qualified higher education expenses of the  
22          individual for whom the account was established  
23          during the taxable year are not less than the  
24          aggregate distributions from the account during  
25          such taxable year

1           "(B) DISTRIBUTIONS IN EXCESS OF EX-  
2           PENSES.—If the aggregate distributions from a  
3           lifelong learning account for any taxable year  
4           exceed the qualified higher education expenses  
5           of the individual for whom the account was es-  
6           tablished during the taxable year, the amount  
7           otherwise includible in gross income under  
8           paragraph (1) shall be reduced by the amount  
9           which bears the same ratio to the amount which  
10          would be includible in gross income under para-  
11          graph (1) (without regard to this subpara-  
12          graph) as such expenses bear to such aggregate  
13          distributions

14          “(C) ELECTION TO WAIVE EXCLUSION—A  
15          taxpayer may elect to waive the application of  
16          this paragraph for any taxable year,

17          “(D) NO DOUBLE BENEFIT.—No exclu-  
18          sion, credit, or deduction shall be allowed to the  
19          taxpayer under this chapter for any qualified  
20          higher education expenses taken into account in  
21          determining the amount of the exclusion under  
22          this paragraph,

23          “(3) ADDITIONAL TAX —

24          “(A) IN GENERAL.—The tax imposed by  
25          this chapter on the account holder for any tax-

1           able year in which there is a distribution from  
2           a lifelong learning account includible in gross  
3           income under paragraph (1) shall be increased  
4           by 15 percent of the amount so includible,,

5           “(B) EXCEPTIONS— subparagraph (A)  
6           shall not apply if the distribution is made after  
7           the account holder dies or becomes disabled  
8           (within the meaning of section 72(m)(7)).

9           “(4) TRANSFER OF ACCOUNT INCIDENT TO DI-  
10          VORCE.—The transfer of an individual's interest in  
11          a lifelong learning account to such individual's  
12          former spouse under a divorce decree or under a  
13          written instrument incident to a divorce shall not be  
14          considered a taxable transfer made by such indi-  
15          vidual notwithstanding any other provision of this  
16          subtitle, and such interest at the time of the transfer  
17          shall be treated as a lifelong learning account of  
18          such spouse and not of such individual Thereafter  
19          such account shall be treated, for purposes of this  
20          subtitle, as maintained for the benefit of such  
21          spouse

22          “(d) TIME WHEN CONTRIBUTIONS DEEMED  
23          MADE—A taxpayer shall be deemed to have made a con-  
24          tribution on the last day of a taxable year if the contribu-  
25          tion is made on account of such taxable year and is made

1 not later than the time prescribed by law for filing the  
 2 return for such taxable year (not including extensions  
 3 thereof)

4 "(e) TAX TREATMENT OF ACCOUNTS —

5 "(1) IN GENERAL — A lifelong learning account  
 6 shall be exempt from taxation under this subtitle  
 7 Notwithstanding the preceding sentence, any lifelong  
 8 learning account shall be subject to the taxes im-  
 9 posed by section 511 (relating to imposition of tax  
 10 on unrelated business income of charitable, etc., or-  
 11 ganizations)

12 "(2) LOSS OF EXEMPTION OF ACCOUNT WHERE  
 13 INDIVIDUAL ENGAGES IN PROHIBITED TRANS-  
 14 ACTION —

15 "(A) IN GENERAL — If, during any taxable  
 16 year of the individual for whose benefit the life-  
 17 long learning account is established, the indi-  
 18 vidual engages in any transaction prohibited by  
 19 section 4975 with respect to the account, the  
 20 account shall cease to be a lifelong learning ac-  
 21 count as of the first day of that taxable year

22 "(B) ACCOUNT TREATED AS DISTRIBUTING  
 23 ALL ITS ASSETS — In any case in which any ac-  
 24 count ceases to be a lifelong learning account  
 25 by reason of subparagraph (A) on the first day

1 of any taxable year, paragraph (1) of subsection  
2 (c) shall be applied as if there were a distribu-  
3 tion on such first day in an amount equal to  
4 the fair market value (on such first day) of all  
5 assets in the account (on such first day)

6 “(3) EFFECT OF PLEDGING ACCOUNT AS SECUR-  
7 RITY —If, during any taxable year, an individual for  
8 whose benefit a lifelong learning account is estab-  
9 lished uses the account or any portion thereof as se-  
10 curity for a loan, the portion so used shall be treated  
11 as distributed to that individual

12 “(4) ROLLOVER CONTRIBUTIONS —Subsection  
13 (c)(1) shall not apply to any amount paid or distrib-  
14 uted out of a lifelong learning account to the indi-  
15 vidual for whose benefit the account is maintained if  
16 such amount is paid into another lifelong learning  
17 account for the benefit of such individual not later  
18 than the 60th day after the day on which the indi-  
19 vidual receives the payment or distribution

20 “(f) OTHER DEFINITIONS —For purposes of this sec-  
21 tion—

22 “(1) ELIGIBLE INDIVIDUAL —The term 'eligible  
23 individual' means an individual who—

1           “(A) is an employee or a self-employed in-  
2           dividual (within the meaning of section  
3           401(c)(1)(B)); and

4           “(B) is a resident of a State designated by  
5           the Secretary under subsection (i), on the date  
6           the lifelong learning account is established for  
7           such individual

8           “(2) QUALIFIED HIGHER EDUCATION EX-  
9           PENSES —The term ‘qualified higher education ex-  
10          penses’ means—

11           “(A) the expenses and courses of instruc-  
12          tion described in section 127(c)(1), and

13           “(B) such expenses, including tools, equip-  
14          ment, information technology devices, and  
15          training and apprenticeship programs, as the  
16          Secretary shall prescribe after consultation with  
17          the Secretary of Labor

18          “(g) CUSTODIAL ACCOUNTS —For purposes of this  
19          section, a custodial account shall be treated as a trust if  
20          the assets of such account are held by a bank (as defined  
21          in section 408(n)) or another person who demonstrates,  
22          to the satisfaction of the Secretary, that the manner in  
23          which such person will administer the account will be con-  
24          sistent with the requirements of this section, and if the  
25          custodial account would, except for the fact that it is not

1 a trust, constitute a lifelong learning account described in  
2 subsection (b) For purposes of this title, in the case of  
3 a custodial account treated as a trust by reason of the  
4 preceding sentence, the custodian of such account shall be  
5 treated as the trustee thereof

6 "(h) REPORTS—The trustee of a lifelong learning  
7 account shall make such reports regarding such account  
8 to the Secretary and to the individual for whose benefit  
9 the account is maintained with respect to contributions,  
10 distributions, and such other matters as the Secretary  
11 may require under regulations The reports required by  
12 this subsection shall be filed at such time and in such  
13 manner and furnished to such individuals at such time and  
14 in such manner as may be required by those regulations

15 "(i) ESTABLISHMENT OF DEMONSTRATION PRO-  
16 GRAM—From among States which apply (in such form  
17 and manner and at such time as the Secretary deter-  
18 mines), the Secretary shall designate 10 States in which  
19 residents shall be treated as eligible individuals

20 "(j) LIMITATION ON NUMBER OF TAXPAYERS HAV-  
21 ING LIFELONG LEARNING ACCOUNTS —

22 "(1) IN GENERAL—No individual shall be  
23 treated as an eligible individual for any taxable year  
24 beginning after the cut-off year unless such indi-

1       vidual was an eligible individual for any taxable year  
2       ending on or before the close of the cut-off year

3               "(2) CUT-OFF YEAR—For purposes of para-  
4       graph (1), the term 'cut-off year' means the first  
5       calendar year for which the Secretary determines  
6       that the number of eligible individuals for whom a  
7       lifelong learning account has been established ex-  
8       ceeds 200,000 by the close of such calendar year

9               "(3) REPORTING—The Secretary shall estab-  
10      lish such reporting requirements for trustees of life-  
11      long learning accounts as are necessary to carry out  
12      this subsection

13              "(k) SPECIAL RULES FOR EMPLOYER CONTRIBU-  
14      TIONS — the case of any contribution by an employer  
15      to a lifetime learning account made on behalf of an em-  
16      ployee, rules similar to the rules of paragraphs (2) through  
17      (6) of section 127(b) shall apply "

18              (b) DEDUCTION ALLOWED WHETHER OR NOT INDI-  
19      VIDUAL ITEMIZES OTHER DEDUCTIONS—Subsection (a)  
20      of section 62 of the Internal Revenue Code of 1986 is  
21      amended by inserting after paragraph (21) the following  
22      new paragraph:

23              "(22) LIFELONG LEARNING ACCOUNTS—The  
24      deduction allowed under section 224 "

1 (c) EMPLOYER CONTRIBUTIONS EXCLUDED FROM  
2 INCOME —Section 127 of the Internal Revenue Code of  
3 1986 (relating to educational assistance) is amended by  
4 redesignating subsection (d) as subsection (e) and by in-  
5 serting after subsection (c) the following new subsection:

6 "(d) EMPLOYER CONTRIBUTIONS TO LIFELONG  
7 LEARNINGACCOUNT —Gross income of an employee of an  
8 employer shall not include the amount of any contribution  
9 by the employer to a lifelong learning account established  
10 on behalf of the employee ”

11 (d) EXCLUSION FROM EMPLOYMENT TAXES —

12 (1) RAILROAD RETIREMENT TAX —Subsection  
13 (e) of section 3231 of the Internal Revenue Code of  
14 1986 is amended by adding at the end the following  
15 new paragraph:

16 "(13) LIFELONG LEARNING ACCOUNT CON-  
17 TRIBUTIONS —The term 'compensation' shall not in-  
18 clude any payment made to or for the benefit of an  
19 employee if at the time of such payment it is reason-  
20 able to believe that the employee will be able to ex-  
21 clude such payment from income under section  
22 127(d) ”

23 (2) UNEMPLOYMENT TAX —Subsection (b) of  
24 section 3306 of such Code is amended by striking  
25 "or" at the end of paragraph (18), by striking the

1 period at the end of paragraph (19) and inserting “;  
2 or”, and by inserting after paragraph (19) the fol-  
3 lowing new paragraph:

4 “(20) any payment made to or for the benefit  
5 of an employee if at the time of such payment it is  
6 reasonable to believe that the employee will be able  
7 to exclude such payment from income under section  
8 127(d)”

9 (3) WITHHOLDING TAX—Subsection (a) of sec-  
10 tion 3401 of such Code is amended by striking “or”  
11 at the end of paragraph (21), by striking the period  
12 at the end of paragraph (22) and inserting “; or”,  
13 and by inserting after paragraph (22) the following  
14 new paragraph:

15 “(23) any payment made to or for the benefit  
16 of an employee if at the time of such payment it is  
17 reasonable to believe that the employee will be able  
18 to exclude such payment from income under section  
19 127(d)”

20 (4) EMPLOYER CONTRIBUTIONS REQUIRED TO  
21 BE SHOWN ON W-2 —Subsection (a) of section 6051  
22 of such Code is amended by striking “and” at the  
23 end of paragraph (12), by striking the period at the  
24 end of paragraph (13) and inserting “, and”, and by

1 inserting after paragraph (13) the following new  
2 paragraph:

3 "(14) the amount contributed to any lifelong  
4 learning account (as defined in section 224) on be-  
5 half of such employee"

6 (e) TAX ON PROHIBITED TRANSACTIONS —

7 (1) Paragraph (1) of section 4975(e) of the In-  
8 ternal Revenue Code of 1986 (relating to prohibited  
9 transactions) is amended by redesignating subpara-  
10 graphs (H) and (I) as subparagraphs (I) and (J),  
11 respectively, and by inserting the following new sub-  
12 paragraph after subparagraph (G):

13 "(H) a lifelong learning account described  
14 in section 224(b);"

15 (2) Subsection (c) of section 4975 of such Code  
16 is amended by adding at the end the following new  
17 paragraph:

18 "(7) SPECIAL RULE FOR LIFELONG LEARNING  
19 ACCOUNTS — An individual for whose benefit a life-  
20 long learning account is established shall be exempt  
21 from the tax imposed by this section with respect to  
22 any transaction concerning such account (which  
23 would otherwise be taxable under this section) if,  
24 with respect to such transaction, the account ceases

1 to be a lifelong learning account by reason of the ap-  
 2 plication of section 224(e)(2)(A) to such account ”

3 (f) FAILURE TO PROVIDE REPORTS ON LIFELONG  
 4 LEARNING ACCOUNTS — Paragraph (2) of section 6693(a)  
 5 of the Internal Revenue Code of 1986 is amended by strik-  
 6 ing "and" at the end of subparagraph (D), by redesi-  
 7 gnating subparagraph (E) as subparagraph (F), and by in-  
 8 serting after subparagraph (D) the following new subpara-  
 9 graph:

10 "(E) section 224(h) (relating to lifelong  
 11 learning accounts), and"

12 (g) EXEMPTION FROM ERISA REQUIREMENTS — A  
 13 lifelong learning account (as defined in section 224 of the  
 14 Internal Revenue Code of 1986, as added by this section)  
 15 shall not be treated as an employee welfare benefit plan  
 16 for purposes of title I of the Employee Retirement Income  
 17 Security Act of 1974

18 (h) CLERICAL AMENDMENT — The table of sections  
 19 for part VII of subchapter B of chapter 1 of the Internal  
 20 Revenue Code of 1986 is amended by redesignating the  
 21 item relating to section 224 as an item relating to section  
 22 225 and inserting after the item relating to section 223  
 23 the following new item:

“Sec 224 Lifelong learning accounts ”

1 (i) EFFECTIVE DATE —The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2007

4 **SEC. 3. REFUNDABLE CREDIT FOR CONTRIBUTIONS TO**  
5 **LIFELONG LEARNING ACCOUNTS.**

6 (a) GENERAL RULE — Subpart C of part IV of sub-  
7 chapter A of chapter 1 of the Internal Revenue Code of  
8 1986 (relating to refundable credits) is amended by redес-  
9 ignating section 36 as section 37 and by inserting after  
10 section 35 the following new section:

11 **"SEC. 36. CONTRIBUTIONS TO LIFELONG LEARNING AC-**  
12 **COUNTS.**

13 "(a) GENERAL RULE —In the case of an eligible indi-  
14 vidual, there shall be allowed as a credit against the tax  
15 imposed by this chapter for the taxable year an amount  
16 equal to the aggregate amount paid in cash for the taxable  
17 year by such individual to a lifelong learning account es-  
18 tablished for the benefit of such individual under section  
19 224

20 "(b) LIMITATIONS —

21 "(1) IN GENERAL —The credit allowed under  
22 subsection (a) with respect to any taxable year shall  
23 not exceed \$500

24 "(2) LIMITATION BASED ON MODIFIED AD-  
25 JUSTED GROSS INCOME —The amount which would

1 (but for this paragraph) be otherwise allowable as a  
2 credit under subsection (a) for the taxable year shall  
3 be reduced (but not below zero) by the amount  
4 which bears the same ratio to the amount which  
5 would (but for this paragraph) be otherwise allow-  
6 able under subsection (a) as—

7 "(A) the excess of—

8 "(i) the taxpayer's modified adjusted  
9 gross income (as defined in section  
10 530(e)(2)) for the taxable year, over

11 "(ii) \$55,000 (twice such amount in  
12 the case of a joint return), bears to

13 "(B) \$10,000 (twice such amount in the  
14 case of a joint return)

15 "(c) ELIGIBLE INDIVIDUAL—The term 'eligible indi-  
16 vidual' has the meaning given such term by section  
17 224(f)(1) ”

18 (b) CONFORMING AMENDMENTS —

19 (1) Paragraph (2) of section 1324(b) of title  
20 31, United States Code, is amended by inserting "or  
21 36" after "section 35"

22 (2) The table of sections for subpart C of part  
23 IV of subchapter A of chapter 1 of the Internal Rev-  
24 enue Code of 1986 is amended by striking the last  
25 item and inserting the following new items:

“Sec 36 Contributions to lifelong learning accounts  
 ‘Sec 37 Overpayments of tax ‘

1 (c) EFFECTIVE DATE —The amendments made by  
 2 this section shall apply to taxable years beginning after  
 3 December 31, 2006

4 **SEC 4. TAX TREATMENT OF CONTRIBUTIONS BY EMPLOYERS TO LIFELONG LEARNING ACCOUNTS OF THEIR EMPLOYEES.**

5 (a) ALLOWANCE OF CREDIT TO EMPLOYERS.—

6 (1) IN GENERAL—subpart D of part IV of  
 7 subchapter A of chapter 1 of the Internal Revenue  
 8 Code of 1986 (relating to business related credits) is  
 9 amended by adding at the end the following new section:  
 10  
 11  
 12

13 **“SEC 450 CONTRIBUTIONS BY EMPLOYERS TO LIFELONG LEARNING ACCOUNTS.**

14  
 15 “(a) IN GENERAL—For purposes of section 38, in  
 16 the case of an employer, the lifelong learning contribution  
 17 credit determined under this section for any taxable year  
 18 is an amount equal to the aggregate qualified lifelong  
 19 learning contributions of the employer for the taxable  
 20 year

21 “(b) QUALIFIED LIFELONG LEARNING CONTRIBUTION—For purposes of this section—

22  
 23 “(1) IN GENERAL—The term 'qualified lifelong  
 24 learning contribution' means a contribution made by

1 an employer on behalf of an employee of such em-  
2 ployer to a lifelong learning account established on  
3 behalf of such employee

4 “(2) DOLLAR LIMITATION —The aggregate con-  
5 tributions made by an employer on behalf of any em-  
6 ployee which may be treated as qualified lifelong  
7 learning contributions for any calendar year shall  
8 not exceed the lesser of—

9 “(A) the contributions made by the em-  
10 ployee to the employee's lifelong learning ac-  
11 count during the calendar year, or

12 “(B) \$500

13 “(e) NO REDUCTION IN EDUCATION BENEFITS —No  
14 credit shall be allowed under this section to any employer  
15 for any taxable year unless such employer certifies (in  
16 such form and manner as the Secretary may provide) that  
17 such employer has not reduced the education and tuition  
18 benefits provided by the employer to its employees

19 “(d) DEFINITIONS AND SPECIAL RULES —For pur-  
20 poses of this section—

21 “(1) DEFINITIONS —Any term used in this sec-  
22 tion which is also used in section 529A shall have  
23 the same meaning as when used in such section

1           "(2) SPECIAL RULES.—Rules similar to the  
2 rules of section 45E(e) shall apply for purposes of  
3 this section

4           "(3) SELF-EMPLOYED INDIVIDUALS—A self-  
5 employed individual (within the meaning of section  
6 401(c)(1)(B)) shall not be treated as an employee "

7           (2) CREDIT PART OF GENERAL BUSINESS  
8 CREDIT —Section 38(b) of such Code is amended by  
9 striking "and" at the end of paragraph (30), by  
10 striking the period at the end of paragraph (31) and  
11 inserting ", plus", and by adding at the end the fol-  
12 lowing new paragraph:

13           "(32) the lifelong learning contribution credit  
14 determined under section 450 "

15           (3) DEDUCTION FOR UNUSED CREDIT —Section  
16 196(e) of such Code is amended by striking "and"  
17 at the end of paragraph (12), by striking the period  
18 at the end of paragraph (13) and inserting ", and",  
19 and by adding at the end the following new para-  
20 graph:

21           "(14) the employer lifelong learning contribu-  
22 tion credit determined under section 450(a) "

23           (4) CLERICAL AMENDMENT—The table of sec-  
24 tions for subpart D of part IV of subchapter A of

1 chapter 1 of such Code is amended by adding at the  
 2 end the following new item:

“Sec 450 Contributions by employers to lifelong learning accounts”

3 (b) **EFFECTIVE DATE**—The amendments made by  
 4 this section shall, apply to taxable years beginning after  
 5 December 31, 2006.

6 **SEC. 5. APPLICATION TO SECTION 529 QUALIFIED TUITION**  
 7 **PROGRAMS..**

8 Section 529 of the Internal Revenue Code of 1986  
 9 is amended by adding at the end the following new sub-  
 10 section:

11 “(g) **APPLICATION OF LIFELONG LEARNING Ac-**  
 12 **COUNT RULES.**—Not later than 90 days after the date  
 13 of the enactment of this subsection, the Secretary shall—

14 “(1) prescribe regulations which provide for the  
 15 application (subject the requirements of subsection  
 16 (i) and (j) of section 224) of the rules of sections  
 17 224 (including the deduction allowed under sub-  
 18 section (a) thereof), 36, and 450, and related provi-  
 19 sions, to qualified tuition programs established  
 20 under this section, or

21 “(2) submit a report to Congress describing in  
 22 detail the reasons that such regulations have not  
 23 been prescribed”

1 **SEC..6. STUDY ON EFFECTIVENESS OF LIFELONG LEARN-**  
2 **ING ACCOUNTS DEMONSTRATION PROGRAM.**

3 (a) **IN GENERAL.**—The Comptroller General of the  
4 United States, in consultation with the Secretary of  
5 Labor, shall conduct a study on lifelong learning accounts  
6 established under section 224 of the Internal Revenue  
7 Code of 1986 and the credits established under sections  
8 36 and 450 of such Code Such study shall examine the  
9 effectiveness of the accounts in increasing funding for ca-  
10 reer-related education and the extent to which the tax ben-  
11 efits under such sections are provided to low-income indi-  
12 viduals.,

13 (b) **REPORT**—Not later than January 1, 2009, the  
14 Secretary of the Treasury shall submit to Congress a re-  
15 port on the study conducted under subsection (a).

○