FOIA Number: 2014-0226-F

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

Collection/Record Group: Clinton Presidential Records

Subgroup/Office of Origin: National Economic Council

Series/Staff Member: Bob Shireman

Subseries:

OA/ID Number: 13223

FolderID:

Folder Title:
Coverdell Amendment: [Loose Information] [2]

Stack:	Row:	Section:	Shelf:	Position:
S	15	2	1	2

UNITED STATES
DEPARTMENT OF EDUCATION NEWS

For Release: April 20, 1998

Contact: Julie Green (202) 401-3026

STATEMENT BY U.S. SECRETARY OF EDUCATION RICHARD W. RILEY

I am here today to help focus attention on what will be, without a doubt, a defining series of Congressional votes on education.

I say "defining" because the votes over the next several days will clarify whether this is a Congress that wants to represent the American people with meaningful action that makes a real difference --or with marginal legislation that makes phony claims of fundamental improvement.

Does this Congress want to invest taxpayers' money wisely --in real and shared priorities for the American people? Let's not squander this opportunity on a gimmick that will help a very limited number of Americans -- mostly high-income families-- in a very limited way, as figures from the bipartisan joint tax committee clearly show.

The Coverdell bill proposes a tax break that, on average, will bring just $7 extra into the homes of Americans with public school children by 2002, and just $37 to taxpayers with children in private schools.

It would send a disproportionate share of benefits to wealthier families who will save with or without this legislation, and it would divert funds from productive efforts to improve education.

The difference between the Coverdell bill and the Moseley-Braun bill is the difference between pocket change and real change.

It is the difference between $7 a family in the year 2002 --and a bold plan to finance $22 billion in bonds to modernize and build schools --to address overcrowding, fix leaky roofs, accommodate better access for children with disabilities, and help wire our schools for technology.

The House and Senate have passed very large highway bills. Now is the time to do something concrete for education. Now is the time to pass the Moseley-Braun school construction bill.

###

EFFORTS ON SCHOOL CONSTRUCTION AMENDMENT
Vote Will Be on Tuesday, April 21

<u>To Do's</u> (tentative)

- recommended POTUS meeting with Democratic leadership on Tuesday followed by a statement on school construction (tentative) (*Chief of Staff meeting)
- POTUS letter to Hill (to be given to Hill point person on Sunday to be distributed on Monday)
- target list from Leg. Affairs for calls from POTUS and VP (Roderick Johnson)

Target States:	*VP's Community Forum States*:
California	Iowa
Delaware	Arizona
Louisiana	Texas
Florida	North Carolina
New York	Mississippi
Pennsylvania	Ohio
Colorado	Virginia
Rhode Island	Maryland
Vermont	Massachusetts
Maine	*California
West Virginia	*Delaware
Connecticut	*Florida
New Jersey	*New York
	*Pennsylvania
	*Rhode Island
	*Maine
	*New Jersey

- VP calls and possible trip to Hill (John Schnur)
- conference calls to regional print reporters in 20 states (Estela Mendoza)
- report from community forums in 20 cities to be released by VP Tuesday (John Schnur)
- Talking Points for OPL, Political Affairs, IGA and other friends (Communications--attached)
- one-pager for OPL, Political Affairs, IGA and other friends to distribute to their networks and constituencies (Communications--attached)

<u>Outcomes</u>

Monday, April 20:

- POTUS letter to Hill
- call(s) by POTUS
- calls by VP
- press release issued announcing VP visit to Capitol Hill for Tuesday
- regional conference calls to print reporters
- calls to print reporters who have written on this already

Tuesday, April 21:

- VP brings report of summaries from community forums held in 20 cities last week to CMB/Daschle on the Hill
- POTUS meeting with Democratic leadership (tentative)
- highlight construction vote to press as key education issue as Congress prepares to vote (Senior Staff, Communications)

SCHOOL CONSTRUCTION TALKING POINTS

The Vote

- On Tuesday, April 21, the Senate considers the Moseley-Braun School Modernization Amendment to H.R. 2646, the Education Savings Act for Public and Private Schools.

- **Tuesday's vote is critical in determining whether Congress will act this year to provide adequate support for school construction.** With only a few working days left in session, this is the best remaining opportunity for the Senate to ensure that communities get the resources they need to make sure that our students learn in safe, modern, well-equipped schools.

- The School Modernization Amendment replaces provisions in H.R. 2646 that would reward wealthier families who would send their children to private school with or without subsidies, but would do nothing to fix school buildings or build new ones with a simple and effective means of helping communities modernize schools.

The Problem: Deteriorating Schools and Growing Enrollment

- This year, the American Society of Civil Engineers gave our schools an "F" in its infrastructure report card this year, worse than in roads, bridges, mass transit and every other category of investment. One third of all our schools need major repairs. More than one half have major building problems. **The School Modernization Amendment is designed to address a nationwide school facilities crisis.**

- The School Modernization Amendment is especially necessary now, because:

  The inventory of repair needs is large and growing. The General Accounting Office (GAO) estimated that the cost of bringing the nation's schools into "good overall condition" was $112 billion. The amendment will help states and communities stretch their education investments.

  The problem is worsening as enrollment surges. The National Center for Education Statistics projects that elementary and secondary enrollments will swell from 52.2 million in 1997 to 54.4 million in 2006. States and communities must act now. To accommodate the larger number of students they will need to build 6,000 new schools in the next decade.

  The condition of schools is related to student achievement. A growing body of research links student achievement and behavior to the physical building conditions and overcrowding. Construction and renovation is needed to accommodate smaller class sizes and new technology. Decaying environmental conditions -- peeling paint, crumbling plaster, non-functioning toilets, poor lighting, inoperative heating and cooling systems -- affect the learning as well as the health and the morale of students and staff.

The School Modernization Amendment

- **This amendment leverages our money by creating zero-interest bonds for states and school districts to issue to finance capital improvements**. Communities would be able to issue $21.8 billion worth of these bonds.

- We spend money at the federal level on roads that are the responsibility of state and local governments, but the most important infrastructure for our future is the infrastructure of education. This amendment creates a smart, effective investment that works at helping states and communities do more with less. Purchasers of these bonds would receive federal income tax credits in lieu of interest, cutting the cost of upgrading schools by at least a third, and by up to 50 percent in some cases.

- This amendment replaces current education IRA provisions in H.R. 2646 that would reward wealthier families who would send their children to private school with or without this subsidy. In fact, the average per return tax benefit in tax year 2002 would be only $7 for taxpayers with children in public schools and only $37 for taxpayers with children in private schools. The IRA provisions do nothing to fix school buildings and build new ones at a time when public schools face record enrollment for years to come.

LEGISLATIVE OVERVIEW:
MODERN CLASSROOMS IN PUBLIC SCHOOLS VS. TAX CUTS FOR PRIVATE SCHOOLS

On Tuesday, April 21, the Senate considers the Moseley-Braun School Modernization Amendment to H.R. 2646, the Education Savings Act for Public and Private Schools. The vote is critical to determining whether legislation will be passed this year that includes adequate support for school construction. With only a few working days left in session, this is the best remaining opportunity for the Senate to ensure that America's communities get the resources they need to make sure that students will be able to learn in safe, modern, well-equipped buildings.

H.R. 2646 would disproportionately benefit the most affluent families and provide little benefit to lower- and middle-income families or to families whose children attend public schools. Families in the highest income bracket that saved the maximum amount permitted by H.R. 2646 would receive more than twice the benefit of families in the lowest tax bracket that saved the same amount. Moreover, the bill would not create a significant incentive for families to increase their savings for educational purposes; it would instead reward families, particularly those with substantial incomes, for what they already do. Finally, a recent analysis by the Congressional Joint Committee on Taxation shows that taxpayers with children in public schools would receive an average benefit of only $7 under this proposal in 2002. Clearly, the education IRAs proposed in H.R. 2646 won't modernize our schools, they won't bring qualified teachers into our classrooms, and they won't link our schools to the information superhighway. This is not an effective way to improve education.

The School Modernization Amendment replaces the provisions of H.R. 2646 relating to Education Individual Retirement Accounts with a simple and effective means of helping communities revitalize schools. This amendment creates a new category of zero-interest bonds for states and school districts to issue to finance capital improvements. Communities would be able to issue $21.8 billion worth of these bonds (in addition to $800 million that is already authorized). Purchasers of these bonds would receive federal income tax credits in lieu of interest, cutting the cost of upgrading schools by at least a third, and by up to 50 percent in some cases.

SENATOR MOSELEY-BRAUN'S AMENDMENT VS. SENATOR COVERDELL'S BILL
School Construction or Peanuts for Education

The CMB Amendment: Improving Public Education to Benefit All Americans

- **Addressing the Real Educational Needs in America.** Our nation's schools suffer from problems like overcrowded classrooms, leaky roofs, asbestos and no heat or air conditioning. The CMB Amendment creates and expands tax incentives to help states and local school districts finance the construction and modernization of 5000 schools. With this funding, our children can learn in safe, modern and well-equipped schools.

- **Working to Strengthen Public Schools.** Most middle-class and working families send their children to public schools (approximately 90%). School construction and modernization will reduce class size and improve student achievement.

- **Helping States and Local Communities Prepare Students for the 21st Century.** The CMB Amendment will help states and local communities to provide modern, well-equipped schools. In order for students to be prepared to compete in the global economy, schools must be wired with computers and the latest technology.

The Coverdell Bill

- **Low priority for improving America's schools.** The Coverdell bill will not improve American education. Instead, it will give a tax break of approximately $96 for high-income families and only $1 for the lowest income families for educational expenditures like purchasing a home computer.

- **Weakening public schools.** Public schools are facing record enrollment for years to come and need school construction and modernization. The Coverdell bill will not provide for the repair, construction or renovation of public school buildings. Instead, the bill will reward tax benefits to America's wealthier families, many of whom send their children to private schools. In the year 2002, the average per return tax benefit under the Coverdell bill will be $37 for taxpayers with children in private schools and only $7 for taxpayers with children in public school.

- **Widening the Technological Gap Among America's Children.** The Coverdell bill will provide high-income families with a subsidy to buy home computers. The bill ignores the need among students who do not have computers at home and need computers in schools for access to technology.

SCHOOL CONSTRUCTION INITIATIVE:
DISTRIBUTION OF SCHOOL CONSTRUCTION BONDS BY STATE
(Total=$22.6 Billion, includes $0.8 Billion currently authorized)

STATE	Estimated Allocation
Alabama	$360,478,000
Alaska	$54,789,000
Arizona	$345, 748,000
Arkansas	$219, 375,000
California	$2,512,459,000
Colorado	$211,201,000
Connecticut	$219,298,000
Delaware	$54,882,000
District of Columbia	$61,816,000
Florida	$1,009,050,000
Georgia	$590,741,000
Hawaii	$61,526,000
Idaho	$65, 139,000
Illinois	$951, 617,000
Indiana	$347,424,00
Iowa	$155,215,000
Kansas	$168,327,000
Kentucky	$371,254,000
Louisiana	$536,376,000
Maine	$91,932,000
Maryland	$302,456,000
Massachusetts	$443,049,000
Michigan	$972,061,000
Minnesota	$268,505,000
Mississippi	$359,835,000
Missouri	$382,256,000

STATE	Estimated Allocation
Montana	$77,823,000
Nebraska	$95,748,000
Nevada	$67,983,000
New Hampshire	$54, 985,000
New Jersey	$496,657,000
New Mexico	$185,694,000
New York	$2,031,730,000
North Carolina	$422,018,000
North Dakota	$54,944,000
Ohio	$890,897,000
Oklahoma	$257,629,000
Oregon	$206,763,000
Pennsylvania	$991,422,000
Puerto Rico	$753,541,000
Rhode Island	$78,573,000
South Carolina	$275,251,000
South Dakota	$56,745,000
Tennessee	$383,013,000
Texas	$1,872,997,000
Utah	$99,548,000
Vermont	$54,092,000
Virginia	$347,367,000
Washington	$332,178,000
West Virginia	$213,308,000
Wisconsin	$382,940,000
Wyoming	$49,910,000

CAROL MOSELEY-BRAUN
ILLINOIS

COMMITTEES
BANKING HOUSING AND URBAN AFFAIRS
FINANCE
SPECIAL AGING

United States Senate
WASHINGTON, DC 20510-1303

April 6, 1998

Dear Colleague:

When the Senate begins consideration of H.R. 2646, the Education Savings Act for Public and Private Schools, we plan to offer an amendment that will help communities rebuild and modernize their schools for the 21st century. We urge you to join us as cosponsors of this amendment.

Our amendment would replace the provisions of H.R. 2646 relating to Education Individual Retirement Accounts with a simple and effective means of helping communities revitalize their schools. The amendment creates a new category of zero-interest bonds for States and school districts to issue to finance capital improvements. States and school districts will be able to issue $21.8 billion worth of these bonds over the next two years -- doubling the amount of school modernization and construction that would otherwise occur.

Purchasers of these new bonds would receive federal income tax credits in lieu of interest, cutting the cost of upgrading schools by at least a third, and by up to 50 percent in some cases. Over five years, our amendment costs the federal government only $3.3 billion, which means that every federal dollar spent over the next five years will leverage 5.6 State and local dollars. In addition to striking the proposed changes to the Education IRAs, our amendment restricts a number of unwarranted tax benefits.

Our amendment imposes minimal administrative requirements on States, which need to comply with only two main requirements before issuing school modernization bonds. First, States must document their school facilities needs. Second, they must describe how they intend to allocate the bonding authority to assure that schools with the greatest needs, and the least resources, benefit.

Without this amendment, too many children will continue to attend classes in substandard environments. According to the U.S. General Accounting Office, 14 million children attend schools in need of major renovations or outright replacement. They estimate it will cost $112 billion just to bring schools up to "good, overall condition." That price tag does not include the cost of building the estimated 6,000 new schools that will be required over the next 10 years to meet soaring enrollment, nor does it include the cost of retrofitting schools so they can accommodate modern technology.

Our current school finance system is failing to satisfy these tremendous needs, in part because State and local tax burdens are already high. By sharply reducing the cost of school modernization and construction, our interest-free school modernization bonds would provide a valuable new tool to communities seeking to improve their schools, and ease property and sales tax pressures on families at the same time.

A summary of the amendment is attached for your review To cosponsor, or for more information, please contact me or have a member of your staff call Steve Collens at 4-2854.

Sincerely,

Carol Moseley-Braun

Daniel Patrick Moynihan

Thomas A. Daschle

Edward M. Kennedy

H.R. 2426
Education Savings Act for Public and Private Schools

A bill to amend the Internal Revenue Code of 1986 to allow tax-free expenditures from education individual retirement accounts for elementary and secondary school expenses, to increase the maximum annual amount of contributions to such accounts, and for other purposes.

AMENDMENTS

ADOPTED:

MACK (R-FL)/ D'AMATO (R-NY) TEACHER TESTING/ MERIT PAY AMENDMENT #2288 (April 21 -- vote no. 88)
To provide incentives for States to establish and administer periodic teacher testing and merit pay programs for elementary and secondary school teachers.

ADOPTED 63-35

Republicans with us:	Democrats against us:	Not voting:
None	Boxer (CA)	Bennett (R-UT)
	Breaux (LA)	Moynihan (D-NY)
	Byrd (WV)	
	Feinstein (CA)	
	Hollings (SC)	
	Kohl (WI)	
	Landrieu (LA)	
	Leahy (VT)	
	Torricelli (NJ)	

HUTCHISON (R-TX) SINGLE-SEX EDUCATION AMENDMENT #2291 (April 21 -- vote no 89)
To establish education reform projects that provide same gender schools and classrooms, as long as comparable educational opportunities are offered for students of both sexes.

ADOPTED 69-29

Republicans with us:
None

Democrats against us:
Bingaman (NM)
Boxer (CA)
Breaux (LA)
Bryan (NV)
Byrd (WV)
Conrad (ND)
Feinstein (CA)
Graham (FL)
Landrieu (LA)
Lieberman (CT)
Mikulski (MD)
Reid (NV)
Robb (VA)
Rockefeller (WV)
Torricelli (NJ)

Not voting:
Bennett (R-UT)
Moynihan (D-NY)

GORTON (R-WA) BLOCK GRANT AMENDMENT #2293 (April 22 -- vote no 91)

ADOPTED 50-49

Republicans with us:
Chafee (RI)
Jeffords (VT)
Snowe (ME)
Specter (PA)

Democrats against us:
None

Not voting:
Helms (NC)

*Campbell (R-CO) changed his vote from no to yes.

HUTCHINSON (R-AR) DOLLARS TO THE CLASSROOM SENSE OF THE SENATE #2296 (April 22, vote no 92)

ADOPTED 99-0

Not voting:
Helms (NC)

ASHCROFT (R-MO) NATIONAL TESTING BAN AMENDMENT #2300 (April 22, vote no 94)

2nd degree amendment (offered to Levin lifetime learning amendment) to restore Coverdell language and adopt House prohibition of Voluntary National Tests (permanent ban unless explicit Congressional approval).

ADOPTED 52-47

Republicans with us:	Democrats against us:	Not voting:
D'Amato (NY)	Feingold (WI)	Helms (NC)
Jeffords (VT)		
Specter (PA)		

REJECTED:

KENNEDY (D-MA) TEACHER LOAN FORGIVENESS AMENDMENT #2289(April 21 -- vote no. 86)

To authorize funds to provide an additional 100,000 elementary and secondary school teachers annually to the national pool of such teachers during the 10-year period beginning with 1999 through a new student loan forgiveness program.

REJECTED 41-56 (MOTION TO TABLE AGREED TO)

Republicans with us:	Democrats against us:	Not voting:
Chafee (RI)	Biden (DE)	Bennett (UT)
D'Amato (NY)	Breaux (LA)	Inouye (HI)
Jeffords (VT)	Byrd (WV)	Moynihan (NY)
Specter (PA)	Graham (FL)	
	Lieberman (CT)	
	Torricelli (NJ)	

GLENN (D-OH) AMENDMENT TO DELETE K-12 EXPENSES #2017 (APRIL 21 - vote no. 87)

To delete education IRA expenditures for elementary and secondary school expenses.

REJECTED 38-60 (MOTION TO TABLE AGREED TO)

Republicans with us:	Democrats against us:	Not voting:
None	Biden (DE)	Bennett (R-UT)
	Breaux (LA)	Moynihan (D-NY)
	Byrd (WV)	
	Feinstein (CA)	
	Lieberman (CT)	
	Torricelli (CT)	

MOSELEY-BRAUN (D-IL) SCHOOL CONSTRUCTION AMENDMENT #2292 (April 21 -- vote no 90)

REJECTED 56-42 (MOTION TO TABLE AGREED TO)

Republicans with us:	Democrats against us:	Not voting:
D'Amato (NY)	Biden (DE)	Bennett (R-UT)
Specter (PA)	Byrd (WV)	Moynihan (D-NY)
	Lieberman (CT)	
	Torricelli (NJ)	

MURRAY (D-WA) CLASS SIZE SENSE OF THE SENATE #2295 (April 22, vote no 93)

REJECTED 49-50

Republicans with us:	Democrats against us:	Not voting:
Campbell (CO)	None	Helms (NC)
D'Amato (NY)		
Jeffords (VT)		
Specter (PA)		

PENDING:

THURSDAY, APRIL 23 -- SENATE WILL CONCLUDE DEBATE AND VOTE ON:
Coats (#2297) -- Preferential tax treatment for charitable donations for vouchers (additional 10% for donations to scholarship funds for low income students -- has offsets from changes in tax code).
Kempthorne (2nd degree) -- Creating a K-12 student incentive program
Landrieu (#2301) -- Substitute on Blue Ribbon Schools
Levin (#2646) -- Expansion of Lifetime learning tax credit for teacher technology training

THURSDAY, APRIL 23 -- SENATE WILL BEGIN DEBATE (30 MINS. EQUALLY DIVIDED) ON:
Dodd -- Use Coverdell funds to increase IDEA funding
Boxer -- After-school ($250 million over 5 years)
Bingaman -- Dropout prevention ($150 million in FY1999)
Feinstein (2nd degree) -- Expands definition of weapons in gun-free schools [illegible]
Gregg (2nd degree) -- To Dodd substitute to prevent the Administration from funding any of the new initiatives until IDEA is fully funded.

WITHDRAWN:

WELLSTONE EDUCATION AS WORK (TANF) AMENDMENT (April 21)
Would have increased from 12 to 24 months the limit on vocational education for TANF recipients; removed teen parents without a high school diploma from the vocational education cap; and allowed participation in the Federal Work-Study program to count as a work activity for the purposes of TANF. Sen. Wellstone will introduce this amendment on HEA.

GREGG IDEA DISCIPLINE AMENDMENT (April 21)

This amendment to IDEA would have allowed State and local educational agencies to establish "uniform policies" in disciplining students with and without disabilities.

Draft

THE 1998 CONGRESSIONAL EDUCATION AGENDA

Expert and Editorial Quotes Supporting Democrats and Criticizing Republicans

Experts Support President's and Congressional Democrat's Plan to Save Public Schools

NEA President says America's Schools Need a "National Response"
In a National Education Association press release supporting the Democratic plan to modernize schools, NEA President Bob Chase: "America's children all deserve modern schools, where small classes, new computers, and high standards of achievement are the norm. But the sad truth is that more than 14 million students -- one in three-- attend classes in schools that need major repair or total replacement. This is a national crisis, and it demands a national response." [NEA Press Release, 6/8/98]

American Federation of Teachers Supports Modernizing Schools
American Federation of Teachers President Sandra Felman: "In far too many schools in this country, students spend their days in conditions no adult would tolerate in the workplace. Some 14 million students attend public schools needing extensive repair or replacement. It's unconscionable." [NPTA Background Brief, 2/98]

National PTA Supports "Public Funds for Public Schools"
According to a recent National Parent-Teacher Association legislative memo: "The National PTA supports public funds for public schools. The National PTA also supports funding for facilities to ensure that they are safe, well-maintained and equipped for student learning." [NPTA Legislative Action Memo, 3/3/98]

Study Shows Condition of Schools Affects Performance
"Sufficient data exists to state that the condition of a building does result in a difference in student scores and actions," says Dr. Glen Earthman, citing a May 1996 study he conducted as professor of education administration at the Virginia Polytechnic Institute and State University. [NPTA Background Brief, 2/98]

Experts and Editorial Boards Criticize Republican Tax Break for Wealthy

***Washington Post*: Republican "Scheme" Benefits "Only the Relatively Well Off"**
In an editorial criticizing the Coverdell education plan, the *Washington Post* writes, "This is in fact not so much an education proposal as a tax cut in educational disguise, and a regressive cut at that....Only the relatively well off would be able to set aside enough to take much advantage of the scheme." [Washington Post, 3/17/98]

National Education Association Says Coverdell Bill is "Harmful"
While the NEA issued a Legislative Alert supporting the Democratic plan, it opposed the Republican alternative. According to the Alert, the Coverdell proposal is "a harmful bill." [NEA Legislative Alert]

American Federation of Teachers Calls Coverdell Bill a "Hoax"
American Federation of Teachers President Sandra Felman on the Coverdell bill: "This bill is simply a sham, a hoax...It is a diversion of money to the wealthy that ought to be going to public schools." [USA Today, 3/25/98]

National PTA Calls Republican Plan a "Gimmick by Pro-Voucher Forces"
While supporting the Democratic plan, National Parent-Teacher Association President Lois Jean White refered to the Coverdell proposal as "the newest gimmick by pro-voucher forces." [The Boston Globe, 3/25/98]

AASA Says Coverdell Bill will Cause "Damage"
The American Association of School Administrators says the Coverdell Bill will hurt our education system. According to an AASA legislative memo, "Coverdell is a 'foot in the door' voucher that will lead to more serious damage, if it passes." [AASA Legislative Alert, 3/27/98]

UNITED STATES SENATE
REPUBLICAN POLICY COMMITTEE
Larry E. Craig, Chairman
Jade West, Staff Director

March 16, 1998

Kindergarten to College: Tax-Free Education Savings

Coverdell Education Accounts Benefit Low- and Middle-Income Families

The President has indicated that he will veto the Coverdell-Torricelli education savings account proposal because it "would disproportionately benefit the most affluent families and provide little benefit to lower-and middle-income families." The fact is, the Coverdell-Torricelli proposal -- contained in S. 1133 -- utilizes the same income limitations as the current $500 education IRA that President Clinton signed into law as part of the Taxpayer Relief Act of 1997.

Majority of Benefits Go to Middle-Income Families. Of families expected to take advantage of the tax benefits of the Coverdell plan, 70 percent have incomes of $75,000 or less, and 87 percent have earnings of $100,000 or less, according to the Joint Committee on Taxation (JCT).

Parents of Public School Students Will Benefit. About 14 million Americans are expected to sign up for these accounts by the year 2002, and 75 percent of them will have children enrolled in public elementary and secondary schools. Contributions can be saved over time to cover college expenses, or used when needed to pay for a wide range of education expenses during a student's younger years, such as:

- text books, computers, tutoring, home schooling, after-school care, college preparation courses, school uniforms, transportation; and advanced placement college credits.

Special Needs Individuals Receive Lifetime Benefit. More than 5 million individuals (through age 21) require special needs services. The Coverdell proposal recognizes these special circumstances and sets no limit on how long a parent or other sponsor can contribute to, or withdraw from, an education savings account for a special needs individual.

Millions Who Aren't Wealthy Opt for Private Schools. Despite the Administration's misleading claims, millions of low- and middle-income children and their parents are the primary consumers of private elementary and secondary education. According to data collected by the National Catholic Education Association, of those families whose children attended Catholic elementary schools during the 1994-1995 school year:

- 68 percent have incomes of $35,000 or less; and

- 88 percent have incomes of $50,000 or less

Clinton's 'Wealthy Families'. A third of families with two or more children in Catholic elementary schools qualify for the Earned Income Tax Credit (EITC). The EITC, not commonly associated with the wealthy, phases out at just over $29,000 income for families with two children. Yet, one out of three families sending their children to Catholic elementary schools (with a total enrollment of 1.8 million) report incomes below $25,000.

Education Savings Accounts Increase -- Do Not Divert -- Resources. The cost of providing families with a tax break for education savings will not decrease federal or state funding for education by a single dime. The $1.6 billion cost of the Coverdell ESA provisions will be offset with additional revenues from clarifying two tax provisions -- effectively providing an additional $1.6 billion in education resources.

The Need for Education Savings is Critical. American families incurred more debt to finance college education between 1990 and 1995 than during the 1960s, 1970s, and 1980s combined. According to NELLIE MAE, the largest nonprofit provider of education loans in the nation:

- The average student loan debt increased from $8,200 in 1991 to $18,800 in 1997
- 40 percent of borrowers surveyed said that repayment of their student loans caused them to delay purchasing a home (versus 25 percent in 1991).

Insurance Against Rising College Costs. As the cost of higher education continues to outpace inflation, this expansion of the Education IRA from $500 to $2,000 offers the best return on investment and the best protection against future debt available to parents. According to the National Center for Education Statistics (1996 Digest of Education Statistics):

- The average cost of attending a four-year institution has nearly doubled in just the last ten years from $5,964 in 1986 to $10,315 by 1995; and
- Over the last 20 years, college tuition has skyrocketed 400 percent from $2,577 in 1976 to $10,315 by 1995.

Education Savings Accounts Offer Substantial Return on Investment. One look at the bottom line reveals the potential value Education Savings Accounts offer parents and students at every grade level. Using a conservative 7.5 percent annual rate of return on an annual contribution of $2,000, contributors would earn:

- $15,574 after 6 years, by the time a child enters first grade;
- $39,611 after 12 years, by the time he or she enters junior high;
- $50,236 after 14 years, by the time he or she enters high school; and
- $69,354 after 17 years, by the time he or she is applying for college.

By contrast, contributing the maximum $500 annually to the recently enacted education IRA (contained in the Taxpayer Relief Act) would yield only $16,129 after 17 years.

U. S. Senate Republican Policy Committee

Larry E. Craig, Chairman Jade West, Staff Director

Legislative Notice

No. 53 March 12, 1998

S. 1133 Parent and Student Savings Account PLUS Act

Reported from the Committee on Finance in the nature of a substitute, and with an amendment to the title, February 19, 1998, by a vote of 11 to 8; Minority Views filed. S. Rept. 105-164.

NOTEWORTHY

- At press time, it was expected that the Majority Leader would attempt to turn to the consideration of the education savings bill on Friday, with the possible filing of a cloture petition on the motion to proceed to the House-passed bill, H.R. 2646 (Senate Calendar item No. 227).
- S. 1133 provides some $6 billion (over 10 years) in tax relief for education.
- S. 1133 expands the recent education savings account changes included in the Taxpayer Relief Act of 1997 [P.L. 105-34] by increasing the annual contribution limit for education IRAs from $500 to $2,000 for taxable years 1999 through 2002. The bill also expands the definition of qualified education expenses (currently limited to higher education) to include K through 12 expenses.
- The bill provides an exclusion from gross income for distributions made from a qualified state tuition program. Distributions must be made for qualified education expenses related to attending college (including graduate school) or vocational school.
- S. 1133 extends the current-law section 127 tax exclusion from May 31, 2000, to December 31, 2002, and permits graduate-level courses to be included in the section 127 tax exclusion from an employee's gross income for employer-provided (up to $5,250 a year) education assistance.
- The bill assists local governments in issuing bonds for school construction by increasing the small-issuer exception from $10 million to $15 million, provided that at least $10 million of the bonds are issued to finance public schools.
- The bill contains nearly $6.9 billion in offsets (revenue raisers) over 10 years to

come from modifications to the employer deduction for vacation pay ($3.6 billion), and treatment of the foreign tax credit carrryback and carryforward periods ($3.3 billion).

BACKGROUND

Current Procedural Situation

Because S. 1133 includes a revenue provision, the House exercised its "blue slip" prerogative based on the constitutional requirement that revenue bills originate in the House. Therefore, the Senate likely will be voting on the motion to proceed to the House bill which, if successful, would allow the Senate to move to substitute the Senate language in S. 1133 for the House language. H.R. 2646 passed the House on October 23 by a vote of 230-198.

Legislative History

By a vote of 59 to 41, the Senate adopted Senator Coverdell's K-through-12 Education Savings No. 150). The provision was included in the final budget agreement reached with the White House, but due to a last-minute veto threat from President Clinton, the language was dropped from the conference report (H.R. 2014) prior to its consideration in the House and Senate. The TRA became law with education IRAs limited to $500 per student annually, and limited to higher education expenses (see below).

The Coverdell proposal was again considered in the Senate as a freestanding bill (H.R. 2646, "Gingrich-Archer") just prior to *sine die* adjournment. Two attempts were made to invoke cloture on the bill. On October 31, the Senate failed to invoke cloture by a vote of 56 to 41 (vote No. 288) and again failed to cut off debate on the measure on November 4, by a vote of 56 to 44 (vote No. 291). [For further details on H.R. 2646, refer to RPC Legislative Notice No. 44, issued October 29, 1997.]

Current Law

The Taxpayer Relief Act of 1997 provides tax exempt status to education IRAs that are established to pay for the expenses of higher education only. Contributions to an education IRA may not exceed $500 per-beneficiary annually and may not be made once the beneficiary reaches age 18. The annual $500 contribution limit is phased out ratably for contributors with modified adjusted gross income (AGI) between $95,000 and $110,000 for individuals and between $150,000 and $160,000 for joint filers.

BILL PROVISIONS

Title I

A-PLUS Education Savings Accounts

- S. 1133 increases the annual contribution limit from $500 to $2,000 for education IRAs and expands the definition of "qualified education expenses" to include the costs of elementary and secondary education (including home schooling expenses).

- The new $2,000 limit will be in effect from January 1, 1999, through December 31, 2002. For 2003 and future years, annual contributions will revert to the $500 limit and will be limited to post-secondary education expenses.

- Qualified elementary and secondary expenses include (1) tuition, fees, academic tutoring, special needs services, books, supplies, as well as the cost of computers and other equipment incurred "in connection with the enrollment or attendance" of a student in a private or public school; and (2) room and board, uniforms, transportation and supplementary items (including after-school care), "required or provided by a school for enrollment or attendance."

- The bill removes the current age limit (i.e., age 18) for contributions made on behalf of a special needs individual. For special needs individuals, the bill also removes the current age limit (i.e., age 30) by which any remaining balance in an education IRA must be distributed.

- The bill clarifies that corporations and other entities (e.g., charitable organizations, foundations, etc.) are permitted to make contributions to an education IRA, regardless of the corporation's income for that year.

- The bill retains the current-law eligibility requirements for high-income individuals. Contributions are phased out ratably at incomes between $95,000 and $110,000 (for individuals) and $150,000 and $160,000 (for joint returns).

- These provisions provide $1.64 billion in tax relief over 10 years.

Qualified State Tuition Programs

- The bill provides for the tax-exempt treatment of funds distributed from a qualified state tuition program. Amounts distributed for the qualified education expenses of attending a college, university (including graduate school), or vocational school are not included in the gross income of the contributor (or the beneficiary) for tax purposes.

- The exclusion from gross income is not permitted in cases where a HOPE or Lifetime Learning credit is claimed on behalf of a student.

- If a parent chooses to claim a HOPE or a Lifetime Learning credit for a dependent, then the earnings portion of a distribution made to a student from a qualified state tuition program will be included in the gross income of the student.

- These provisions provide $1.57 billion in tax relief over 10 years.

Extension of Employer-Provided Education Assistance

- The bill extends to December 31, 2002, the current-law exclusion from an employee's gross income amounts paid or incurred by an employer for education assistance provided to the employee. The provision is scheduled to expire with respect to courses beginning after May 31, 2000.

- The bill also reinstates the tax exclusion for graduate level courses.
- The exclusion is limited to $5,250 of education assistance per employee in any calendar year.
- These provisions provide $2.63 billion in tax relief over 10 years.

Small Issuer Exception for Government Bonds

- The bill increases local governments' small issuer exception to $15 million, provided that at least $10 million of the bonds are issued to finance public schools.
- Under current law, arbitrage profits earned on tax-exempt bonds must be rebated to the federal government. However, an exception (the "small issuer exception") allows local government units to issue government bonds without the arbitrage rebate requirement in order to encourage public school construction. The current limit on the small issuer exception is $10 million for government units that issue at least $5 million in bonds for public schools during the calendar year.
- These provisions cost $194 million over 10 years.

Tax-Free Treatment of National Health Corps Scholarships

- The bill would allow students who receive a National Health Corps scholarship to exclude the dollar value of the scholarship from their gross income for tax purposes. The tax- free treatment will be extended to scholarships received by medical, dental, nursing, and physician assistant students under the National Health Corps Scholarship Program.
- Consistent with current law, the tax-free treatment does not apply to amounts received by students to cover regular living expenses, such as room and board.
- These provisions have a negligible cost (according to the Joint Tax Committee).

Title II

Revenue Offsets

Pay-as-you-go procedures under the Budget Act require offsets in mandatory spending for any legislation that decreases revenues. As reported from the Finance Committee, the bill contains two offsets totaling $6.88 billion over fiscal years 1998-2008.

Employer Deduction for Vacation Pay

The bill provides that, for purposes of determining whether an item of compensation (other than severance pay), is deferred compensation, the compensation is not considered to be paid or received until it is actually received by the employee.

In addition, an item of deferred compensation is not considered paid to an employee until it is actually received by an employee.

The bill overrules the *Schmidt Baking* decision which held that letters of credit may constitute actual receipt by the employee of an item of deferred compensation.

The Joint Committee on Taxation (JCT) estimates that this provision will increase tax revenue by $3.6 billion over 10 years.

Modification to Foreign Tax Credit Carryover Period

The bill reduces from two years to one year the carryback period for excess foreign tax credits. The bill also extends the excess foreign tax credit carryforward period from five years to seven years.

JCT estimates that these modifications will increase tax revenue by $3.26 billion over 10 years.

ADMINISTRATION POSITION

The President and his advisers have issued numerous veto threats against legislation extending the use of education IRAs to elementary and secondary education. In a March 12, 1998 Statement of Administration Policy, the White House reiterated its strong opposition to expanding education savings accounts. According to the statement:

> *If S. 1133, or its House companion measure H.R. 2646, were presented to the President, the Secretaries of Education and the Treasury would recommend that he veto the bill because it is bad education policy and bad tax policy.*

COSTS

The Joint Committee on Taxation projects 10-year costs for the Education IRAs to be $1.644 billion; the qualified state tuition programs provision to be $1.568 billion; the employer-provided education assistance expansion to be $2.627 billion; and the small-issuer arbitrage rebate exception to be $194 million. Total 10-year cost is $6.033 billion, with revenue offsets (described above) of $6.877 billion.

OTHER VIEWS

Senators Moynihan, Baucus, Rockefeller, Conrad, Moseley-Braun, Bryan, and Kerrey jointly filed Minority Views in the committee report, beginning on p. 29.

POSSIBLE AMENDMENTS

Daschle. Substitute that would delete K-12 provisions, and add school construction.

Unknown. To reduce income phaseouts (Sen. Rockefeller offered such an amendment in committee, which was defeated).

Unknown. To strike private school tuition.

Related RPC Papers:

"**Kindergarten to College: Tax-Free Education Savings**" **[3-16-98]**

"**Republicans Give Education Top Priorty**" **[11-13-97]**

"**White House Rehashes Old Accounting Gimmick to Attack Education Bill**" **[10-28-97]**

Coverdell Parent and Student Savings Account Plus Act (1)

(1998 Income Levels)

Family Economic Income Quintile (2)	Number of Families (millions)	Average Tax Change ($)	Total Tax Change: Amount (3) ($M)	Total Tax Change: Percent Distribution (%)	Tax Change as a Percent of: Current Federal Taxes (4) (%)	Tax Change as a Percent of: Family Economic Income (%)
Lowest (5)	21.6	-1	-13	0.4	-0.10	-0.01
Second	22.2	-2	-39	1.3	-0.06	-0.01
Third	22.3	-7	-158	5.1	-0.10	-0.02
Fourth	22.3	-32	-716	23.3	-0.23	-0.04
Highest	22.3	-96	-2147	69.8	-0.24	-0.05
Total (5)	111.3	-28	-3076	100.0	-0.21	-0.04
Top 10%	11.1	-75	-840	27.3	-0.13	-0.03
Top 5%	5.6	-24	-135	4.4	-0.03	-0.01
Top 1%	1.1	-1	-1	0.0	-0.00	-0.00

Department of the Treasury
Office of Tax Analysis

October 21, 1997

(1) This table distributes the estimated change in tax burdens due to the Parent and Student Savings Account Plus Act introduced by Senator Coverdell, as adopted by the Ways and Means Committee.

(2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and underreported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

(3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. The change is measured as the present value of the tax savings from one year's contributions. The technical correction pertaining to mandatory distributions at age 30 with a ten percent penalty for distributions not used for education expenses is assumed to have been passed.

(4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.

(5) Families with negative incomes are excluded from the lowest quintile but included in the total line.

NOTE: Quintiles begin at FEI of: Second $16,950; Third $32,563; Fourth $54,758; Highest $93,222; Top 10% $127,373; Top 5% $170,103; Top 1% $408,551.

Coverdell Parent and Student Savings Account Plus Act (1)

(1998 Income Levels)

Family Economic Income Class (2) (000)	Number of Families (millions)	Average Tax Change ($)	Total Tax Change: Amount (3) ($M)	Total Tax Change: Percent Distribution (%)	Tax Change as a Percent of: Current Federal Taxes (4) (%)	Tax Change as a Percent of: Family Economic Income (%)
0 - 15	18.5	-1	-10	0.3	-0.11	-0.01
15 - 30	21.8	-1	-32	1.0	-0.06	-0.01
30 - 40	12.1	-3	-41	1.3	-0.07	-0.01
40 - 50	9.7	-8	-74	2.4	-0.10	-0.02
50 - 60	7.9	-15	-115	3.7	-0.15	-0.03
60 - 75	9.4	-23	-219	7.1	-0.18	-0.03
75 - 100	11.7	-59	-690	22.4	-0.34	-0.07
100 - 200	15.6	-118	-1842	59.9	-0.43	-0.09
200 & over	3.9	-13	-50	1.6	-0.01	-0.00
Total (5)	111.3	-28	-3078	100.0	-0.21	-0.04

Department of the Treasury
Office of Tax Analysis

October 21, 1997

(1) This table distributes the estimated change in tax burdens due to the Parent and Student Savings Account Plus Act introduced by Senator Coverdell, as adopted by the Ways and Means Committee.

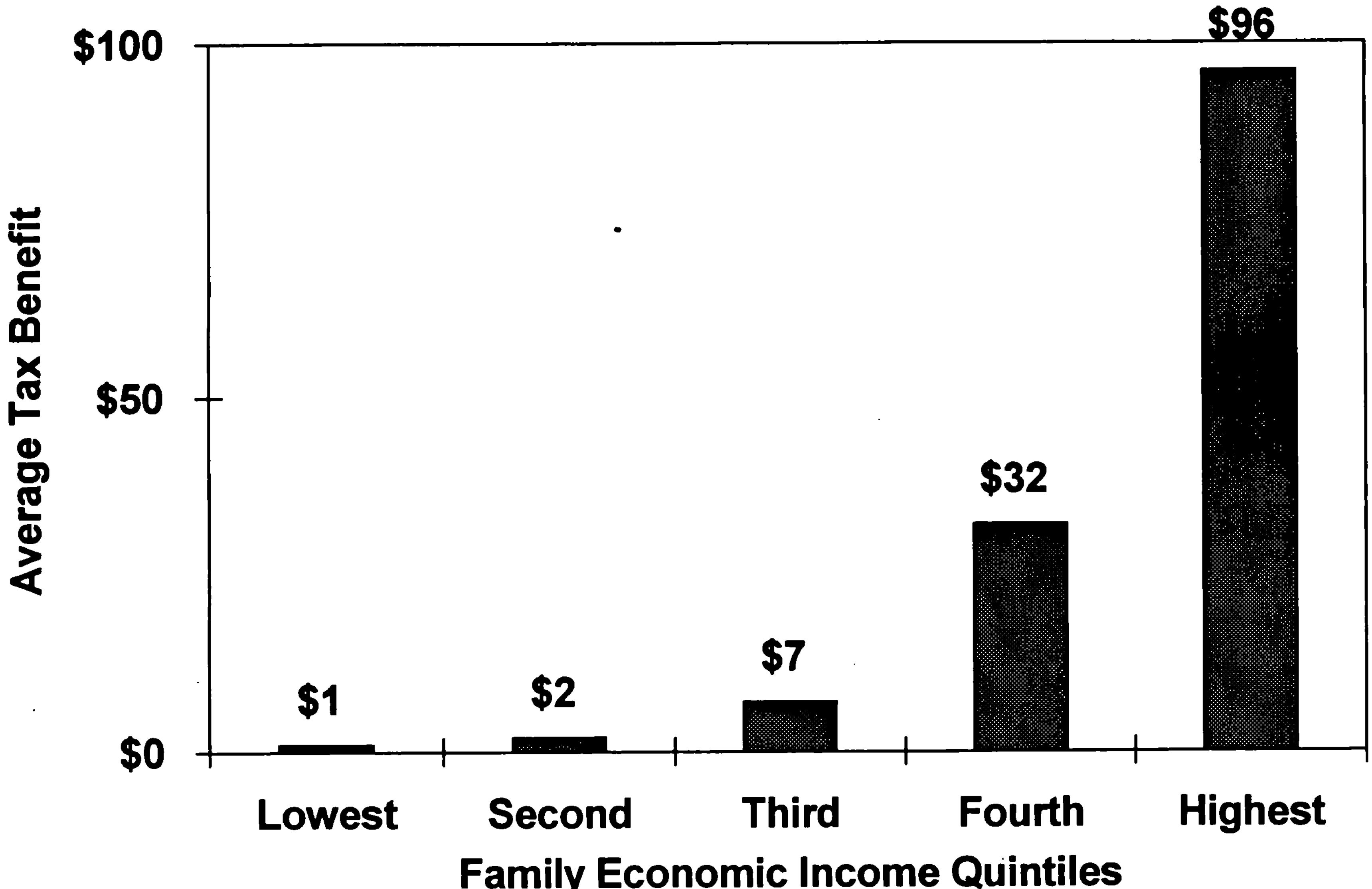
(2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and underreported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

(3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. The change is measured as the present value of the tax savings from one year's contributions. The technical correction pertaining to mandatory distributions at age 30 with a ten percent penalty for distributions not used for education expenses is assumed to have been passed.

(4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.

(5) Families with negative incomes are included in the total line but not shown separately.

Inequities in Coverdell/Archer IRA



U.S. Department of Education

Congress of the United States
JOINT COMMITTEE ON TAXATION
Washington, DC 20515-6453

OCT 28 1997

MEMORANDUM

TO:

FROM: Kenneth J. Kies

SUBJECT: 10-Year Revenue Estimates for H.R. 2646

The attached table is in response to your request dated October 22, 1997, for a 10-year revenue estimate of H.R. 2646, the "Education Savings Act for Public and Private Schools," as approved by the Committee on Ways and Means. We are also including a 10-year revenue estimate of H.R. 2646, as passed by the House of Representatives.

Additionally, you requested information regarding the utilization of educational savings accounts for public versus private education. We estimate that approximately 38.3 million returns would have dependents in schools at the primary or secondary level in 1999. We estimate of those eligible to contribute that approximately 2.9 million returns would have children in private schools. Of those seeking private education, we estimate that approximately 2.4 million returns would utilize an educational savings account.

Conversely, we estimate that of the 38.3 million returns eligible approximately 35.4 million returns would have dependents in public schools. We estimate that in total approximately 10.8 million returns would utilize the educational savings accounts.

Please note that the numbers attributable to public versus private utilization do not reflect the relevant dollar benefit attained by each group. The dollar benefit to returns with children in public schools is assumed to be significantly lower than that attributable to returns with children in private schools.

Attachment [Tables: #97-1 258 R &
#97-1 262]

cc: Kenneth J. Kies [#105-1075/complet
Bernie Schmitt
Mary Schmitt
Judy Xanthopoulos
Pat Driessen
Mel Thomas
Barry Wold
Carolyn Smith
Alysa McDaniel
Tom Barthold
Steve Arkin
Joe Nega
Joe Mikrut
Maxine Terry
Leon Klud
Melani Houser
Teresa Reed

MEMORANDUM

TO: SENATOR LEVIN DATE: NOVEMBER 4, 1997

FM: RICH ARENBERG

RE: EDUCATION SAVINGS ACT [COVERDELL]

According to the Joint Tax Committee, the cost of the Coverdell bill would be $8.1 billion over ten years.

Distribution of Benefits

According to the Treasury Department Office of Tax Analysis, the distribution of benefits of the Coverdell bill is as follows:

Income	Percent Distribution
Lowest 20%	**.4%**
2nd Lowest 20%	**1.3%**
Middle 20%	**5.1%**
2nd Highest 20%	**23.3%**
Highest 20%	**69.8%**

Joint Tax Committee staff estimates:

% of taxpayers with children in private school who will utilize the Education Savings Act	**82%**[1]
% of taxpayers with children in public school who will utilize the Education Savings Act	**30%**[2]

[1] 2.4 million of the 2.9 million would use the Education Savings Act

[2] 10.8 million of the 35.4 million would use the Education Savings Act

According to Kenneth J. Kies, Chief of Staff of the Joint Committee on Taxation

"The dollar benefit to returns with children in public schools is assumed to be significantly lower than that attributable to returns with children in private schools."

As a result, Joint Tax told our staff over the phone the estimated 2.4 million taxpayers with children in private schools will receive more than half of the tax benefit under this bill, and more than the 10.8 million taxpayers with ~~children in~~ public schools.

Memorandum

To: TAD
From: Rick and Joan
Ref: "Coverdell" IRA legislation
Date: October 28, 1997

Bill Contents and Status

Senator Lott has placed on the calendar and indicated that he will call up on Wednesday the so-called Coverdell IRA legislation approved by the House last week. The bill would:

- increase the annual contribution limit of the education IRA enacted this summer from $500 to $2,500; and

- expand the range of educational expenses that may be paid with tax-free withdrawals to include elementary and secondary school expenses.

The legislation sunsets after 2002. The income phase-out limits remain the same as those that currently apply to the educational IRA (i.e., $95-110K for single filers and $150-160K for joint filers).

Substantive Concerns

In addition to broad concerns about providing federal tax subsidies for private, often parochial, education, the bill poses other problems. For example:

- it is as distributionally unfair as the Republicans' overall reconciliation tax proposals (i.e., 70% of the benefits would accrue to the top 20% of taxpayers according to Treasury);

- the bill has major loopholes that would render it an administrative nightmare:

  --- wealthy taxpayers could get around the income limits by making gifts to their children of the amounts intended to be placed in the IRA; and

  --- the definition of eligible elementary and secondary school expenses is so broad that it would cover even tutoring by a child's older brother or sister or the purchase of a car to drive a child to school. The definition in the bill is "tuition, fees, tutoring, special-needs services, books, supplies, computer equipment and other equipment, transportation and supplementary expenses required for enrollment or attendance at a public, private, or religious school."

- the revenue offset is the same as that used for the IRS restructuring bill reported by the Ways and Means Committee. Moreover, because it is a one-time acceleration of revenues (it deals with when companies can take deductions for deferred vacation and severance pay to their employees), it may not cover the bill's cost over ten years; we're looking into that now.

#97 1 255 R
VERY PRELIMINARY
20-Oct-97

ESTIMATED REVENUE EFFECTS OF A POSSIBLE MODIFICATION TO H.R. 2646, THE "EDUCATION SAVINGS ACT FOR PUBLIC AND PRIVATE SCHOOLS"

Fiscal Years 1998 - 2007

(Millions of Dollars)

Provision	Effective	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1998-02	1998-07
1. Extend present law education IRAs to primary and secondary educational expenses; increase the contribution amount to $2,500; expand to include educational savings for special needs students; allow corporations to contribute to education IRAs; sunset 12/31/02	1/1/98	-115	-495	-644	-700	-636	-356	-310	270	-235	-204	-2,590	-3,955
2. Clarify payment for accrued vacation and severance benefits	tyea DOE	827	1,388	608	141	148	156	163	172	180	189	3,112	3,972
NET TOTAL		712	903	-36	-559	-488	-200	-147	-98	-55	-15	532	17

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

Legend for "Effective" column: tyea = taxable years ending after

VII. DISSENTING VIEWS

We are deeply committed to the goal of expanding educational opportunities in this country. Improving our educational system is the most effective way of ensuring that all of our citizens have an opportunity to participate fully in our economic system. In addition, investments in education are necessary for this country to remain competitive in the world economy.

America's children deserve first-class schools that emphasize academic excellence in the basics. They need well-trained, highly motivated teachers to help them achieve high standards. Public tax dollars should be used to improve public schools—rather than private school "vouchers" at public expense. We believe in a Federal role in education that supports local initiatives for strong neighborhood public schools. Every child should have access to a safe, well-equipped public school.

We oppose the Committee bill because it is inconsistent both with the goal of improving our educational system and with our commitment to attaining a balanced budget. The reasons for our opposition to the bill can be stated quite simply:

(1) The Committee bill is a diversion of scarce resources for the benefit of a small group of wealthy families. These resources should be devoted to the improvement of our public school system, which serves approximately 90 percent of the students in this country.

(2) The Committee bill threatens the goal of a balanced budget because of its large and growing revenue losses.

(3) The Committee bill is not administerable and is so flawed that it invites taxpayer abuses.

Deficit impact

The Committee bill results in large and growing revenue losses that are inconsistent with the recent budget agreement and our goal of a balanced budget. The provision of the bill that expands education savings accounts has a revenue loss which in the first 5 years increases from $115 million per year to over $600 million per year. The bill is funded by a revenue offset that is largely a one-time acceleration of receipts into the first several years of the budget window. For example, the revenue offset is estimated to raise over $1 billion in fiscal year 1999, but only $120 million in fiscal year 2001. As a result, the bill will produce large and growing revenue losses. The Joint Committee on Taxation has estimated that, over a 10-year budget period, the bill would lose approximately $5 billion. This means that the annual revenue loss from the bill would be well over $1 billion in the later part of that 10-year period.

Delays deferred
Vacation
pay deduction

Administerability

From a technical standpoint, the Committee bill is so flawed that it is an embarrassment. The Committee bill is largely based on a Senate Floor amendment that was offered by Senator Coverdell during the consideration of the recently enacted Taxpayer Relief Act of 1997. Like many Senate Floor amendments, Senator Coverdell's amendment appears to have been developed with some haste, largely for political purposes, and with little regard to whether it could actually be administered. That is an accurate characterization of the bill reported by the Committee.

The Committee bill would permit taxpayers to contribute $2,500 per year, per beneficiary to education savings accounts. Income from assets in those accounts would accumulate on a tax-free basis and that income would be exempt from tax if used to pay qualified elementary and secondary education expenses of the designated beneficiary. The bill defines qualified expenses as being tuition, fees, tutoring, special-needs services, books, supplies, computer equipment (including related software and services) and other equipment, transportation, and supplementary expenses required for enrollment or attendance at a public, private, or religious school. The bill provides no hint as to how the Internal Revenue Service is to administer such a provision or what specifically is included in the broad definition of qualified expenses. The technical flaws of the bill were convincingly demonstrated during the Committee markup.

Inquiries by Representatives Rangel and Kleczka during the markup demonstrated the absurd nature of the Committee bill. In response to those inquiries, the Joint Committee staff indicated that payments for tutoring would qualify, even if the tutoring were provided by a parent or brother or sister of the child being tutored and that purchases of cars could qualify as transportation expenses in certain circumstances. These are but two examples of potential abuses that could occur under the careless language of the Committee bill. There are many other personal expenses that taxpayers could characterize as qualified educational expenses for which tax benefits would be provided under the bill. It should be pointed out that this opportunity for abuse would be limited to taxpayers with ? large amounts of investment assets.

The bill purports to limit the availability of educational savings accounts to taxpayers with annual incomes of less than $95,000 ($160,000 for joint returns). During the markup, Representative Becerra inquired whether a wealthy taxpayer could avoid this limitation through the simple expedient of making a gift to the taxpayer's child, who would then make the contribution to the education savings account. Staff of the Joint Committee responded that the bill would permit such an avoidance technique as long as the child earned less than $95,000. In a classic understatement that created laughter in the audience, the staff described the bill's income limitation as being "porous."

Benefits limited to families with wealth

We recognize that opposing a proposal advertised as promoting school choice is not an easy vote for some Members. Those Members should examine the substance of the Committee bill. If the

Committee bill promotes school choice, it does so only for a small category of wealthy families.

1. The only families who would benefit from the legislation are families with sufficient investment assets to enable them to accumulate income on those assets over a long period of time. Families paying educational expenses out of wage and salary income would receive no benefit under the Committee bill—no matter where those children were schooled.

2. Families with school-age children would receive little benefit. If a family currently has a child in private school, that family would receive the full benefit of the Committee bill only if it could contribute $2,500 to an investment account after paying the current-year costs of the private school. With private-school costs averaging over $3,000 per year, only a few very fortunate families could afford to make such a contribution. In addition, the Committee bill would provide substantial benefits only if the money were allowed to accumulate in the account over a period of years. Therefore, even the few fortunate families able to save for next year's tuition costs would receive little benefit.

3. To receive the maximum benefit, a family would need to have both young children (so that there is time to accumulate income in the account) and substantial investment assets. The following table indicates that few families meet the second requirement. The table is based on data collected by the Federal Reserve Board in its 1995 Survey of Consumer Finances. It shows the median amount of non-retirement investment assets held by families in various income categories. Non-retirement investment assets include checking accounts, savings accounts, and all other financial assets not held in a retirement plan. Not surprisingly, it shows that young families and families with children have relatively small amounts of non-retirement investment assets.

Income category	Percent of families in income category	Median amount of non-retirement investment assets		
		All families	Families headed by individual under 35 years of age	Families with children under 18 years of age
Less than $10,000	16	$440	$150	$10
$10,000 to 20,000	18	1,750	500	400
$20,000 to 30,000	15	3,000	1,230	1,200
$30,000 to 40,000	15	5,400	2,500	2,700
$40,000 to 50,000	10	7,900	3,400	4,950
$50,000 to 75,000	14	15,800	8,420	10,800
$75,000 to 100,000	6	27,300	23,200	22,300
$100,000 to 200,000	5	58,000	43,000	49,200
Over $200,000	1	255,000	270,000	183,100

We believe that the table above amply demonstrates which families will benefit from the Committee bill. The amount of non-retirement investment assets is a very good measure of a family's ability to take advantage of the Committee bill. Without those assets, a family would have to save out of current-year wages $2,500 per year, per child to take full advantage. We all know how few families can afford to do this.

If the Committee bill had provided a nonrefundable credit available to all taxpayers with children for qualified education expenses and that credit were designed to have the same revenue loss as the Committee bill, the Joint Committee indicated that the amount of that credit would be $15 per child per year. This is an indication of the average benefit per child received under the Committee bill. The $15 figure is merely the amount derived by averaging the large benefits received by relatively few taxpayers with the nonexistent or nominal benefits received by the overwhelming number of taxpayers. Representative McDermott offered an amendment that demonstrated this inequitable feature of the Committee bill.

Democratic alternative

We believe that to improve our public school system we must encourage both greater private-sector involvement and provide additional resources for our public school system to meet pressing needs of school construction and repair, equipment purchase, course development, and teacher training. We believe the amendment offered by Representative Rangel in the Committee, to expand the education zone bond provisions of the recently enacted Taxpayer Relief Act, would accomplish both goals.

Section 226 of the Taxpayer Relief Act of 1997 provides an interest-free source of capital for public schools that enter into partnerships with the private sector to improve the academic curriculum. Those interest-free funds can be used for school rehabilitation or repair, purchases of equipment, development of course materials, and teacher training expenses.

The program established under section 226 is targeted to the public schools with the greatest needs. To be eligible to participate in the program, a school must be located in a distressed area eligible for special tax incentives under the empowerment zone and enterprise community provisions of the Internal Revenue Code *or* at least 35 percent of the students in the school must be eligible for free or reduced-cost lunches under the Federal school lunch program. More than half of public schools meet those eligibility requirements. In addition, a school not meeting those requirements could create a special program within the school for disadvantaged students and receive benefits for that program.

The program provides interest-free capital by permitting the local government to borrow money from financial institutions without interest costs. Under the provision, a tax credit is provided to the financial institution equal to the interest that would otherwise be required to be paid. The local government is required to repay the principal amount of the borrowing, but it will receive an interest rate subsidy with a value equal to 50 percent of the principal amount.

Under current law, there is an overall limitation on the amount that can be borrowed under the program—$400 million in each of the next two calendar years. The amendment offered by Representative Rangel would increase that limitation to $4 billion for each of the next two calendar years. In addition, school construction would qualify under the program.

No benefits would be provided under Representative Rangel's amendment to any school unless that school enters into a partnership with the private sector to insure that its academic program is relevant in today's ever-changing economy.

We would like to emphasize that all of the benefits from Representative Rangel's amendment would flow directly to the public school system. The tax credit provided under his amendment to financial institutions would merely compensate them for the interest that they otherwise would have received from the public school system.

The other point that we would like to emphasize is that Representative Rangel's amendment would not be inconsistent with our goal of a balanced budget. His amendment would have a positive impact on the deficit both during a 5-year and a 10-year budget window.

Ninety percent of the students of this country attend public schools, and therefore, we should focus our limited resources on the public school system.

CHARLES B. RANGEL.
XAVIER BECERRA.
RICHARD E. NEAL.
MICHAEL R. MCNULTY.
JOHN LEWIS.
PETE STARK.
BEN CARDIN.
WM. J. JEFFERSON.
BARBARA B. KENNELLY.
KAREN L. THURMAN.
ROBERT T. MATSUI.
JIM MCDERMOTT.
WILLIAM J. COYNE.
SANDER LEVIN.

○

\# Threshold are 95,000 INDIV. + 150 for FAMILIES.

TALKING POINTS ON THE COVERDELL BILL

--Summary. The Coverdell legislation would increase the contribution limit to education IRAs from $500 to $2,500, provide for tax-free build-up on the earnings in such accounts, and tax-free withdrawals for an array of expenses relating to elementary and secondary education.

--Treasury estimates that 70 percent of the benefits of the bill will go to the top 20 percent of income earners. These are taxpayers with annual incomes in excess of $93,000. If proponents of the measure are truly concerned about the middle class, consideration should be given to reducing the income limits and preventing the circumvention of those limits.

--Other Education Priorities. The TRA of 1997 failed to address adequately the school construction problem, and extended employer-provided educational assistance for only three years (for undergraduates only). These and other priorities should take precedence over creation of yet another IRA regime.

--We are already spending enough on IRAs and savings vehicles. At a cost of $38 billion over the next 10 years, the TRA of 1997 created the Education IRA and the Roth IRA, and significantly expanded existing IRAs and the tax benefits of State-sponsored prepaid college tuition plans.

--Complexity. This bill would create a maze of rules in attempting to define what constitutes a qualified elementary and secondary education expense. To further increase confusion, the provision would sunset after 2002.

--**Taxpayers are confused by constant changes in the law.** Taxpayers are just beginning to become aware of the hundreds of changes made in the Taxpayer Relief Act of 1997. And now, less than 3 months after that bill became law, we are unwisely considering additional changes.

The bill invites taxpayer abuse. Qualified elementary and secondary school expenses are defined to include expenses for tuition, computers, and transportation required for enrollment or attendance at a K-12 institution, and home schooling. There is no guidance as to what specifically is included in the definition. For example, would it be possible to use these new accounts to purchase the family car?

--**Violates the Budget Act**. With the revenue offset (change in the timing related to an employers deduction for vacation and severance pay), the bill raises more than $500 million during the first 5 years. However, it would lose $500 million in the second five years and therefore is subject to a "paygo" point of order. Absent the provision's sunset, it would have lost $4.8 billion over 10 years.

Selection of Amendments Shut Out by Cloture

Crumbling Schools (Moseley-Braun)

Child Care Credit (Dodd)

Corporate Child Care Deduction (Kohl)

Health Insurance Deduction for the Self-employed (Durbin)

Pre-paid Tuition Tax Preference Expansion (Graham)

(Other possibles)

Expand Dependent Care Credit

Expand Health Care Coverage to children not covered by this year's bill

Small Business Capital Gains Reduction supported by Senate and dropped from conference

Employer Provided Education Exclusion (MOYN)

Payroll Tax relief or offsets

# # #

Selection of Amendments Shut Out by Cloture

Crumbling Schools (Moseley-Braun)

Child Care Credit (Dodd)

Corporate Child Care Deduction (Kohl)

Health Insurance Deduction for the Self-employed (Durbin)

Pre-paid Tuition Tax Preference Expansion (Graham)

(Other possibles)

Expand Dependent Care Credit

Expand Health Care Coverage to children not covered by this year's bill

Small Business Capital Gains Reduction supported by Senate and dropped from conference

Employer Provided Education Exclusion

Payroll Tax relief or offsets

# # #

SENATE VOTING RECORD

No. 150

105th Congress
1st Session

June 27, 1997, 12:57 p.m.
Temp. Cong. Rec. p. S-6684

BUDGET RECONCILIATION, 1997 (TAX CUT)
(EDUCATION IRA)

BILL NO.: S. 949 (H.R. 2014) **AMENDMENT NO.:** 574

TITLE: "Balanced Budget Act of 1997"

SUBJECT: **Coverdell, et al., amendment which permits tax free expenditures from an education IRA account for elementary and secondary education expenses, including private schools.**

S. 949 (H.R. 2014): Vote Nos. 131-160, 210, 211.

RESULT: **AMENDMENT AGREED TO**

YEAS (59)

Democrats (8 or 17%)

~~Biden~~
~~Breaux~~
Harkin
Kohl
Landrieu
Leahy
~~Lieberman~~
~~Torricelli~~

Republicans (51 or 92%)

Abraham
Allard
Ashcroft
Bennett
Bond
Brownback
Burns
Campbell
Coats
Cochran
Coverdell
Craig
D'Amato
DeWine
Domenici
Enzi
Faircloth
Frist
Gorton
Gramm
Grams
Grassley
Gregg
Hagel
Hatch
Helms
Hutchinson
Hutchison
Inhofe
Kempthorne
Kyl
Lott
Lugar
Mack
McCain
McConnell
Murkowski
Nickles
Roberts
Roth
Santorum
Sessions
Shelby
Smith, B.
Smith, G.
Specter
Stevens
Thomas
Thompson
Thurmond
Warner

NAYS (41)

Democrats (37 or 83%)

Akaka
Baucus
Bingaman
Boxer
Bryan
Bumpers
Byrd
Cleland
Conrad
Daschle
Dodd
Dorgan
Durbin
Feingold
Feinstein
Ford
Glenn
Graham
Hollings
Inouye
Johnson
Kennedy
Kerrey
Kerry
Lautenberg
Levin
Mikulski
Moseley-Braun
Moynihan
Murray
Reed
Reid
Robb
Rockefeller
Sarbanes
Wellstone
Wyden

Republicans (4 or 8%)

Chafee
Collins
Jeffords
Snowe

NOT VOTING (0)

Democrats (0)

Republicans (0)

ANALYSIS OF ISSUE

Party Cohesion	Measure of Party Support on this Vote: *For (59)*	*Against (41)*
Democrats—83%	Democrats—8 or 13%	Democrats—37 or 90%
Republicans—92%	Republicans—51 or 87%	Republicans—4 or 10%

Prepared and Compiled by Senate Democratic Policy Committee
Tom Daschle, Chairman

SENATE VOTING RECORD

No. 150

105th Congress
1st Session

June 27, 1997, 12:57 p.m.
Temp. Cong. Rec. p. S-6684

BUDGET RECONCILIATION, 1997 (TAX CUT)
(EDUCATION IRA)

BILL NO.: S. 949 (H.R. 2014) **AMENDMENT NO.:** 57.

TITLE: "Balanced Budget Act of 1997"

SUBJECT: **Coverdell, et al., amendment which permits tax free expenditures from an education IRA account for elementary and secondary education expenses, including private schools.**

S. 949 (H.R. 2014): Vote Nos. 131-160, 210, 211.

RESULT: **AMENDMENT AGREED TO**

YEAS (59)			NAYS (41)			NOT VOTING (0)	
Democrats (8 or 17%)	Republicans (51 or 92%)		Democrats (37 or 83%)		Republicans (4 or 8%)	Democrats (0)	Republicans (0)
Biden	Abraham	Hutchinson	Akaka	Inouye	Chafee		
Breaux	Allard	Hutchison	Baucus	Johnson	Collins		
Harkin	Ashcroft	Inhofe	Bingaman	Kennedy	Jeffords		
Kohl	Bennett	Kempthorne	Boxer	Kerrey	Snowe		
Landrieu	Bond	Kyl	Bryan	Kerry			
Leahy	Brownback	Lott	Bumpers	Lautenberg			
Lieberman	Burns	Lugar	Byrd	Levin			
Torricelli	Campbell	Mack	Cleland	Mikulski			
	Coats	McCain	Conrad	Moseley-Braun			
	Cochran	McConnell	Daschle	Moynihan			
	Coverdell	Murkowski	Dodd	Murray			
	Craig	Nickles	Dorgan	Reed			
	D'Amato	Roberts	Durbin	Reid			
	DeWine	Roth	Feingold	Robb			
	Domenici	Santorum	Feinstein	Rockefeller			
	Enzi	Sessions	Ford	Sarbanes			
	Faircloth	Shelby	Glenn	Wellstone			
	Frist	Smith, B.	Graham	Wyden			
	Gorton	Smith, G.	Hollings				
	Gramm	Specter					
	Grams	Stevens					
	Grassley	Thomas					
	Gregg	Thompson					
	Hagel	Thurmond					
	Hatch	Warner					
	Helms						

ANALYSIS OF ISSUE

Party Cohesion	Measure of Party Support on this Vote — *For (59)*	*Against (41)*
Democrats—83%	Democrats—8 or 13%	Democrats—37 or 90%
Republicans—92%	Republicans—51 or 87%	Republicans—4 or 10%

Prepared and Compiled by Senate Democratic Policy Committee
Tom Daschle, Chairman
Harry Reid, Co-Chairman

Coverdell

The Truth About the Coverdell Tax Bill H.R. 2646

Proponents say: *The Joint Committee on Taxation estimates that almost 75 percent of funds will go to public school students.*

FACTS: **Proponents' own data shows that private school students will receive a disproportionate share of funds.** 90 percent of all students in the nation attend public schools, but as proponents claim, only 75% of funds will go to public school students.

This proposal disproportionately benefits children from affluent families who are more likely to send their children to private schools. According to the Department of Treasury, 70% of the benefit of the bill would go to those families in the highest income bracket. An October 28, 1997, Joint Tax Committee memorandum states that 83% of families with children in private schools would use this account, but only 28% of families with children in public schools would make use of it. Therefore, the majority of the benefit goes to the highest income families who are already sending their children to private school.

Proponents say: *It is estimated that 70 percent of the benefits from the Coverdell accounts would go to families that earn under $70,000 a year.*

FACTS: **The majority of the benefit of the proposal goes to upper income families -- those who earn above $55,000 a year.** Only about 10 percent of taxpayers have incomes between $70,000 and the capped income levels. Therefore, 30% of the benefits would go to just 10 percent of the taxpayers. The majority of the benefit for families who earn under $70,000 a year goes to those in the income brackets between $55,000 - $70,000.

But for taxpayers in the three lowest income quintiles -- those earning below $55,000 -- the average individual benefit would be less than $7. The majority of the nation earns less than $50,000, so the majority of the nation would receive little benefit.

Proponents say: *The Coverdell IRAs do not use public money. The money invested in the accounts, whether by an individual, their employer, or their labor union is their own money, not public funds.*

FACTS: In order to stay with the Balanced Budget Agreement, an offset is necessary to cover the revenue loss that would be incurred if the Coverdell proposal were enacted. Even Chairman Archer has indicated that the offset means that public resources are in play under this proposal.

Proponents say: *The Joint Tax Committee estimates that 10.8 million tax return filers with children in public schools would utilize the educational savings account.*

FACT: **Let's not distort the facts -- this is a public subsidy for people who already send their children to private schools.** The October 28, 1997 Joint Tax Committee memorandum states that 83% of families with children in private schools would use this account, but only 28% of families with children in public schools would make use of it.

Regardless of who uses the accounts, the benefits would go to the most affluent taxpayers and provide little or no assistance to those with fewer financial resources. 60 percent of families will receive very little benefit -- only a few dollars. 70 percent of the benefit goes to those families in the highest income bracket.

The Joint Tax Committee confirms that this provision disproportionately benefits families who already send their children to private schools. In their October 28, 1997 memorandum, the Committee says, "The dollar benefit to returns with children in public schools is assumed to be significantly lower than that attributable to returns with children in private schools."

Proponents say: *The Coverdell bill is not a voucher scheme. It does not use public dollars, therefore, it does not raise constitutional problems by diverting public funds to religious schools.* FACTS: **This bill is simply private school vouchers under another name.** We know that 83% of families who already send their children to private school would benefit from this proposal, and only 28% of families in public schools would use it. It is wrong for Congress to subsidize private schools. We should improve our public schools -- not abandon them.

Senator Coverdell's proposal would spend 2.5 billion dollars over the next five years on subsidies to help wealthy people pay the private school expenses they already pay, and do nothing to help children in public schools get a better education. It is important to continue the national investment in children and their future. We should invest more in improving public schools by fixing leaky roofs and crumbling buildings, by recruiting and preparing excellent teachers, and by taking many other steps. We should not invest in bad education policy and bad tax policy.

Proponents say: *No member can honestly believe that a chance to bring new private resources to middle-income families who want to get engaged in their own child's education is a bad idea.* FACTS: **We all hope parents will be involved in their children's education -- and many of them already are.** Parents of all income levels are serving as classroom volunteers, helping children with homework, and reading to children in the evening and it's paying off. Parent involvement makes a difference in a child's education. However, a tax proposal that disproportionately benefits private school students, and offers virtually no benefit at all to low-income public school students, will do nothing to improve parent involvement or public education.

This "tax savings" may end up costing middle income families more than it saves. To achieve even the minimal tax savings of $7 (the benefit for those making $55,000 and below), middle income families must set aside resources from the same pot of money that they use to cover day-to-day living expenses. Under this proposal, families incur costs of record keeping and may have to forsake necessary day-to-day living expenses in order to save money in this account.

The proposal will be difficult for the federal government to administer and will likely cause increased IRS audits. Qualified expenses" are defined so broadly in this bill that parents could justify almost any expense even remotely connected to the costs of elementary and secondary education, creating a large loophole for people to spend funds in ways not intended.

In order to guard against fraud and abuse, the IRS would have to take on more tax audits of families that establish these accounts The IRS will have to ask what school a child attends, what expenses the parents actually incurred, and whether the accounts were properly set up and used.

This bill does not help the working class as proponents state. A family earning $93,000 a year and up (twice the earnings of a middle income family) gets 13 times as much help as a family with an income of $55,000 a year or less.

Wealthier families can set aside savings for these accounts, working families cannot. A study by the Federal Reserve indicates that families with incomes between $30,000 to $40,000 a year had non-retirement investment assets of $2,500. But, out of that annual savings comes the funds for paying off debts, paying for health care, and paying for other daily living expenses. In reality, very little money would be left over for putting money into an IRA savings account.

Proponents say: *We've already voted for this same formula in the tax bill. President Clinton's HOPE proposal has the exact same distribution formula. Why would you vote against this now?*

FACT: According to counsel to the House Ways and Means Committee, the income caps in this legislation are "porous," unlike the ones in the HOPE Scholarship. For example, in the Coverdell proposal, parents who exceed the income limits can transfer resources to their children who can then set up their own accounts to take advantage of the tax benefit.

Unlike the HOPE Scholarship, the Coverdell proposal requires a family to set aside considerably of their income than they would ever accrue in tax benefits. The HOPE Scholarship is designed to enable a student to use the tax credit to cover the costs of their education up to $1500. Funds could be available up-front either through a short-term loan or by adjusting withholding. In the Coverdell bill, a family with limited resources would not be able to meet the threshold to benefit.

Higher education is not free -- public elementary and secondary education is. Federal higher education programs are about <u>access</u>; they help students afford to go to college. Federal K-12 education programs help improve the <u>quality</u> of schools.

Reasons to Oppose HR 2646

The bill, sponsored by Rep. Gingrich and Armey, was marked up by Ways and Means on October 9. No hearing has been held in the House or the Senate on this legislation. The legislation is an amended version of the amendment offered by Senator Coverdell to the reconciliation bill, at which time it received only 2 minutes of debate. The proposal was the subject of the President's veto threat on the reconciliation bill.

Undermines the Balanced Budget

Congress recently approved a balanced budget which would be undermined by this bill. The loss of revenue created by HR 2646 insignificant. The cost is $2.5 billion over five years, and $4.1 billion over 10 years, with further expanded growth over the long term. This means there will be significantly less funds under a balanced budget to fund areas that help the national economy grow, such as children's and education programs.

Benefits wealthier families

These tax shelters could be used by taxpayers who are comparatively wealthy -- modified adjusted gross income of up to $110,000 for individuals and $160,000 for joint tax filers. Yet the Federal Reserve's data shows that families with an income of up to $40,000 a year, with school-age children, barely have enough savings after they put away some money for retirement. This won't help them.

Taxpayers in the higher income brackets are going to receive a "bigger bang for the buck" because they have a much greater ability to put aside $2500 a year per child and get more of a tax benefit when they use the accounts.

According to the Joint Committee on Taxation, roughly 70 to 80 percent of American families would not make use of this new IRA. Most Americans do not have the savings to put away even $2,500 into this kind of account unless they have a higher income.

According to the Joint Committee on Taxation, the majority of the tax benefits would be used by individuals and families making over $75,000 a year. This means that families that can afford to send their children to private schools, which are costlier than expenses for sending children to private school, will get the most benefit. Meanwhile, the investment available for improvements in public schools would be diminished because the tax cut will lower revenues to the balanced budget.

Does not improve public education for the 89% of children who go to public schools

These federally-created tax-free savings accounts don't move us forward on what parents and teachers say is needed to improve the education of all children. A tax free account or tax credit does not create better teacher training; it does not improve crumbling school infrastructure; it does not put into our public schools proven reading and math programs so that all children reach high standards, and it doesn't increase parental involvement in our schools. Those are the things the public and parents say they want and that is what we should work on -- not tax shelters and benefits for a few.

Difference between higher education tax credits and IRAs and K-12 ones. The difference between elementary and secondary education and higher education is important in this debate. Every state mandates K-12 education for every child. Higher education is purely optional. Every state provides every child with a tuition-free education for the elementary and secondary grades. Higher education, whether public or private, is tuition-based.

Let's be clear about these tax schemes for K-12 that are promoted by HR 2646. They don't help public schools which educate roughly 46 million children and youth. They don't raise academic standards for all children. They are tax shelters benefiting only those families who choose private or religious schools instead of public schools. We should not create inequities in education through tax schemes or through direct spending at any level.

The Washington Post and the Christian Science Monitor both correctly point out significant problems with this proposal. These Coverdell accounts are a significant step to "positioning government behind private -- most often church-related --elementary and secondary education" (Monitor). The Washington Post also says that these accounts would be of most value to wealthier families.

Eighty-nine percent (89%) of America's children and youth attend public schools. While we do not oppose parents' right to choose a private or religious school for their children, we do oppose using public dollars for tuition tax credits, vouchers, or similar schemes such as these Coverdell "IRAs" to pay for private and religious school tuition and fees. The role of the federal government is to ensure equity in education, and providing back-door subsidies to private and religious schools will not create high quality public schools for the majority of America's children.

This scheme benefits families with up to 160,00 of adjusted gross annual income. This creates an even greater disparity between the "haves" and the "have nots." Wealthier families get a greater return because they are already paying for annual tuition at private and religious schools. People whose children attend neighborhood public schools will use the account for a one-time cost of a home computer or a SAT preparation course.

Let me give you an example of what HR 2646 means. Think of it this way. Your tax dollars support a local police force to ensure your personal and community safety. It would be unfair and unsound to create a tax credit or an IRA to pay for private home security systems or body guards. Likewise, your tax dollars go to support public pools, tennis courts and recreation. It would be unfair and unsound to create tax credits and IRAs for persons who wish to join a private country club.

A tax-free savings account does not guarantee or help a child get into a private school. The private school decides who to admit and who to reject on the basis of its own criteria.

This primarily helps families who are already sending their children to private and religious schools.

Bad tax policy

HR 2646 would only further complicate the tax code and tax forms. For many years, the goal has been to simplify the tax system and the forms used by taxpayers.

The only way that the IRS will be able to ensure against fraud and abuse of this program would be to take on more tax audits of families that establish and use these accounts. The IRS will have to ask what schools the child attends or whether the child was homeschooled, what expenses the parents actually incurred, and determine if the accounts were properly set up and used.

Tax free savings offered through the HR 2646 accounts will result in an incentive to use these plans to shift existing savings into investment vehicles that are never taxed. It is a scheme for wealthier families who can shift their earnings and savings into better tax-free shelters.

Because anyone can set up one of these tax free accounts for their children, grandchildren or unrelated child, it provides an opportunity for high income taxpayers to avoid estate and gift taxes on substantial transfers.

Proponents say the proposal is like an IRA. But when traditional Individual Retirement Accounts (IRAs) were less limited (prior to the 1986 tax law), less than a fifth of the tax savings from IRA deductions went to the bottom 72 percent of all income tax filers. The average IRA tax savings from deducting IRA contributions for the bottom 72 percent was only $20. In contrast, more than half of the 1985 IRA tax savings went to the best off 8 percent of all tax filers, with an average tax savings from deducting IRA contributions of $521.

By whatever name they are given, these tax accounts will be shelters that favor wealthier taxpayers. Higher income taxpayers are more likely to have the cash on hand to contribute to a tax-sheltered savings account. In 1985, 57.8 percent of the top 8 percent of taxpayers contributed to an IRA. By contrast, only 7.6 percent of the bottom 72 percent of all income tax filers contributed to an IRA.

JOHN BREAUX
LOUISIANA

MINORITY
CHIEF DEPUTY WHIP

COMMITTEES

COMMERCE, SCIENCE, AND
TRANSPORTATION

FINANCE

SPECIAL COMMITTEE ON AGING

Washington Office
(202) 224-4623
TDD (202) 224-1986

senator@breaux.senate.gov
http://www.senate.gov/~breaux

United States Senate

WASHINGTON, DC 20510–1803

STATE OFFICES

One American Place, Suite 2030
Baton Rouge, LA 70825
(504) 382-2050

The Federal Building
705 Jefferson Street, Room 103
Lafayette, LA 70501
(318) 262-6871

Washington Square Annex Building
211 North 3rd Street, Room 102A
Monroe, LA 71201
(318) 325-3320

Hale Boggs Federal Building
501 Magazine Street, Suite 1005
New Orleans, LA 70130
(504) 589-2531

Central Louisiana
(318) 487-6445

November 12, 1997

Dear Colleague:

Recently the Senate debated the merits of allowing parents to use funds in the newly established education savings accounts for the purpose of paying education expenses associated with grades K-12. Although there is widespread support for this concept in the Senate, there is concern that we should take the necessary steps to preserve continued support for our public school systems and to ensure that the benefits of this provision are evenly distributed and cover legitimate education expenses.

Minority Leader Daschle has asked me to work with other Democratic senators and coordinate efforts with the Republicans, as well, to draft a bill by the beginning of the next session that meets these criteria. I would like your input and suggestions in this process. Darla Romfo, my legislative director will coordinate this on the staff level. Please contact me with your thoughts or have your staff contact Darla at 4-8537. Thank you and I look forward to working with you.

Sincerely,

John Breaux

JOHN B. BREAUX

[illegible]

2-9-98

THE WHITE HOUSE

WASHINGTON

February 8, 1998

copied
Sperling
Reed
Stein
COS

MEMORANDUM FOR THE PRESIDENT

FROM: SEAN MALONEY

SUBJECT: Strategy on Coverdell Education IRA Proposal

The attached Sperling/Reed/Stein memo asks you to adopt a strategy for dealing with Senat r Coverdell's education IRA proposal, in advance of its scheduled Senate Finance Committe mark up on Tuesday. Your advisers, including Secretaries Riley and Rubin, met with Ersk ie on Friday to discuss the two options presented below.

Background. As you know, Coverdell would raise annual education IRA contributio n lir ts from $500 to $2,000 and broaden permissible account distributions to include private elem ntary and secondary school tuition -- a back-door voucher favoring the rich that would dive t sc ce resources from public schools. Last July, you threatened to veto the entire budget bill if it included Coverdell's proposal. Last fall, the House passed it 230-198; it died in the Sena after a Kennedy-led filibuster. This year, the bill will get a strong vote out of committee; the fi buster may not hold. So far, Dems have been unable to add school construction and other provis ons.

Option 1. Stick to the strong veto message and discourage Democrats from add ng ameliorative provisions. This option is consistent with last summer's veto threat and w ld satisfy public school advocates. A veto appears to be sustainable in the House, though p haps not in the Senate. You could reassess later, if a veto-proof majority emerges. Howe er, l aschle and other Dems have signaled they may not oppose Coverdell this year; we would miss a school construction opportunity; and Republicans would have a popular issue to criticize us on.

Option 2. Stick to the veto threat, but encourage Democrats to add provisions that e support, such as school construction. Depending on the success Dems have addin g pr posals, we could negotiate a deal or revert to a veto. This option offers possible progress on sch ol construction and would deprive the Republicans of a popular issue. However, it could b portrayed as a flip-flop; could start us down the "slippery slope" on vouchers; and woul be strongly criticized by public education supporters.

Views. *All of your advisers* support Option 1 -- sticking with a strong veto messag fo ow and discouraging Dems from adding improvements. Everyone believes Coverdell is bad po cy and a move towards vouchers. Opposing popular IRAs will be hard, however, and harder sti if the bill includes some help for public schools. Your advisers suggest encouraging Dems to offer a *substitute* for Coverdell when the bill goes to the floor.

Option 1 (recommended) ___ **Option 2** ___ **Discuss** ✓

2-9-98

THE WHITE HOUSE
WASHINGTON

'98 FEB 7 PM5:24

FEBRUARY 7, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING
BRUCE REED
LARRY STEIN

RE: STRATEGY ON COVERDELL EDUCATION IRA PROPOSAL

The Senate Finance Committee is scheduled to mark-up the Coverdell Education IRA proposal on Tuesday, February 10, 1998. A group of your advisors, including Secretaries Rubin and Riley, met with Erskine Friday to discuss our legislative strategy. This memorandum lays out the current situation, several options, and the recommendations of your economic team.

Background:
Senator Coverdell's proposal would expand the existing education IRA in two ways. First, it would broaden the accounts to allow for distributions to pay for educational expenses, including tuition, at private elementary and secondary schools. Currently the accounts are limited to higher education. Second, it would raise the contribution limit from $500 to $2,000 annually.

Senator Coverdell's proposal is objectionable on policy grounds for two key reasons. First, it provides for tax-side subsidy for private schools, and, thereby, diverts scarce resources from public schools. In this respect, the proposal can be viewed as a back-door voucher. Secondly, the tax benefits are heavily skewed to people with high incomes, 70 percent of the benefits flow to the top 20 percent of families.

For these reasons, as you will recall, you sent a strong letter to the Congressional Leadership on July 29, 1997, that stated your opposition to the Coverdell proposal and your intention to veto the entire budget bill if it were included (The Republicans had asked for the letter as a condition of removing the Coverdell provision from the bill).

Last fall the House passed the Coverdell proposal by a vote of 230-198. During House consideration, Secretary Riley and Secretary Rubin underscored the Administration's opposition with a joint letter that opposed the provision on both education and tax policy grounds. This bill died in the Senate as a result of a successful filibuster effort led by Senator Kennedy. After the Senate vote, Senator Daschle publicly warned that the filibuster might not hold this year and there is a uncertainty among some Democrats of how strong our veto resolve is on this issue.

Current Situation

The Coverdell proposal remains a top item on the Republican agenda and they are trying to move it quickly. Chairman Roth and Majority Leader Lott are pursuing a strategy of garnering support for Coverdell in return for the inclusion of pet proposals (education only) of the members on the Committee. That strategy appears to be working. For Senator Graham, a provision providing tax-free treatment for withdrawals from state pre-paid tuition plans will be added to the Chairman's mark. Apparently for Senator Moynihan, favorable tax treatment for employer provided educational assistance is extended both in time and coverage to include graduate education, as we do in our budget. Add Senator Breaux, who has supported Coverdell previously, and even with less than enthusiastic Republican, Senator Chafee, the bill looks like it could come out of Committee with a strong vote.

Despite attempts by Senator Moseley-Braun, school construction is not currently included though discussions are continuing over the weekend. Sen. Moseley-Braun's staff has indicated that she would probably vote for Coverdell if it included a school construction proposal worth at least $3 billion or so over five years (the Administration proposal is $5 billion). You will recall that Senator Lott has been a strong opponent of school construction in the past.

Options

In our meeting, we discussed the following strategy options: 1) stick to our very strong veto threat. 2) Continue the veto threat, but encourage Democrats to add school construction and other items for a possible ultimate deal.

Option 1:

Under this strategy option, we would stick very strongly to our veto threat with the full intention of vetoing any bill that includes the Coverdell proposal, just as we have done to date. We would not encourage Democrats, to the extent possible, from adding proposals that we support.

Pros:

- Consistent with the position you took in your letter to the Congressional leadership during the Balanced Budget Agreement negotiations.
- Satisfies public school advocates concerned about vouchers.
- Appears sustainable at least in House (though possibly not in the Senate). There are apparently 8-12 wavering Senate Democrats. Both the House and Senate dynamic could possibly change to the extent something very attractive gets added, such as a robust school construction provision.
- Can reassess later if dynamics change, or if veto-proof majority begins to emerge.

Cons:

- Minority Leader Daschle and other Democrats have signaled that they may not stic with their position last year opposing Coverdell. The bill could come out of Finance wi . an overwhelming vote.

- Lose opportunity for possible progress on school construction.

- Republicans continue to have a popular issue to criticize us on.

Option 2:
Under this strategy, we would stick to our veto threat, but we would encourage Democra: to add provisions that we support, such as school construction. Depending on how much s icce: Democrats have, down the road we would either engage in negotiations to add more of o proposals or we would stick to our veto threat.

Pros:

- An opportunity to achieve a success on school construction.

- Robs Republicans of an issue, while forcing them to cave in on school constructi n.

Cons:

- Would be portrayed as a flip-flop, perhaps affecting credibility of future veto th ats.

- May contribute to "slippery slope" on school vouchers, as public school advoca es fear.

- Would be strongly criticized by public education supporters, even if it includes substantial school construction investment.

Recommendation:
All of your advisors agree that Coverdell is bad public policy. Proponents of Coverde intend for this to be a first step towards vouchers. Moreover, the tax benefits disproportiona ly benefit high income people.

Some of your advisors believe that switching will be seen as moving away from a pri ipled position. Others, however, point out the potential for an education bill moving throu 1 Congress with possible strong momentum and including several attractive compone t, including pre-paid tuition plan provisions, enhanced employer provided education benefits and erhaps school construction. It would be difficult to make an effective public case against su 1 a bill. An IRA does not strike people as a voucher, plus people understand IRAs and they l e them. The public case against a bill becomes that much harder to the extent provisions are i cluded that help public schools, such as school construction.

While some of your advisors believe that we will need to continue to re-assess our position as events unfold, and some felt we should never move off our current position, it is the consensus view of your advisors that there is nothing to be gained from moving off of your strong veto threat now. It is also agreed that, we should not, at least for now, encourage Democrats to try to load up the bill with attractive items, while recognizing that Finance Committee Democrats will do some of this on their own. Rather, we can encourage Democrats to offer a proposal as *substitute* for Coverdell when the bill goes to the Senate floor.

_______ Recommended Option
Strong Veto Threat
Encourage Democratic
Substitutes

_______ Option 2
Strong Veto Threat
Encourage Democrats
To Add to Coverdell

_______ Discuss