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## **Tax Benefits for Education in the Taxpayer Relief Act of 1997: New Legislative Developments**

**Updated July 30, 2001**

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# Tax Benefits for Education in the Taxpayer Relief Act of 1997: New Legislative Developments

## Summary

The Taxpayer Relief Act of 1997 (P.L. 105-34) substantially expanded tax benefits for education. Four widely publicized provisions — two new tax credits, a new tax-exempt education savings account (education IRAs), and a new deduction for interest payments on education loans — can help families pay for college and other postsecondary education expenses.

Other provisions in the legislation extended the tax exclusion for employer education assistance, exempted individual retirement account (IRA) withdrawals used for higher education from early withdrawal penalties, expanded the tax exclusion for student loans that are forgiven, expanded the definition of qualified expenses for state tuition plans, and authorized a temporary enhanced deduction for corporate contributions of computer technology and equipment to elementary and secondary schools. The legislation also created new qualified zone academy bonds for public school renovation and program improvement.

The Internal Revenue Service Restructuring and Reform Act of 1998 (P.L. 105-206) made a number of minor and technical amendments in the 1997 legislation.

Two provisions were extended by the 106<sup>th</sup> Congress. The Ticket to Work and Work Incentives Improvement Act of 1999 (P.L. 106-170) extended the exclusion for employer education assistance through December 31, 2001. The Community Renewal Tax Relief Act of 2000 (P.L. 106-554) extended the authorization for the enhanced deduction for corporate donations of computer technology and equipment through December 31, 2003; it also expanded the deduction in several ways.

In the 107<sup>th</sup> Congress, the Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16) that President Bush signed on June 7, 2001, expanded a number of the tax benefits discussed above. Among other things, it increased contribution limits for education IRAs and allowed accounts to be used for elementary and secondary education expenses; exempted distributions from qualified tuition plans from taxes and allowed private institutions to establish prepaid tuition plans; permanently extended the exclusion for employer education assistance and expanded it to include graduate-level courses; removed a 60-month limit on the deduction for interest on education loans; created a new tax deduction in lieu of the Hope Scholarship and Lifetime Learning credits; and provided further assistance for school construction. Generally, these provisions become effective after 2001. Subsequent legislation (P.L. 107-22) changed the name of education IRAs to Coverdell education savings accounts.

## Contents

Introduction .....	1
Tax Credits .....	2
Education IRAs (Coverdell Education Savings Accounts) .....	4
Interest Deduction .....	5
Employer Education Assistance .....	6
State Tuition Savings Plans .....	7
IRA Early Withdrawal Penalty .....	7
Forgiven Student Loans .....	8
Computer Donations by Corporations .....	8
Bonds .....	9
Tax Credit Bonds .....	9
Arbitrage .....	10
Private Activity Bonds .....	10

# Tax Benefits for Education in the Taxpayer Relief Act of 1997: New Legislative Developments

## Introduction

The Taxpayer Relief Act of 1997 (P.L. 105-34) that President Clinton signed on August 5, 1997, contained new higher education tax benefits for students and their families. Most notable were two tax credits (the HOPE Scholarship and Lifetime Learning credits), tax-exempt education savings accounts called education IRAs, and a deduction for interest payments on education loans. The Act also made other changes regarding state tuition savings programs, IRA withdrawal penalties, employer education assistance, and student loan forgiveness. In addition, it authorized new bonds for public school renovation and program improvement and an enhanced deduction for corporations that donate computers to elementary and secondary schools. While the Internal Revenue Code previously had provisions favoring education, the new legislation marked a significant expansion in the use of tax policy to encourage enrollment and to help families and communities pay for schools. The numerous special tax benefits for education and other purposes distinguish this legislation from the Tax Reform Act of 1986 (P.L. 99-514), which generally reduced special incentives.

The Taxpayer Relief Act of 1997 offered families multiple ways to get tax subsidies for higher education. They can benefit in years when they save for college, when they pay tuition costs, and when they repay loans. The legislation thus supported different approaches toward financing postsecondary education and gives families flexibility to adapt their plans as circumstances change.

At the same time, the new options make financial planning for college more complicated. The added complexity raises concerns that families in similar economic circumstances will receive different levels of benefits. The extent to which the tax benefits will supplement or supplant assistance provided by state or other federal sources remains unclear.

It is also unclear whether the new tax benefits, estimated by the Joint Committee on Taxation to cost \$30 billion over FY2000 through FY2004, are resulting in additional enrollment or other investment in education. The benefits may encourage some students to continue their studies, particularly after obtaining their initial degree, and some to consider a wider range of schools. However, it is likely that most of the

benefits are accruing to families whose students would have enrolled anyway. Some of the benefits may be captured by the schools through higher tuition.<sup>1</sup>

This report summarizes highlights of the education provisions of the Taxpayer Relief Act of 1997. It provides general information and does not cover all provisions that individual taxpayers may consider important. For more details, readers might consult either the Act itself or the conference committee report, both of which are printed in part II of the *Congressional Record* for July 30, 1997. In addition, they may want to refer to Internal Revenue Service publication 970, *Tax Benefits for Higher Education*.

The report also summarizes subsequent legislation that amended the 1997 provisions, including the Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16) that President Bush signed on June 7, 2001. Among other things, this Act increased contribution limits for education IRAs and allowed accounts to be used for elementary and secondary education expenses; exempted distributions from qualified tuition plans from taxes and allowed private institutions to establish prepaid tuition plans; permanently extended the exclusion for employer education assistance and expanded it to include graduate-level courses; removed a 60-month limit on the deduction for interest on education loans; created a new tax deduction in lieu of the Hope Scholarship and Lifetime Learning credits; and provided further assistance for school construction. Generally, these provisions become effective after 2001.

The report will track further legislation once it has been reported by committee or considered on the House or Senate floor. Generally, it does not identify other bills that have been introduced.<sup>2</sup>

## Tax Credits

The Taxpayer Relief Act of 1997 is perhaps best known for the two new education tax credits it authorized. The **HOPE Scholarship credit** equals 100% of the first \$1,000 of qualified tuition and fees and 50% of the next \$1,000 that taxpayers pay for themselves, their spouse, or their dependents. The credit may be claimed for two taxable years with respect to each *student*, provided the student has not completed the first two years of postsecondary education before the beginning of the year for which the credit is claimed. An eligible student must be enrolled (or accepted for enrollment) in a degree, certificate, or other program leading to a recognized

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<sup>1</sup>For a discussion of these issues, see CRS Report 97-581, *Tax Subsidies for Higher Education: An Analysis of the Administration's Proposals*, by Jane Gravelle and Dennis Zimmerman.

<sup>2</sup>Congressional offices can construct comprehensive lists of bills on particular proposals by using the Legislative Information System (LIS) available through the CRS home page. Under the Legislation heading, click on the LIS and then on Bill Text: Adv. In the Word/Phrase box, type either a term like "HOPE Scholarship" or a combination of words and connectors like "deduction adj/5 education" and then click on Search. Search results may yield some irrelevant bills without identifying all relevant ones; thus, the lists should be reviewed carefully. For technical assistance with searches, offices might call the La Follette Congressional Reading Room at 7-7100.

educational credential and must carry at least one-half the normal full-time work load. The HOPE credit is not allowed for a student who has been convicted of a felony drug offense.

The **Lifetime Learning credit** equals 20% of the first \$5,000 of qualified tuition and fees (the first \$10,000 after 2002) that taxpayers pay for themselves, their spouse, or their dependents. The credit may be claimed any number of years for any level of postsecondary education; it can also apply to students who are enrolled in a single course to acquire or improve job skills. For a particular student, either the HOPE credit, the Lifetime Learning credit, or the exclusion of distributions from an education IRA may be claimed in one year. However, all three tax benefits might be claimed the same year, even by one taxpayer, with respect to three different students.

The HOPE and Lifetime Learning credits are allowed for payment of qualified tuition and fees at institutions eligible to participate in student aid programs authorized by title IV of the Higher Education Act (HEA); this includes nearly all colleges and universities as well as many proprietary (for-profit) trade schools. Payments attributable to scholarships, veterans' educational assistance, or other sources that are excludable from gross income for tax purposes (such as employer tuition reimbursements) generally cannot be taken into account. However, tuition and fee payments made from gifts and inheritances may be considered for the credits, as may payments made from loans.

To give a simple example, consider an independent student who attends a school with tuition and fees charges of \$5,000. If the student receives a \$1,000 Pell Grant, a \$1,000 scholarship from the school, and a \$1,500 loan, qualified tuition and fees would equal \$3,000 (that is, \$5,000 minus the grant and the scholarship). Subject to limitations in the following paragraphs, the HOPE credit would be \$1,500 (that is, 100% of the first \$1,000 paid and 50% of the next \$1,000). The Lifetime Learning credit would be \$600 (20% of the \$3,000 paid).

The HOPE Scholarship and Lifetime Learning credits are phased out for taxpayers with modified adjusted gross incomes between \$40,000 and \$50,000 (\$80,000 to \$100,000 in the case of a joint return). Thus, for single filers with modified adjusted gross incomes of \$42,500 the maximum HOPE credit would be limited to \$1,125.<sup>3</sup>

The two credits are not refundable: the sum of them and other nonrefundable credits generally is limited to the taxpayer's regular income tax liability.<sup>4</sup> Thus, for taxpayers with combined nonrefundable credits of \$1,000 and a regular tax liability of \$800, the allowable credits can be no more than \$800. Under a provision in the

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<sup>3</sup>The maximum credit of \$1,500 x [(\$50,000 - \$42,400)/\$10,000] = \$1,125. Modified adjusted gross income is adjusted gross income (a prominent line on tax returns) increased by the foreign earned income and housing exclusion and amounts excluded for income within Puerto Rico and certain territories.

<sup>4</sup>Regular income tax liability is the product of taxable income (gross income minus deductions and personal and dependency exemptions) times the taxpayer's tax rate. The regular tax liability does not reflect any reductions due to tax credits.

Ticket to Work and Work Incentives Improvement Act of 1999, personal nonrefundable credits are not limited by the taxpayer's tentative minimum tax in tax years 2000 and 2001.

Taxpayers are not eligible for either the HOPE or Lifetime Learning credit if they are claimed as dependents by other taxpayers (for example, students who are claimed as dependents by their parents). However, in this case the taxpayers who claim the dependent are eligible for the credits (assuming they meet the other eligibility requirements) and they may take into account tuition payments made by the dependent. Under proposed rules issued in January 1999, taxpayers who are eligible to claim students as dependents may elect not to do so (normally, no election is allowed aside from cases of divorce or separation); the students then may claim the credits for whatever tuition expenses they paid. Parents might make this election if their income exceeds the ceilings described above.<sup>5</sup>

The IRS Restructuring and Reform Act of 1998 modified the reporting requirements for educational institutions.

The Economic Growth and Tax Relief Reconciliation Act of 2001 did not change the HOPE or Lifetime Learning credits; however, it did authorize a new deduction (not limited to itemizers) for qualified tuition and fees in lieu of the credits. Taxpayers will be able to choose one or the other with respect to a student in the same year. The new deduction will be effective only for four tax years: in 2002 and 2003, it is limited to \$3,000 for taxpayers with modified adjusted gross incomes that do not exceed \$65,000 (\$130,000 in the case of a joint return); for 2004 and 2005, it is limited to \$4,000 for taxpayers whose incomes do not exceed those amounts or \$2,000 for taxpayers with higher incomes that do not exceed \$80,000 (\$160,000 in the case of a joint return).

## **Education IRAs (Coverdell Education Savings Accounts)**

The Taxpayer Relief Act of 1997 authorized new investment accounts that families can use to save for higher education. The accounts are called education individual retirement accounts (education IRAs) although they have nothing to do with retirement. Like other IRAs, however, these accounts are designated trusts that are held by banks and other financial entities. Contributions to education IRAs can be made until beneficiaries are age 18; the annual limit for all contributors combined is \$500, though this amount is reduced and then eliminated for contributors with modified adjusted gross incomes between \$95,000 and \$110,000 (\$150,000 and \$160,000 for joint returns).

Education IRA contributions are not deductible, but accounts are exempt from taxation and distributions are excluded from beneficiaries' gross income if used for qualified higher education expenses: tuition, fees, books, supplies, equipment required for enrollment or attendance, and certain room and board expenses. Qualifying expenses must be incurred at Title IV HEA institutions. Distributions for other purposes generally are taxable (that is, the part representing earnings is taxable)

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<sup>5</sup>26 *Federal Register* 794 (January 6, 1999), example 2 under proposed rule 1-25A-1.

and a 10% penalty applies. The exclusion cannot be claimed the same year either the HOPE or the Lifetime Learning credit is claimed for the student. Remaining balances must be distributed when beneficiaries reach age 30.

The IRS Restructuring and Reform Act of 1998 included numerous technical corrections and clarifications of education IRAs regarding the taxation of distributions, rollover contributions, changes in beneficiaries, and rules for death and divorce.

The Economic Growth and Tax Relief Reconciliation Act of 2001 made a number of changes to education IRAs, effective after 2001. Specifically, the Act:

- ! raises the annual contribution limit per beneficiary to \$2,000;
- ! expands qualified distributions to include certain elementary and secondary education expenses;<sup>6</sup>
- ! raises the income phase-out range for married couples making contributions to \$190,000 to \$220,000;
- ! allows contributions for special needs beneficiaries to continue beyond age 18 and does not require their accounts to be distributed by age 30;
- ! clarifies that corporations and other entities (such as tax-exempt organizations) may make contributions without regard to income limits;
- ! allows contributions for a year to be made up until the normal due date for tax returns (usually April 15<sup>th</sup>);
- ! allows beneficiaries to exclude distributions and claim the Hope Scholarship or Lifetime Learning tax credit the same year (though not for the same expenses); and
- ! allows contributions the same year that contributions are made to a qualified tuition savings plan.

P.L. 107-22 (S. 1190) changed the name of education IRAs to Coverdell education savings accounts, effective July 26, 2001.

## **Interest Deduction**

The Taxpayer Relief Act of 1997 authorized a new deduction for interest payments on qualified education loans. The deduction is taken in calculating adjusted gross income (an “above-the-line” deduction) and so is not restricted to taxpayers who itemize. The deduction is allowed only with respect to interest paid during the

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<sup>6</sup>For details about qualifying elementary and secondary education expenses, see CRS Report RS20289, *Education Savings Accounts for Elementary and Secondary Education*, by Bob Lyke and James B. Stedman.



first 60 months (whether or not consecutive) in which interest payments are required; it was limited to \$1,000 in 1998 and \$1,500 in 1999, while the limit is \$2,000 in 2000 and \$2,500 in 2001 and thereafter. The maximum allowable deduction is phased out for taxpayers with modified adjusted gross incomes between \$40,000 and \$55,000 (\$60,000 to \$75,000 in the case of a joint return). Taxpayers are not eligible for the deduction if they can be claimed as a dependent by another taxpayer.

Qualified education loans are any indebtedness incurred to pay qualified expenses of taxpayers, their spouse, or their dependents at Title IV HEA institutions or at institutions of higher education, hospitals, or health care facilities conducting internship or residency programs leading to a certificate or degree. At the time the debt is incurred, students must be enrolled (or accepted for enrollment) in a degree, certificate, or other program leading to a recognized educational credential and must carry at least one-half the normal full-time work load. Qualified expenses generally equal the cost of attendance minus scholarships and other education payments excluded from taxes. Qualified loans also include indebtedness to refinance qualified education loans.

The IRS Restructuring and Reform Act of 1998 included a technical amendment regarding the interest deduction for education loans.

The Economic Growth and Tax Relief Reconciliation Act of 2001 eliminates the 60-month limit for this deduction. It also increases the income phase-out ranges to \$50,000 to \$65,000 (\$100,000 to \$130,000 in the case of joint returns). Both changes are effective after 2001.

## **Employer Education Assistance**

The Taxpayer Relief Act of 1997 extended the exclusion for employer education assistance through May 31, 2000. The exclusion, in Section 127 of the Internal Revenue Code, allows tuition reimbursements and other forms of employer education assistance to be exempt from taxes of the recipient even if the education does not qualify as a deductible business expense (that is, even if it is not job-related). Qualifying education is not restricted to Title IV HEA schools. The extension did not apply to graduate-level courses, which had not been covered after June 30, 1996.<sup>7</sup>

The Ticket to Work and Work Incentives Improvement Act of 1999 extended the exclusion (again without covering graduate-level courses) through December 31, 2001.

The Economic Growth and Tax Relief Reconciliation Act of 2001 makes the exclusion for employer education assistance permanent and also extends it to graduate-level courses beginning after December 31, 2001.

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<sup>7</sup>For additional information, see CRS Report 97-243, *Employer Education Assistance: Overview of Tax Status in 2001*, by Bob Lyke.

## State Tuition Savings Plans

The Small Business Job Protection Act of 1996 (P.L. 104-188) clarified the tax treatment of qualified state tuition savings plans; it generally provided that account earnings are to be included in designated beneficiaries' gross income when they receive distributions to attend school. Previously, it appeared that account earnings might be subject to annual taxation. State tuition savings plans (often called section 529 plans) are either prepaid tuition contracts or college savings accounts established by a state agency.

The Taxpayer Relief Act of 1997 expanded the definition of qualified higher education expenses for state tuition savings plans to include reasonable costs for room and board in the case of students attending at least half-time. As under prior law, qualified expenses also include tuition, fees, books, supplies, and equipment required for enrollment or attendance. The Act also expanded the definition of eligible institution to include all Title IV HEA institutions.

The IRS Restructuring and Reform Act of 1998 clarified that qualified state tuition plan distributions are taxed under the general annuity rules (unless excludable as a scholarship, etc.); thus, part of each distribution is considered to be earnings and part is considered a return of the contribution.

The Economic Growth and Tax Relief Reconciliation Act of 2001 exempts distributions of these savings plans from taxation if they are used for qualified expenses. It also allows one or more educational institutions (including private institutions) to establish prepaid tuition plans. These provisions become effective after 2001, except for the exclusion of distributions from educational institution plans, which is effective after 2003.

## IRA Early Withdrawal Penalty

The Taxpayer Relief Act of 1997 exempted IRA distributions used for qualified higher education expenses from the early withdrawal penalty. The penalty otherwise applies to distributions before age 59½, with a number of exceptions; it equals 10% of the amount of the distribution that is included in gross income. Qualified higher education expenses include tuition, fees, books, supplies, and equipment required for enrollment or attendance at Title IV HEA institutions, plus (in the case of students attending at least half-time) reasonable costs for room and board. The education must be for the taxpayer or the taxpayer's spouse or child (including stepchildren), or for a grandchild of the taxpayer or of the taxpayer's spouse.

The Act also authorized Roth IRAs. The general rule for these IRAs is that distributions are exempt from taxation and penalties if they have been held for 5 years and the account owner has attained age 59½, is disabled or has died, or is using the distribution to purchase a first home. However, no Roth IRA distribution is taxable, regardless of when it is withdrawn or how it is used, until the total of all distributions exceeds the amount of contributions. Thus, some amounts might be withdrawn before age 59½ without taxation or penalty in any case.

Technical amendments regarding distributions from Roth IRAs that had rollover contributions from other IRAs (conversions) were included in the IRS Restructuring and Reform Act of 1998.

## **Forgiven Student Loans**

The Taxpayer Relief Act of 1997 expanded the tax exclusion allowed student loans that are forgiven (in whole or in part) to include loans made by tax-exempt educational institutions (for example, private colleges) even if the funds originated from a private, nongovernmental source. As under prior law, the exclusion applies only if the borrower works for a certain period of time in certain professions for any of a broad class of employers (for example, teaches in an inner-city school).<sup>8</sup> There is an additional requirement for loans made by tax-exempt educational institutions from private nongovernmental sources: the loans must be issued pursuant to a program designed to encourage students to work in an occupation or area with unmet needs and provide services either for or under the direction of a tax-exempt charitable organization of governmental entity.

Technical amendments regarding this provision were included in the IRS Restructuring and Reform Act of 1998.

## **Computer Donations by Corporations**

The Taxpayer Relief Act of 1997 authorized an enhanced deduction for contributions of computer technology and equipment to elementary and secondary schools or to tax-exempt charitable organizations supporting elementary and secondary education. Contributions may be made through a private foundation. The property must be donated within two years after it was acquired or constructed, and it must be originally used by either the donor or the donee. The enhanced deduction, like others allowed under prior law, is limited to corporations other than S-corporations;<sup>9</sup> it is equal to the fair market value of the contributed property minus 50% of the ordinary income that would have been recognized had the property been sold for its fair market value. (Without this exception, the deduction would equal the corporation's basis in the property, which usually is less.) However, the enhanced deduction is limited to twice the basis of the property.

The IRS Restructuring and Reform Act of 1998 included several minor amendments to this provision.

The Community Renewal Tax Relief Act of 2000, P.L. 106-554 (H.R. 5662, incorporated into H.R. 4577) extended the authorization for the enhanced deduction

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<sup>8</sup>The provision also extends the exclusion to refinancing loans issued by tax-exempt entities, provided the requirement about working in an area or occupation with unmet needs is met.

<sup>9</sup>S-corporations generally are tax-reporting rather than tax-paying entities. Their charitable contributions are divided among shareholders and reported on the latter's separate tax returns. Corporations may elect S-corporation status if they meet a number of Internal Revenue Code requirements; among other things, they cannot have more than 75 shareholders or more than one class of stock.

for three years through December 31, 2003. The Act also expanded the deduction to include donations to public libraries, to include property donated no later than three years (instead of two years) after the date the taxpayer acquired or substantially completed its construction, and to include property donated after reacquisition by the computer manufacturer. The Secretary of the Treasury may develop standards to assure that donations meet minimum standards for educational purposes.

## **Bonds**<sup>10</sup>

**Tax Credit Bonds.** The Taxpayer Relief Act of 1997 authorized tax credits for a new form of obligation called **qualified zone academy bonds (QZABs)**.<sup>11</sup> Qualified zone academies are public schools and programs that provide education and training below the postsecondary level; they must be designed in cooperation with business to enhance the academic curriculum, increase graduation and employment rates, and better prepare students for college and the workforce. The academies must either be located in empowerment zones or enterprise communities<sup>12</sup> or have 35% or more of their students eligible for free or reduced price lunches. At least 95% of bond proceeds must be used for rehabilitating or repairing public school facilities, providing equipment, developing course materials, or training teachers and other school personnel. Private entities must contribute equipment, technical assistance, employee services, educational opportunities, and other property worth at least 10% of bond proceeds.

QZABs are not tax-exempt; however, bondholders are allowed a nonrefundable tax credit based upon a credit rate that the Secretary of the Treasury determines would allow bonds to be issued without discount or interest cost to the issuer. Thus, unlike tax-exempt bonds, the federal government will pay all the interest costs. Qualified zone academy bondholders are limited to banks, insurance companies, and corporations actively engaged in the business of lending money.

Under the 1997 Act, state and local governments could issue QZABs only in 1998 and 1999, subject to a national limitation of \$400 million each year that is allocated proportionally to their share of the population in poverty.

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<sup>10</sup>In addition to authorizing tax credit bonds and expanding the small issuer exception for rebating arbitrage profits, the Taxpayer Relief Act of 1997 also repealed the \$150 million ceiling on the total amount of tax-exempt bonds that may be issued by 501(c)(3) nonprofit organizations, including private universities.

<sup>11</sup>For additional information, see two CRS reports by Steven Maguire: CRS Report RS20606, *Qualified Zone Academy Bonds: A Description of Tax Credit Bonds*, and CRS Report RS20699, *Funding School Renovation: Qualified Zone Academy Bonds versus Traditional Tax-Exempt Bonds*.

<sup>12</sup>Empowerment zones and enterprise communities are economically distressed areas that qualify for special tax incentives and other federal assistance under P.L. 103-66. See CRS Report RS20381, *Empowerment Zones/Enterprise Communities Program: Information on Rounds II and III*, by Bruce Mulock.

The Ticket to Work and Work Incentives Improvement Act of 1999 authorized up to \$400 million of QZABs to be issued in each of 2000 and 2001. Unused authority may be carried over for several years.

Some have proposed using tax credit bonds to finance school construction. President Clinton's last budgets would have expanded QZABs for this purpose; they also would have created new **school modernization bonds** with much higher authorizations.<sup>13</sup> Similar proposals have been made for the 107<sup>th</sup> Congress.

**Arbitrage.** The Taxpayer Relief Act of 1997 also expanded the arbitrage rebate exception that applies to small issuers of governmental bonds. The previous rule had been that governmental units that do not issue more than \$5 million annually in governmental bonds need not refund arbitrage profits to the federal government. The 1997 Act provided that up to \$5 million annually in school construction bonds issued after 1997 need not be counted towards this \$5 million ceiling.

Arbitrage profits occur when issuers invest bond proceeds in other investments that pay a higher rate of interest. For example, a governmental entity might issue tax-exempt bonds at 5% and invest the proceeds in taxable bonds paying 7%. Entities need not rebate arbitrage profits if they meet a schedule for spending proceeds for construction, e.g., 10% in the first 6 months after issuance, 45% in the first 12 months, etc.<sup>14</sup>

The Economic Growth and Tax Relief Reconciliation Act of 2001 increases the small issuer exception from \$5 million to \$10 million (i.e., up to \$10 million need not be counted toward the ceiling).

**Private Activity Bonds.** The Economic Growth and Tax Relief Reconciliation Act also expands the list of private activities for which tax-exempt bonds may be issued to include elementary and secondary school facilities owned by private, for-profit corporations pursuant to partnership agreements with state or local educational agencies.

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<sup>13</sup>For additional information, see CRS Report RS20713, *School Modernization Bonds: An Explanation of Selected Legislation of the 106<sup>th</sup> Congress*, by Steven Maguire.

<sup>14</sup>For analysis of a proposal to expand this exception, see CRS Report 98-803, *Bonds for Public Schools: Relaxation of Arbitrage Restrictions in the Taxpayer Relief Act of 1998*, by Dennis Zimmerman.