

**110th CONGRESS
1st Session**

Lifelong Learning Accounts Act of 2007

S. 26

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 SENATE OF THE UNITED STATES

January 4, 2007

Ms. CANTWELL (for herself and Ms. SNOWE) introduced the following bill; which was read twice and referred to the Committee on Finance

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.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the `Lifelong Learning Accounts Act of 2007'.

SEC. 2. ESTABLISHMENT OF LIFELONG LEARNING ACCOUNTS.

(a) In General- Part VIII of subchapter F of chapter 1 (relating to higher education savings entities) is amended by inserting after section 529 the following new section:

SEC. 529A. LIFELONG LEARNING ACCOUNTS.

(a) General Rule- A lifelong learning account shall be exempt from taxation under this subtitle. Notwithstanding the preceding sentence, any lifelong learning account shall be subject to the taxes imposed by section 511 (relating to imposition of tax on unrelated business income of charitable, etc., organizations).

(b) Lifelong Learning Accounts- For purposes of this title, the term 'lifelong learning account' means a trust created or organized in the United States for the exclusive benefit of an eligible individual, but only if the written governing instrument creating the trust meets the following requirements:

(1) No contribution will be accepted unless it is in cash.

(2) No contribution will be accepted unless it is made by--

(A) the individual on whose behalf the account was established at a time when the individual was an eligible individual, or

(B) an employer of such individual.

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

(4) No part of the trust assets will be invested in any collectible (as defined in section 408(m)).

(5) The assets of the trust will not be commingled with other property except in a common trust fund or common investment fund.

(c) Time When Contributions Deemed Made- A taxpayer shall be deemed to have made a contribution on the last day of a taxable year if the contribution is made on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (not including extensions thereof).

(d) Tax Treatment of Distributions-

(1) IN GENERAL- Except as otherwise provided in this subsection, any amount distributed out of a lifelong learning account shall be included in gross income by the distributee.

(2) QUALIFIED HIGHER EDUCATION EXPENSES-

(A) IN GENERAL- No amount shall be includible in gross income under paragraph (1) if the qualified higher education expenses of the individual for whom the account was established during the taxable year are not less than the aggregate distributions from the account during such taxable year.

(B) DISTRIBUTIONS IN EXCESS OF EXPENSES- If the aggregate distributions from a lifelong learning account for any taxable year exceed the qualified higher education expenses of the individual for whom the account was established during the taxable year, the amount otherwise includible in gross income under paragraph (1) shall be reduced by the amount which

bears the same ratio to the amount which would be includible in gross income under paragraph (1) (without regard to this subparagraph) as such expenses bear to such aggregate distributions.

` (C) ELECTION TO WAIVE EXCLUSION- A taxpayer may elect to waive the application of this paragraph for any taxable year.

` (D) NO DOUBLE BENEFIT- No exclusion, credit, or deduction shall be allowed to the taxpayer under this chapter for any qualified higher education expenses taken into account in determining the amount of the exclusion under this paragraph.

` (3) ADDITIONAL TAX-

` (A) IN GENERAL- The tax imposed by this chapter on the account holder for any taxable year in which there is a distribution from a lifelong learning account includible in gross income under paragraph (1) shall be increased by 15 percent of the amount so includible.

` (B) EXCEPTIONS- Subparagraph (A) shall not apply if the distribution is made after the account holder dies or becomes disabled (within the meaning of section 72(m)(7)).

` (4) TRANSFER OF ACCOUNT INCIDENT TO DIVORCE- The transfer of an individual's interest in a lifelong learning account to such individual's former spouse under a divorce decree or under a written instrument incident to a divorce shall not be considered a taxable transfer made by such individual notwithstanding any other provision of this subtitle, and such interest at the time of the transfer shall be treated as a lifelong learning account of such spouse and not of such individual. Thereafter such account shall be treated, for purposes of this subtitle, as maintained for the benefit of such spouse.

` (e) Tax Treatment of Accounts-

` (1) LOSS OF EXEMPTION OF ACCOUNT WHERE INDIVIDUAL ENGAGES IN PROHIBITED TRANSACTION-

` (A) IN GENERAL- If, during any taxable year of the individual for whose benefit the lifelong learning account is established, the individual engages in any transaction prohibited by section 4975 with respect to the account, the account shall cease to be a lifelong learning account as of the first day of that taxable year.

` (B) ACCOUNT TREATED AS DISTRIBUTING ALL ITS ASSETS- In any case in which any account ceases to be a lifelong learning account by reason of subparagraph (A) on the first day of any taxable year, paragraph (1) of subsection (d) shall be applied as if there were a distribution on such first day in an amount equal to the fair market value (on such first day) of all assets in the account (on such first day).

` (2) EFFECT OF PLEDGING ACCOUNT AS SECURITY- If, during any taxable year, an individual for whose benefit a lifelong learning account is established uses the account or any portion thereof as

security for a loan, the portion so used shall be treated as distributed to that individual.

` (3) ROLLOVER CONTRIBUTIONS- Subsection (d)(1) shall not apply to any amount paid or distributed out of a lifelong learning account to the individual for whose benefit the account is maintained if such amount is paid into another lifelong learning account for the benefit of such individual not later than the 60th day after the day on which the individual receives the payment or distribution.

` (f) Other Definitions- For purposes of this section--

` (1) ELIGIBLE INDIVIDUAL- The term `eligible individual' means an individual who--

` (A) is an employee or a self-employed individual (within the meaning of section 401(c)(1)(B)), and

` (B) is a resident of a State designated by the Secretary under subsection (i), on the date the lifelong learning account is established for such individual.

` (2) QUALIFIED HIGHER EDUCATION EXPENSES- The term `qualified higher education expenses' means--

` (A) the expenses and courses of instruction described in section 127(c)(1), and

` (B) such expenses, including tools, equipment, information technology devices, and training and apprenticeship programs, as the Secretary shall prescribe after consultation with the Secretary of Labor.

` (g) Custodial Accounts- For purposes of this section, a custodial account shall be treated as a trust if the assets of such account are held by a bank (as defined in section 408(n)) or another person who demonstrates, to the satisfaction of the Secretary, that the manner in which such person will administer the account will be consistent with the requirements of this section, and if the custodial account would, except for the fact that it is not a trust, constitute a lifelong learning account described in subsection (b). For purposes of this title, in the case of a custodial account treated as a trust by reason of the preceding sentence, the custodian of such account shall be treated as the trustee thereof.

` (h) Reports- The trustee of a lifelong learning account shall make such reports regarding such account to the Secretary and to the individual for whose benefit the account is maintained with respect to contributions, distributions, and such other matters as the Secretary may require under regulations. The reports required by this subsection shall be filed at such time and in such manner and furnished to such individuals at such time and in such manner as may be required by those regulations.

` (i) Establishment of Demonstration Program- From among States which apply (in such form and manner and at such time as the Secretary determines), the Secretary shall designate 10 States in which residents shall be treated as eligible individuals.

` (j) Limitation on Number of Taxpayers Having Lifelong Learning Accounts-

` (1) IN GENERAL- No individual shall be treated as an eligible individual for any taxable year beginning after the cut-off year unless

such individual was an eligible individual for any taxable year ending on or before the close of the cut-off year.

` (2) CUT-OFF YEAR- For purposes of paragraph (1), the term `cut-off year' means the first calendar year for which the Secretary determines that the number of eligible individuals for whom a lifelong learning account has been established exceeds 200,000 by the close of such calendar year.

` (3) REPORTING- The Secretary shall establish such reporting requirements for trustees of lifelong learning accounts as are necessary to carry out this subsection.'

(b) Tax on Prohibited Transactions-

(1) Paragraph (1) of section 4975(e) of the Internal Revenue Code of 1986 (relating to prohibited transactions) is amended by redesignating subparagraphs (F) and (G) as subparagraphs (G) and (H), respectively, and by inserting the following new subparagraph after subparagraph (E):

` (F) a lifelong learning account described in section 529A(b),'.

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

` (7) SPECIAL RULE FOR LIFELONG LEARNING ACCOUNTS- An individual for whose benefit a lifelong learning account is established shall be exempt from the tax imposed by this section with respect to any transaction concerning such account (which would otherwise be taxable under this section) if, with respect to such transaction, the account ceases to be a lifelong learning account by reason of the application of section 529A(e)(1)(A) to such account.'

(c) Failure to Provide Reports on Lifelong Learning Accounts- Paragraph (2) of section 6693(a) of the Internal Revenue Code of 1986 is amended by striking `and' at the end of subparagraph (D), by redesignating subparagraph (E) as subparagraph (F), and by inserting after subparagraph (D) the following new subparagraph:

` (E) section 529A(h) (relating to lifelong learning accounts), and'.

(d) Clerical Amendment- The table of sections for part VIII of subchapter F of chapter 1 of the Internal Revenue Code of 1986 is amended by inserting after the item relating to section 529 the following new item:

` Sec. 529A. Lifelong learning accounts.'

(e) Effective Date- The amendments made by this section shall apply to taxable years beginning after December 31, 2006.

SEC. 3. NONREFUNDABLE PERSONAL CREDIT FOR CONTRIBUTIONS TO LIFELONG LEARNING ACCOUNTS.

(a) General Rule- Subpart A of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 (relating to nonrefundable personal credits) is amended by inserting after section 25D the following new section:

SEC. 25E. CONTRIBUTIONS TO LIFELONG LEARNING ACCOUNTS.

(a) General Rule- In the case of an eligible individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the aggregate amount paid in cash for the taxable year by such individual to a lifelong learning account established for the benefit of such individual under section 529A.

(b) Limitations-

(1) IN GENERAL- The credit allowed under subsection (a) with respect to any taxable year shall not exceed \$500.

(2) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME- The amount which would (but for this paragraph) be otherwise allowable as a credit under subsection (a) for the taxable year shall be reduced (but not below zero) by the amount which bears the same ratio to the amount which would (but for this paragraph) be otherwise allowable under subsection (a) as--

(A) the excess of--

(i) the taxpayer's modified adjusted gross income (as defined in section 530(c)(2)) for the taxable year, over

(ii) \$55,000 (\$75,000 in the case of a joint return), bears to

(B) \$10,000 (\$13,636 in the case of a joint return).

(c) Eligible Individual- The term 'eligible individual' has the meaning given such term by section 529A(f)(1).'

(b) Conforming Amendment- The table of sections for subpart A of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by inserting after the item relating to section 25D the following new item:

'Sec. 25E. Contributions to lifelong learning accounts.'

(c) Effective Date- The amendments made by this section shall apply to taxable years beginning after December 31, 2006.

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

(a) Allowance of Credit to Employers-

(1) IN GENERAL- Subpart D of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 (relating to business related credits) is amended by adding at the end the following new section:

SEC. 450. CONTRIBUTIONS BY EMPLOYERS TO LIFELONG LEARNING ACCOUNTS.

(a) In General- For purposes of section 38, in the case of an employer, the lifelong learning contribution credit determined under this section for any taxable year is an amount equal to the aggregate qualified lifelong learning contributions of the employer for the taxable year.

(b) Qualified Lifelong Learning Contribution- For purposes of this section--

^ (2) DEFINITIONS- Any term used in this section which is also used in section 529A shall have the same meaning as when used in such section.'

(c) Effective Date- The amendments made by this section shall apply to taxable years beginning after December 31, 2006.

SEC. 5. STUDY ON EFFECTIVENESS OF LIFELONG LEARNING ACCOUNTS DEMONSTRATION PROGRAM.

(a) In General- The Secretary of the Treasury in collaboration with the Secretaries of Labor and Education shall conduct a study on lifelong learning accounts established under section 529A of the Internal Revenue Code of 1986 and the credits established under sections 25E and 45O of such Code. Such study shall examine the effectiveness of the accounts in increasing funding for career-related education and the extent to which the tax benefits under such sections are provided to low-income individuals.

(b) Report- Not later than January 1, 2009, the Secretary of the Treasury shall submit to Congress a report on the study conducted under subsection (a).

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