113TH CONGRESS  
1ST SESSION  

S. 

To amend the Higher Education Act of 1965 to extend the reduced interest rate for undergraduate Federal Direct Stafford Loans, to modify required distribution rules for pension plans, to limit earnings stripping by expatriated entities, to provide for modifications related to the Oil Spill Liability Trust Fund, and for other purposes.

IN THE SENATE OF THE UNITED STATES

Mr. Reed (for himself, Mr. Harkin, Mr. Reid, and Mrs. Murray) introduced the following bill; which was read twice and referred to the Committee on 

A BILL

To amend the Higher Education Act of 1965 to extend the reduced interest rate for undergraduate Federal Direct Stafford Loans, to modify required distribution rules for pension plans, to limit earnings stripping by expatriated entities, to provide for modifications related to the Oil Spill Liability Trust Fund, 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,
3 SECTION 1. SHORT TITLE.
4 This Act may be cited as the “Student Loan Afford-
5 ability Act”.

Mr. Rockefeller  
Ms. Baldwin  
Mr. Schumer  
Mr. Franken  
Mr. Brown  
Mr. Murphy  
Mr. Durbin
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SEC. 2. INTEREST RATE EXTENSION.

Section 455(b)(7)(D) of the Higher Education Act of 1965 (20 U.S.C. 1087e(b)(7)(D)) is amended—

(1) in the matter preceding clause (i), by striking “and before July 1, 2013,” and inserting “and before July 1, 2015,”; and

(2) in clause (v), by striking “and before July 1, 2013,” and inserting “and before July 1, 2015.”;

SEC. 3. MODIFICATIONS OF REQUIRED DISTRIBUTION RULES FOR PENSION PLANS.

(a) IN GENERAL.—Section 401(a)(9)(B) of the Internal Revenue Code of 1986 is amended to read as follows:

“(B) REQUIRED DISTRIBUTIONS WHERE EMPLOYEE DIES BEFORE ENTIRE INTEREST IS DISTRIBUTED.—

“(i) 5-YEAR GENERAL RULE.—A trust shall not constitute a qualified trust under this section unless the plan provides that, if an employee dies before the distribution of the employee’s interest (whether or not such distribution has begun in accordance with subparagraph (A)), the entire interest of the employee will be distributed within 5 years after the death of such employee.

“(ii) EXCEPTION FOR ELIGIBLE DESIGNATED BENEFICIARIES.—If—
“(I) any portion of the employee’s interest is payable to (or for the benefit of) an eligible designated beneficiary,

“(II) such portion will be distributed (in accordance with regulations) over the life of such eligible designated beneficiary (or over a period not extending beyond the life expectancy of such beneficiary), and

“(III) such distributions begin not later than 1 year after the date of the employee’s death or such later date as the Secretary may by regulations prescribe,

then, for purposes of clause (i) and except as provided in clause (iv) or subparagraph (E)(iii), the portion referred to in subclause (I) shall be treated as distributed on the date on which such distributions begin.

“(iii) SPECIAL RULE FOR SURVIVING SPOUSE OF EMPLOYEE.—If the eligible designated beneficiary referred to in clause (ii)(I) is the surviving spouse of the employee—
“(I) the date on which the distributions are required to begin under clause (ii)(III) shall not be earlier than the date on which the employee would have attained age 70½, and

“(II) if the surviving spouse dies before the distributions to such spouse begin, this subparagraph shall be applied as if the surviving spouse were the employee.

“(iv) RULES UPON DEATH OF ELIGIBLE DESIGNATED BENEFICIARY.—If an eligible designated beneficiary dies before the portion of an employee’s interest described in clause (ii) is entirely distributed, clause (ii) shall not apply to any beneficiary of such eligible designated beneficiary and the remainder of such portion shall be distributed within 5 years after the death of such beneficiary.”.

(b) DEFINITION OF ELIGIBLE DESIGNATED BENEFICIARY.—Section 401(a)(9)(E) of the Internal Revenue Code of 1986 is amended to read as follows:
"(E) Definitions and rules relating to designated beneficiary.—For purposes of this paragraph—

"(i) Designated beneficiary.—The term 'designated beneficiary' means any individual designated as a beneficiary by the employee.

"(ii) Eligible designated beneficiary.—The term 'eligible designated beneficiary' means, with respect to any employee, any designated beneficiary who, as of the date of death of the employee, is—

"(I) the surviving spouse of the employee,

"(II) subject to clause (iii), a child of the employee who has not reached majority (within the meaning of subparagraph (F)),

"(III) disabled (within the meaning of section 72(m)(7)),

"(IV) a chronically ill individual (within the meaning of section 7702B(e)(2), except that the requirements of subparagraph (A)(i) thereof shall only be treated as met if there is
a certification that, as of such date, the period of inability described in such subparagraph with respect to the individual is an indefinite one that is reasonably expected to be lengthy in nature), or

"(V) an individual not described in any of the preceding subparagraphs who is not more than 10 years younger than the employee.

"(iii) Special rule for children.—Subject to subparagraph (F), an individual described in clause (ii)(II) shall cease to be an eligible designated beneficiary as of the date the individual reaches majority and the requirement of subparagraph (B)(i) shall not be treated as met with respect to any remaining portion of an employee's interest payable to the individual unless such portion is distributed within 5 years after such date."

(e) Required beginning date.—Section 401(a)(9)(C) of the Internal Revenue Code of 1986 is amended by adding at the end the following new clause:
“(v) EMPLOYEES BECOMING 5-PERCENT OWNERS AFTER AGE 70½.—If an employee becomes a 5-percent owner (as defined in section 416) with respect to a plan year ending in a calendar year after the calendar year in which the employee attains age 70½, then clause (i)(II) shall be applied by substituting the calendar year in which the employee became such an owner for the calendar year in which the employee retires.”

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in this subsection, the amendments made by this section shall apply to distributions with respect to employees who die after December 31, 2013.

(2) REQUIRED BEGINNING DATE.—

(A) IN GENERAL.—The amendment made by subsection (e) shall apply to employees becoming a 5-percent owner with respect to plan years ending in calendar years beginning before, on, or after the date of the enactment of this Act.

(B) SPECIAL RULE.—If—
(i) an employee became a 5-percent owner with respect to a plan year ending in a calendar year which began before January 1, 2013, and

(ii) the employee has not retired before calendar year 2014,

such employee shall be treated as having become a 5-percent owner with respect to a plan year ending in 2013 for purposes of applying section 401(a)(9)(C)(v) of the Internal Revenue Code of 1986 (as added by the amendment made by subsection (e)).

(3) EXCEPTION FOR CERTAIN BENEFICIARIES.—If a designated beneficiary of an employee who dies before January 1, 2014, dies after December 31, 2013—

(A) the amendments made by this section shall apply to any beneficiary of such designated beneficiary, and

(B) the designated beneficiary shall be treated as an eligible designated beneficiary for purposes of applying section 401(a)(9)(B)(iv) of such Code (as in effect after the amendments made by this section).
(4) Exception for certain existing annuity contracts.—

(A) In General.—The amendments made by this section shall not apply to a qualified annuity which is a binding annuity contract in effect on the date of the enactment of this Act and at all times thereafter.

(B) Qualified annuity contract.—For purposes of this paragraph, the term "qualified annuity" means, with respect to an employee, an annuity—

(i) which is a commercial annuity (as defined in section 3405(e)(6) of such Code) or payable by a defined benefit plan,

(ii) under which the annuity payments are substantially equal periodic payments (not less frequently than annually) over the lives of such employee and a designated beneficiary (or over a period not extending beyond the life expectancy of such employee or the life expectancy of such employee and a designated beneficiary) in accordance with the regulations described in section 401(a)(9)(A)(ii) of such Code (as in effect before such amendments) and
which meets the other requirements of this section 401(a)(9) of such Code (as so in effect) with respect to such payments, and

(iii) with respect to which—

(I) annuity payments to the employee have begun before January 1, 2014, and the employee has made an irrevocable election before such date as to the method and amount of the annuity payments to the employee or any designated beneficiaries, or

(II) if subclause (I) does not apply, the employee has made an irrevocable election before the date of the enactment of this Act as to the method and amount of the annuity payments to the employee or any designated beneficiaries.

SEC. 4. LIMITATION ON EARNINGS STRIPPING BY EXPATRIATED ENTITIES.

(a) IN GENERAL.—Subsection (j) of section 163 of the Internal Revenue Code of 1986 is amended—

(1) by redesignating paragraph (9) as paragraph (10), and
(2) by inserting after paragraph (8) the following new paragraph:

"(9) SPECIAL RULES FOR EXPATRIATED ENTITIES.—

"(A) In general.—In the case of a corporation to which this subsection applies which is an expatriated entity, this subsection shall apply to such corporation with the following modifications:

"(i) Paragraph (2)(A) shall be applied without regard to clause (ii) thereof.

"(ii) Paragraph (1)(B) shall be applied—

"(I) without regard to the parenthetical, and

"(II) by substituting 'in the 1st succeeding taxable year and in the 2nd through 10th succeeding taxable years to the extent not previously taken into account under this sub-paragraph' for 'in the succeeding taxable year'.

"(iii) Paragraph (2)(B) shall be applied—
"(I) without regard to clauses (ii) and (iii), and

"(II) by substituting "25 percent of the adjusted taxable income of the corporation for such taxable year" for the matter of clause (i)(II) thereof.

"(B) EXPATRIATED ENTITY.—For purposes of this paragraph—

"(i) IN GENERAL.—With respect to a corporation and a taxable year, the term ‘expatriated entity’ has the meaning given such term by section 7874(a)(2), determined as if such section and the regulations under such section as in effect on the first day of such taxable year applied to all taxable years of the corporation beginning after July 10, 1989.

"(ii) EXCEPTION FOR SURROGATES TREATED AS A DOMESTIC CORPORATION.—The term ‘expatriated entity’ does not include a surrogate foreign corporation which is treated as a domestic corporation by reason of section 7874(b)."
(b) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

**SEC. 5. MODIFICATIONS RELATED TO THE OIL SPILL LIABILITY TRUST FUND.**

(a) **DEFINITION OF CRUDE OIL.**—Paragraph (1) of section 4612(a) of the Internal Revenue Code of 1986 is amended to read as follows:

“(1) **CRUDE OIL.**—The term ‘crude oil’ includes crude oil condensates, natural gasoline, any bitumen or bituminous mixture, and any oil derived from a bitumen or bituminous mixture.”.

(b) **REMOVING RESTRICTIONS RELATING TO OIL WELLS AND EXTRACTION METHODS.**—Paragraph (2) of section 4612(a) of the Internal Revenue Code of 1986 is amended by striking “from a well located”.

(c) **PERMANENT EXTENSION OF OIL SPILL LIABILITY TRUST FUND FINANCING RATE.**—Section 4611(f) is amended by striking subsection (f).

(d) **CLERICAL AMENDMENT.**—Subclause (I) of section 4612(c)(2)(B)(ii) of the Internal Revenue Code of 1986 is amended by striking “transferred” and inserting “transferred”.

(e) **EFFECTIVE DATE.**—The amendments made by subsections (a) and (b) shall apply to oil and petroleum
1 products received or entered during calendar quarters begin-
2 ning more than 60 days after the date of the enactment
3 of this Act.
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5 SEC. 6. RESERVING RESULTING SURPLUSES FOR DEFICIT
6 REDUCTION.
7 (a) PAYGO SCORECARD.—The budgetary effects of
8 this Act shall not be entered on either PAYGO scorecard
9 maintained pursuant to section 4(d) of the Statutory Pay-
10 As-You-Go Act of 2010 (2 U.S.C. 933(d)).
11 (b) SENATE PAYGO SCORECARD.—The budgetary ef-
12 fects of this Act shall not be entered on any PAYGO score-
13 card maintained for purposes of section 201 of S. Con.
14 Res. 21 (110th Congress).