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SENATE

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A BILL TO AMEND THE INTERNAL REVENUE CODE TO EXCLUDE
AMOUNTS RECEIVED UNDER WORK-LEARNING SERVICE PROGRAMS

APRIL 14, 2015.—Ordered to be printed

Mr. HATCH, from the Committee on Finance,
submitted the following

R E P O R T

[To accompany S. 912]

The Committee on Finance, having considered an original bill, S. 912, to amend the Internal Revenue Code of 1986 to exclude payments received under the Work Colleges Program from gross income, including payments made from institutional funds, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

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I. LEGISLATIVE BACKGROUND

The Committee on Finance, having considered S. 912, a bill to amend the Internal Revenue Code of 1986 to exclude payments received under the Work Colleges Program from gross income, including payments made from institutional funds, reports favorably thereon without amendment and recommends that the bill do pass.

Background and need for legislative action

Background.—Based on a proposal recommended by Senator Burr, and based on legislation introduced by Senator Kirk both in

the 114th Congress (S. 376) and in the 113th Congress (S. 2525), the Committee on Finance marked up original legislation (a bill to amend the Internal Revenue Code of 1986 to provide an exclusion for payments received under the Work Colleges Program) on February 11, 2015, and, with a majority present, ordered the bill favorably reported.

Need for legislative action.—Under present law, an individual who is a candidate for a degree at a qualifying educational organization may exclude amounts received as a qualified scholarship from gross income and wages. However, this exclusion does not apply to any amount received by a student that represents payment for teaching, research, or other services by the student required as a condition for receiving the scholarship or tuition reduction.

Work Colleges offer students enhanced learning opportunities by providing a work-learning-service program throughout their college experience. These programs allow students to earn a valuable degree plus important life and professional skills.

Prior to the Tax Reform Act of 1986, the Internal Revenue Code contained a narrow exemption to the rule providing that no amount of a scholarship must constitute payment for work, thus allowing scholarships received under work-learning programs to be untaxed. Although this exception was repealed in 1986, the IRS has, through administrative rulings, continued to recognize this narrow exemption.

The provision codifies the IRS's administrative position and re-institutes the exemption for amounts received under work-learning-service programs as it existed prior to 1986.

In addition, it has been reported that many thousands of Medicare providers and suppliers have outstanding Federal employment and income tax liability, which contribute to the tax gap. The permissible percentage of payments to a Medicare provider subject to levy should be increased.

II. EXPLANATION OF THE BILL

A. EXCLUSION FOR AMOUNTS RECEIVED UNDER THE WORK COLLEGES PROGRAM (SEC. 1 OF THE BILL, AND SEC. 117 OF THE CODE)

PRESENT LAW

Under present law, an individual who is a candidate for a degree at a qualifying educational organization may exclude amounts received as a qualified scholarship from gross income and wages. In addition, present law provides an exclusion from gross income and wages for qualified tuition reductions for certain education provided to employees of certain educational organizations. The exclusions for qualified scholarships and qualified tuition reductions do not apply to any amount received by a student that represents payment for teaching, research, or other services by the student required as a condition for receiving the scholarship or tuition reduction. Payments for such services are includible in gross income and wages. An exception to this rule applies in the case of the National Health Services Corps Scholarship Program and the F. Edward Herbert Armed Forces Health Professions Scholarship and Financial Assistance Program.

REASONS FOR CHANGE

The Committee believes that scholarship payments made to students who participate in a Work College program should receive the same beneficial tax treatment as other scholarships under section 121, notwithstanding that students receiving these scholarships are required to work.

EXPLANATION OF PROVISION

The provision exempts from gross income any payments from a comprehensive student work-learning-service program (as defined in section 448(e) of the Higher Education Act of 1965) operated by a work college (as defined in such section). Specifically, a work college must require resident students to participate in a work-learning-service program that is an integral and stated part of the institution's educational philosophy and program.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2014.

B. INCREASE CONTINUOUS LEVY AUTHORITY ON PAYMENTS TO MEDICARE PROVIDERS AND SUPPLIERS (SEC. 2 OF THE BILL AND SEC. 6331 OF THE CODE)

PRESENT LAW

In general

Levy is the administrative authority of the IRS to seize a taxpayer's property, or rights to property, to pay the taxpayer's tax liability.¹ Generally, the IRS is entitled to seize a taxpayer's property by levy if a Federal tax lien has attached to such property,² the property is not exempt from levy,³ and the IRS has provided both notice of intention to levy⁴ and notice of the right to an administrative hearing (the notice is referred to as a "collections due process notice" or "CDP notice" and the hearing is referred to as the "CDP hearing")⁵ at least 30 days before the levy is made. A levy on salary or wages generally is continuously in effect until released.⁶ A Federal tax lien arises automatically when: (1) a tax assessment has been made; (2) the taxpayer has been given notice of the assessment stating the amount and demanding payment; and (3) the taxpayer has failed to pay the amount assessed within 10 days after the notice and demand.⁷

The notice of intent to levy is not required if the Secretary finds that collection would be jeopardized by delay. The standard for determining whether jeopardy exists is similar to the standard appli-

¹ Sec. 6331(a). Levy specifically refers to the legal process by which the IRS orders a third party to turn over property in its possession that belongs to the delinquent taxpayer named in a notice of levy.

² *Ibid.*

³ Sec. 6334.

⁴ Sec. 6331(d).

⁵ Sec. 6330. The notice and the hearing are referred to collectively as the CDP requirements.

⁶ Secs. 6331(e) and 6343.

⁷ Sec. 6321.

cable when determining whether assessment of tax without following the normal deficiency procedures is permitted.⁸

The CDP notice (and pre-levy CDP hearing) is not required if: (1) the Secretary finds that collection would be jeopardized by delay; (2) the Secretary has served a levy on a State to collect a Federal tax liability from a State tax refund; (3) the taxpayer subject to the levy requested a CDP hearing with respect to unpaid employment taxes arising in the two-year period before the beginning of the taxable period with respect to which the employment tax levy is served; or (4) the Secretary has served a Federal contractor levy. In each of these four cases, however, the taxpayer is provided an opportunity for a hearing within a reasonable period of time after the levy.⁹

Federal payment levy program

To help the IRS collect taxes more effectively, the Taxpayer Relief Act of 1997¹⁰ authorized the establishment of the Federal Payment Levy Program (“FPLP”), which allows the IRS to continuously levy up to 15 percent of certain “specified payments” by the Federal government if the payees are delinquent on their tax obligations. With respect to payments to vendors of goods, services, or property sold or leased to the Federal government, the continuous levy may be up to 100 percent of each payment.¹¹ For payments to Medicare providers and suppliers, the levy is up to 15 percent for payments made within 180 days after December 19, 2014. For payments made after that date, the levy is up to 30 percent.¹²

Under FPLP, the IRS matches its accounts receivable records with Federal payment records maintained by Treasury’s Bureau of Fiscal Service (“BFS”), such as certain Social Security benefit and Federal wage records. When these records match, the delinquent taxpayer is provided both the notice of intention to levy and the CDP notice. If the taxpayer does not respond after 30 days, the IRS can instruct BFS to levy the taxpayer’s Federal payments. Subsequent payments are continuously levied until such time that the tax debt is paid or the IRS releases the levy.

REASONS FOR CHANGE

It has been reported that many thousands of Medicare providers and suppliers have outstanding Federal employment and income tax liability, which contribute to the tax gap. Consequently, the Committee believes that it is appropriate to increase the permissible percentage of payments to a Medicare provider subject to levy.

EXPLANATION OF PROVISION

The provision provides that the present limitation of 30 percent of certain specified payments be increased by an amount sufficient to offset the estimated revenue loss of the provision described in Part A, above.

⁸ Secs. 6331(d)(3) and 6861.

⁹ Sec. 6330(f).

¹⁰ Pub. L. No. 105–34.

¹¹ Sec. 6331(h)(3).

¹² Pub. L. No. 113–295, Division B.

EFFECTIVE DATE

The provision is effective for payments made after 180 days after the date of enactment.

III. BUDGET EFFECTS OF THE BILL

A. COMMITTEE ESTIMATES

In compliance with paragraph 11(a) of rule XXVI of the Standing Rules of the Senate and section 308(a)(1) of the Congressional Budget and Impoundment Control Act of 1974, as amended (the “Budget Act”), the following statement is made concerning the estimated budget effects of the revenue provisions of “Exclusion for Payments Received under the Work Colleges Program” as reported.

The provisions are estimated to reduce Federal fiscal year budget receipts by \$2,000,000 for the period 2015–2025.

ESTIMATED BUDGET EFFECTS OF
A BILL TO AMEND THE INTERNAL REVENUE CODE OF 1986
TO EXCLUDE AMOUNTS RECEIVED UNDER WORK-LEARNING SERVICE PROGRAMS,
AS REPORTED BY THE COMMITTEE ON FINANCE

Fiscal Years 2015 - 2025
[Millions of Dollars]

| Provision | Effective | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2015-20 | 2015-25 |
|---|---------------|------|------|------|------|------|------|------|------|------|------|------|---------|---------|
| 1. Exclude Amounts Received Under Work-Learning Service Programs..... | tyba 12/31/14 | --- | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | -1 | -2 |
| 2. Increase Continuous Levy Authority to 35% on Payments to Medicare Providers and Suppliers..... | pma 180da DOE | --- | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 32 | 67 |
| NET TOTAL | | --- | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 31 | 65 |

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding. The date of enactment is assumed to be April 1, 2015.

Legend for "Effective" column:
DOE = date of enactment
pma = payments made after

tyba = taxable years beginning after
180da = 180 days after

(1) Loss of less than \$500,000.

B. BUDGET AUTHORITY AND TAX EXPENDITURES

Budget authority

In compliance with section 308(a)(1) of the Budget Act, the Committee states that no provisions of the bill as reported involve new or increased budget authority.

Tax expenditures

In compliance with section 308(a)(1) of the Budget Act, the Committee states that certain provisions affect the levels of tax expenditures (see revenue table in part A., above).

C. CONSULTATION WITH CONGRESSIONAL BUDGET OFFICE

In accordance with section 402 of the Budget Act, the Committee advises that the Congressional Budget Office has not submitted a statement on the bill. The letter from the Congressional Budget Office will be provided separately.

IV. VOTES OF THE COMMITTEE

In compliance with paragraph 7(b) of rule XXVI of the Standing Rules of the Senate, the Committee states that, with a majority present, legislation relating to the exclusion for payments received under the Work Colleges Program was ordered favorably reported by voice vote on February 11, 2015.

V. REGULATORY IMPACT AND OTHER MATTERS

A. REGULATORY IMPACT

Pursuant to paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee makes the following statement concerning the regulatory impact that might be incurred in carrying out the provisions of the bill.

Impact on individuals and businesses, personal privacy and paperwork

The bill provides for an exclusion from gross income for certain scholarship amounts paid to students under the Work Colleges Program. It also increases the IRS's continuous levy authority on payments to Medicare providers and suppliers. The provisions of the bill are not expected to impose additional administrative requirements or regulatory burdens on individuals or businesses.

The provisions of the bill do not impact personal privacy.

B. UNFUNDED MANDATES STATEMENT

This information is provided in accordance with section 423 of the Unfunded Mandates Reform Act of 1995 (Pub. L. No. 104-4).

The Committee has determined that the tax provisions of the reported bill do not contain Federal private sector mandates or Federal intergovernmental mandates on State, local, or tribal governments within the meaning of Public Law 104-4, the Unfunded Mandates Reform Act of 1995.

C. TAX COMPLEXITY ANALYSIS

Section 4022(b) of the Internal Revenue Service Reform and Restructuring Act of 1998 (“IRS Reform Act”) requires the staff of the Joint Committee on Taxation (in consultation with the Internal Revenue Service and the Treasury Department) to provide a tax complexity analysis. The complexity analysis is required for all legislation reported by the Senate Committee on Finance, the House Committee on Ways and Means, or any committee of conference if the legislation includes a provision that directly or indirectly amends the Internal Revenue Code and has widespread applicability to individuals or small businesses. The staff of the Joint Committee on Taxation has determined that there are no provisions that are of widespread applicability to individuals or small businesses.

VI. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In the opinion of the Committee, it is necessary in order to expedite the business of the Senate, to dispense with the requirements of paragraph 12 of rule XXVI of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill as reported by the Committee).