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Series/Staff Member: Gene Sperling

Subseries:

OA/ID Number: 19266

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Folder Title:
Hope Scholarship

Stack:	Row:	Section:	Shelf:	Position:
S	17	2	8	3

HOPE

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

29-Nov-1996 11:31am

TO: SPERLING_G
TO: REED_B
TO: Kenneth S. Apfel

FROM: Robert M. Shireman

CC: Barry White

SUBJECT: Hope Scholarships - Update

Message Creation Date was at 29-NOV-1996 11:23:00

In preparation for Monday's meeting, I wanted to give you the current state of play on the Hope tax credit, and to let you know my recommendation for next steps.

1. Design. Treasury has worked up some mock forms that colleges and taxpayers would need to fill out in order to claim the credit. Colleges would file a four-part form, providing information about costs, credit hours, federal and other aid, and grades for EACH TERM (quarter, semester, summer) paid for by the student/taxpayer during the tax year. The taxpayer then transfers all of this information into tables on a tax form, and performs various calculations in order to determine eligibility for the credit.

All of this information is necessary in order to allow taxpayers to claim a partial credit for part-time and/or partial-year schooling. For example, a half-time student might claim the $1500 credit in two chunks over a two-year period. The forms track exactly when the person reaches the one-year point when the grade requirement kicks in. Then the forms track when the two-year point is reached (it may be in the middle of a tax year), when no further credit is allowed.

I have floated a much simpler approach to Treasury and Education. I would dispense with the idea of any partial credit, instead allowing for a $1500 credit for tuition and fees paid for ANY half-time-or-more enrollment in a degree or certificate program. The student is eligible the first time as long as he hasn't finished two years of course work. The student is eligible for a second credit if he has a B- GPA for the first year of courses -- or those completed at the time of filing, if he hadn't yet finished the first full academic year.

The Treasury analysts agree that this would eliminate the need for the cumbersome term-by-term calculations. They raise some equity issues, however (part-time students at low-cost institutions might only get two $500 credits, rather than being able to stretch it out over six years and get the full $3000 under the current scheme).

If you agree that this simpler approach should be explored, we need to get Treasury to do a cost estimate.

2. Fraud. Treasury is rightfully concerned about the fraud potential with any new refundable credit. The IRS needs to (a) collect the college-provided data independently to guard against taxpayers creating their own fake 1099s; and (b) check to make sure that colleges are providing them with accurate information. Could Education perform these roles?

HOPE already limits eligibility to institutions approved under Title IV of the Higher Education Act, and the Education Department is already charged with certifying the financial and administrative capability of the institutions as part of the (admittedly weak) gatekeeping system. Instead of having IRS audit the system, why not beef up Education's operation a little so that they can check institutions' compliance as part of the regular certification and audit process?

As part of the current financial aid process, the Education Department already collects some of the data (particularly on poorer students) that HOPE requires. (The Department will bring a chart indicating what items are in its system). Education could collect the taxpayer data from colleges -- as an addition to its current data collection activities -- and provide IRS with the data for matching up tax forms. Again, some resources would need to be provided to Education.

3. Pell Grants. Some have expressed a concern that the HOPE credit does not help poor students enough (because it is offset dollar-for-dollar by federal grant aid). At a previous meeting, someone suggested that the Pell Grant maximum be increased to $3000, and that the credit be reduced in order to pay for the increase. Assuming that the grant would increase by inflation each year, the cost is about $3.7 billion. In order to save that amount, Treasury estimates that the credit would need to be reduced to somewhere between $1350 and $1400. A $1500 credit would cover tuition and fees for about two-thirds of community college students. The lower amount might cover "average" tuition and fees nationally ($1200 in 1994-95), but would not cover as many students or states.

Do you want to explore this option further, or look at other ways that the credit can be adjusted to help poor students more?

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

02-Dec-1996 08:43am

TO: Robert M. Shireman

FROM: Kenneth S. Apfel

CC: sperling_g
CC: reed_b
CC: Barry White

SUBJECT: Re: Hope Scholarships - Update

Message Creation Date was at 2-DEC-1996 08:36:00

We could either reduce the credit or eliminate the refundability. We should explore both options

HOPE

EXECUTIVE OFFICE OF THE PRESIDENT

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DRAFT

Distribution of Students Enrolled in Postsecondary Education Institutions by Federal Benefit Received, Total Income, and Dependency Status

	Benefit received				
	None	Tax benefit only	Tax benefit and Pell	Pell only	Some
Dependent					
Under $10,000	5.3%	21.4%	28.1%	45.1%	94.6%
$10,000 to $19,999	5.6%	28.0%	26.0%	40.4%	94.4%
$20,000 to $29,999	5.5%	42.1%	29.5%	22.8%	94.4%
$30,000 to $39,999	7.6%	71.6%	13.7%	7.1%	92.4%
$40,000 to $49,999	7.9%	84.4%	5.7%	2.1%	92.2%
$50,000 to $59,999	7.7%	89.9%	1.8%	0.6%	92.3%
$60,000 to $69,999	13.1%	86.0%	0.7%	0.2%	86.9%
$70,000 to $79,999	13.4%	85.9%	0.3%	0.4%	86.6%
$80,000 to $99,999	34.1%	65.3%	0.4%	0.3%	66.0%
$100,000 and More	99.7%			0.3%	0.3%
Total	14.5%	61.8%	11.6%	12.1%	85.5%
Independent					
Under $10,000	7.8%	27.1%	26.6%	38.5%	92.2%
$10,000 to $19,999	11.9%	56.1%	14.5%	17.6%	88.2%
$20,000 to $29,999	15.6%	66.5%	8.7%	9.3%	84.5%
$30,000 to $39,999	18.1%	75.5%	3.7%	2.7%	81.9%
$40,000 to $49,999	14.6%	83.3%	1.3%	0.8%	85.4%
$50,000 to $59,999	15.5%	83.7%	0.6%	0.3%	84.6%
$60,000 to $69,999	16.5%	82.3%	0.3%	0.9%	83.5%
$70,000 to $79,999	10.8%	88.8%	0.2%	0.2%	89.2%
$80,000 to $99,999	27.1%	72.4%	0.2%	0.2%	72.8%
$100,000 and More	99.2%			0.8%	0.8%
Total	13.7%	56.9%	12.7%	16.7%	86.3%
All students					
Under $10,000	7.4%	26.2%	26.8%	39.5%	92.5%
$10,000 to $19,999	10.1%	48.3%	17.7%	23.9%	89.9%
$20,000 to $29,999	12.2%	58.3%	15.7%	13.8%	87.8%
$30,000 to $39,999	13.4%	73.8%	8.1%	4.7%	86.6%
$40,000 to $49,999	10.8%	83.9%	3.7%	1.5%	89.1%
$50,000 to $59,999	10.1%	88.0%	1.4%	0.5%	89.9%
$60,000 to $69,999	14.0%	85.0%	0.6%	0.4%	86.0%
$70,000 to $79,999	12.5%	86.9%	0.2%	0.3%	87.4%
$80,000 to $99,999	32.1%	67.4%	0.3%	0.3%	68.0%
$100,000 and More	99.6%			0.4%	0.4%
Total	14.0%	58.9%	12.3%	14.8%	86.0%

Notes:

Enrolled students includes both undergraduate and graduate students.
"Tax benefit" includes those likely eligible for the credit or deduction.
"Dependency status" refers to the Federal student aid and not the IRS definition.

Source: ED/NCES, 1993 National Postsecondary Student Aid Study

ED/OPE
26-Nov-96

DRAFT

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

27-Nov-1996 11:06am

TO: Gene B. Sperling

FROM: Paul R. Dimond PRD
National Economic Council

CC: Jason S. Goldberg

SUBJECT: Dislocated Worker Skill Credits/Mandatory Pell

Gene,

I won't be at the Hope Scholarship meeting on Mondy (b/c I'm meeting with Mayor Archer and his folks in Detroit on Monday). As a result, you will have to make the case that the option of providing Hope Skill Credit for Dislocated Workers and mandatory Pell Grants for low- and moderate-income students and workers is kept alive and fully fleshed out for "December" decision.

The state of play on my proposal for Hope Skill Credits for Dislocated Workers and Mandatory Pell Grants for low-and-moderate income students of all ages is as follows:

1. DoEd -- Mike Smith and Frank Holliman (sp?) like very much (and believe that Riley will be for this). It will build support from Higher Ed and student groups for Hope Scholarships, Education Tax Deductions and Pay-As-You-Earn Student loans; and it will give lots of friends in Congress more to fight for to build POTUS ETR legacy into Balanced Budget Budget Reconciliation. It also removes pressure (and 18-month cash flow lag) from refundablity of Hope Scholarships.

2. Apfel -- favors this basic change in structure; over long term believes it will enable POTUS legacy of federal budget support to grow for lifelong learning as tool to make crossing to new economy. In contrast, if this is left on discretionary side, Pell Grants and Dislocated Worker support are subject to major competition and cut-back any time a new President or Congress adds other competing priorites as non-DDD continues to decline as a share of total federal budget and GDP. Given his OMB balanced budget hat, however, Ken will try to make structure to put on mandatory side as revenue neutral for FY98 as possible. In addition, Ken can not be put in the position of having to be the champion for this: He will help make this a "December issue" for decision, but you (and Bruce? see below) will have to press to make clear that you want this option fully explored.

3. DoL -- Lisa Lynch will support this proposal (for much the same reasons as Apfel), and will make similar arguments to Secretary Reich. Barnicle is likely to caution that moving Dislocater Worker training to mandatory side through Hope Skill Credit (and making Pell Grants mandatory and more flexible for use by

dislocated workers and low-and moderate-income adults) will undercut Appropriation Committeet support for the rest of DoL training budget: but this is just another way of admitting that reform of DoL training programs is an absolute essnetial anyway. So, why not embed principle of individual grants on mandaotry side of budget for all? And then, with a pittance of discretionary funding, DoL can concentrate on building the interactive labor exchange (America's JJob Bank, America's Telent Bank, America's Labor Market Information, and America's Training Network), to which all variety of employers, job-seekers, intermediaries, and ETR providers will add value. In addition, DoL will be able to join in some form of devolution/partnership to governores/mayors of rest of DoL training/reemployment that may in fact build more bi-partisan support in Congress for discretionary support of ETR. [Jack Donahue is a HUGE supporter of proposed shift of Dislocated Worekrs/Pell Grants to mandatory side -- b/c it is the only way to get POTUS commitment to Skill Grants for "unemployed and underemployed" embeeded into law and future budgets. Jack will be talking to Reich directly about this].

4. Treasury: Lubeck (sp?) believes that Hope Skill Credit for Dislocated Worker can be crafted fairly easily and that moving Pell Grants to Mandatory side will relieve most of pressures (including the 18-month lag in cash flow for and fraud by tax[ayers) from refundablility feature of Hope Scholarship. Assuming that Secretary Rubin believes that POTUS legacy is embedding principle of federal support for post-secondary education and training -- put directly in the hands of the persons responsible for learning -- into federal budget, then you should find a willing ally for this if you want to get the Secretary's active support. [In fact, this should be easier for you to do then getting Secretary's support for CD Venture Capital Tax Credit!]

5. WH? Bruce Reed favors as a part of buidling affirmative legacy of putting keys to opportunity in hands of indviduals and families (as a part of the legacy of a balancing the federal budget). Laura understands and endorses why I chose to focus on two key additional elements (Hope Skill Credits for Dislocated Workers and mandatroy Pell Grants) rather than fighting for a single ETR account; whether she is willing or able to offer any additional support, I don't know.

6. Don't be surprised if a good coalition of Business and Labor Leaders (including Sweeney) presses privately for this shift of Dislocated Woker training and Pell Grants to the mandatory side sometime in December.

Let's Discuss before Monday. I'm here today, flying to Ann Arbor Thrsday a.m., back Tuesday in time for G.I. Bill meeting. If we don't touch base today, call me at 313-663-9576 so that we can discuss. As usual, I'm out on a limb: and, it's your choice whether to cut it off behind me or lift this to a higher level. Do whatever's right (b/c, I'm already falling off the limb toward home anyway unless something extraordinary and unexpected happens).

Have a good turkey day with the family.

Paul

YOUNG
HARRIS
COLLEGE

Office
of
President

P.O. Box 98
Young Harris
Georgia 30582

February 21, 1997

Dr. Stanley O. Ikenberry
President
American Council on Education
One Dupont Circle
Washington, D.C. 20036

Dear Dr. Ikenberry:

In light of President Clinton's Hope Scholarship proposals, I am sharing our positive experience at Young Harris College with Georgia's HOPE program. Young Harris College is a traditional two year, independent, residential, liberal arts college related to the United Methodist Church. The college is located in a rural environment in the mountains of northeast Georgia and has a capacity enrollment of 530 students. Our students are primarily the traditional college freshmen and sophomores, i.e., 18 -20 year olds just out of secondary school. More than 90% will transfer to a four year college after completing their work at Young Harris. We are somewhat selective in our entrance requirements. Our average freshman in Fall 1996 had a high school grade point average, computed on academic courses, of 2.93. Our average SAT was 997.

I understand from the media that some have suggested that the programs proposed by President Clinton will lead to increased tuition, less institutional student aid and grade inflation. Our experience at Young Harris College suggests that these problems are unlikely to occur. In fact, we have increased institutional student aid since the beginning of Georgia's HOPE program, moderated tuition increases, and raised our admission requirements which has led to a modest improvement in student achievement. We believe that, at our institution, HOPE has had a positive impact which has benefited students.

Since the inception of the HOPE program in Georgia in Fall 1993, we have raised our entrance requirements to Young Harris College three times. This has led to a corresponding improvement in the academic performance of our students. For example, in the 1992 Fall Quarter, the last year before the existence of the HOPE program, 9.8% of our students were on the Dean's List. In the 1996 Fall Quarter 15% had achieved this distinction. In Fall 1992 12.6% of our students were placed on academic probation while in 1996 only 9.9% were on academic probation. After the 1992 Fall Quarter 2.1% of our students were suspended from college because of poor academic performance while only 0.1% were suspended after the 1996 Fall Quarter. We suggest that the difference is improved academic preparation at the entrance into college and the financial incentive of HOPE to achieve academically while enrolled.

One of the primary stimulants to increased tuition at our institution is the cost of institutionally funded financial aid. This assistance, which comes from tuition revenue and gifts to the operating fund of the college, increases each year. These increases cause a corresponding increase in tuition and, in turn, necessitate additional increases in institutionally funded student financial aid. There is every incentive for us to keep our tuition as competitive as possible. If we can do a better job of controlling institutionally funded financial aid, we can better control our tuition increases. As in any free market environment, a lower cost makes us more attractive to a prospective student.

Our evidence indicates that the HOPE program has helped us moderate our tuition increases even though we have increased our institutionally funded student assistance during the existence of the HOPE program. In the 1992-1993 academic year, our total financial aid awarded to 543 students was $1,699,583. Of that amount, $783,743 was from institutional funds which was 47% of the aid awarded. During the 1995-1996 academic year, we awarded a total of $2,800,603 to 570 students. Our 1995-1996 institutional share was $1,019,179 which is 36% of the aid awarded. Thus while we have increased our institutional financial assistance to students, we also have decreased the percentage of total aid provided from college sources. Since 1993 our students have received a total of $1,395,464 from the HOPE program. Had we not had the HOPE assistance, we would have had to make up those funds from institutional sources which would have raised our percentage of institutionally funded student aid and increased the amount of tuition charged to fund that aid. My estimate is that increase probably would have been as high as $600.

Evidence at our institution suggests that the HOPE program has helped us achieve four desired results: maintain full enrollment, raise academic standards, increase student financial assistance, slow tuition increases. We believe that the program has been positive for our students. Our evidence suggests that President Clinton's Hope program could also be positive for students.

Sincerely yours,

Thomas S. Yow

Thomas S. Yow, III
President

es

FAX COVER SHEET

OFFICE OF THE ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
1500 PENNSYLVANIA AVENUE, NW (ROOM 3120)
WASHINGTON, DC 20220
Telephone Number: 202/622-0050
Fax Number: 202/622-0646

DATE: 2/21/97

NUMBER OF PAGES: 2
(including transmittal sheet)

Fax Number: 456-2878

TO: Gene Sperling

FROM: Don Lubick

Comments/Special Instructions:

DEPARTMENT OF THE TREASURY
Assistant Secretary for Tax Policy
Washington

Gene Sperling -

~~Gene~~ - Here is my idea of language in the regulations issue

Don

Statement for Speech on Coordination Between Treasury and Education

The Department of the Treasury and the Department of Education have worked together closely in developing the proposal for HOPE Scholarships. Secretary Rubin and Secretary Riley have assured me that they will maintain that same close working relationship in every aspect of implementing the proposal. The Department of Education will take the lead on educational matters, such as establishing criteria for meeting scholastic standards and input on establishing compatible procedures with existing academic institutional capacities and techniques. The Department of the Treasury will do the primary work on developing procedures for claiming a HOPE Scholarship through the tax system. There will be close consultation between the two departments on all of these matters, but collaboration will be especially close with respect to reasonable uses of information reports that colleges and universities will be asked to provide for their students.

A number of questions have been raised about information reporting and the extent to which the IRS will be scrutinizing colleges and universities. The Treasury has committed to consultation with the Department of Education and the academic community prior to issuance of tax regulations interpreting the new law. Let me assure you that the IRS will not be interfering in the affairs of educational institutions. The IRS will have no need to audit student transcripts or grades. Schools will be asked only to provide simple, straightforward information reports for their students once a year. They will be able to check a single box on the form indicating whether a student has met the required academic standards and status to qualify. The forms themselves will be very short, like the various existing form 1099s, and ask only for information schools could reasonably be expected to gather, such as a student's name and social security number, amount of tuition and fees paid, and amount of federal grants administered by the institution. Every effort will be made to make reporting simple and flexible, and institutions will be given extensive opportunities to comment and plenty of lead time to establish reporting systems.

THE WHITE HOUSE

WASHINGTON

January 24, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: ERSKINE BOWLES

SUBJECT: Rep. Archer's Letter to Secretary Rubin re: education tax relief

Attached is a copy of Chairman Archer's letter to Secretary Rubin on January 22, 1997 regarding his concerns with our HOPE Scholarships tuition tax cuts. I have asked Gene Sperling to forward you responses to each of Rep. Archer's concerns.

Gene -

Peter Orszag is your staff contact on this project -- he is in charge of working w/ TR & ED on ~~final~~ answers. You will have final signoff.

cc: Secretary Rubin
Sylvia Mathews
Gene Sperling
John Hilley

Corrected Copy

cc: Linda R, Alec, Sec, Maure, Janet

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6348

January 22, 1997

The Honorable Robert E. Rubin
Secretary
Department of the Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

In anticipation of receiving the President's FY '98 budget, it is my high hope and expectation that we will be successful in achieving a bi-partisan agreement that balances the budget, while providing permanent tax relief to the American people. I look forward to working with you and other members of the Clinton Administration to achieve these important goals.

I believe we should be able to find common ground on many areas, including how best to use the tax code to help young Americans obtain affordable college educations. During the last Congress, Republicans passed a measure allowing parents and grandparents tax-free withdrawals from their Individual Retirement Accounts to help pay for their children's and grandchildren's post-secondary education. We also passed a measure allowing students up to a $2500 tax deduction for interest paid on their student loans. These educational tax provisions were contained in the Balanced Budget Act, which was vetoed by the President. I understand the President's budget will include the 'Hope Scholarship' initiative announced during the campaign that features a tax deduction and a tax credit contingent on a student's receiving a 'B' average.

I note from a just published book that you, Budget Director Alice Rivlin, National Economic Adviser Laura Tyson, and Education Secretary Richard Riley raised strong objections to these provisions at the time they were proposed.

I share many of the concerns that you and others are reported to have expressed. In order to proceed with consideration of these provisions, I have four questions that I hope you can answer:

1. How will the federal government know if a student has a 'B' average? Will the Internal Revenue Service collect students' report cards in the same manner in which they obtain written reports to verify other tax data?

2. Won't these proposals contribute to educational inflation and drive up the cost of college for all Americans? Secretary Riley is cited in the book as raising this objection and former Congressional Budget Office Director Robert Reischauer has stated these proposals will drive up educational costs.

3. Will this proposal put teachers under pressure to give students 'B' averages, compounding the problems of grade inflation?

4. Tax years are one calendar-year long. School years are divided into semesters. If a student has a C+ average in the fall of 1996, and a B+ average in the spring of 1997, will he or she qualify for the credit?

The principle of using the tax code to help provide for affordable educational opportunities represents common ground, but I await your reply in order to evaluate the merits of this particular tax proposal.

Sincerely,

Bill Archer
Chairman

INCOMING TO GS

DOC #

DATE
1/28

STATUS
ACTION

AUTHOR/SENDER
Bill Archer

BRIEF DESCRIPTION
Letter to Rubin Asking questions on Hope Scholarship

DETAILED DESCRIPTION

GS COMMENTS

FILE 1

FILE 2

FILE 3

JAN 22 '97 17:32 NO.006 P.02

Corrected Copy

cc: Linda R. Exec Sec Maria Janet

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6348

January 22, 1997

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Secretary
Department of the Treasury
Washington, D.C. 20220

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Bill Archer
Chairman

The Hope and Opportunity for Postsecondary Education (HOPE) Act of 1997

President Clinton's Higher Education Initiative with State-by-State Analysis

March 20, 1997

Table of Contents

President Clinton's Hope and Opportunity for Postsecondary Education (HOPE) Act of 1997

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TODAY, THE PRESIDENT WILL SEND TO CONGRESS NEW LEGISLATION TO HELP OPEN THE DOORS OF COLLEGE TO MORE AMERICANS. The Hope and Opportunity for Postsecondary Education (HOPE) Act of 1997 -- part of President Clinton's five-year balanced budget -- includes a $10,000 tuition tax deduction, a $1,500 Hope Scholarship tax credit, a substantial Pell Grant expansion and increase, a cut in student loan fees, new educational assistance from employers, and other provisions. The new legislation provides:

√ **$38.4 billion over five years in tax relief** for middle-income families struggling to pay for college and make ends meet.

√ **At least $40 billion in Pell Grants** over five years to provide more tuition assistance to low- and moderate-income families, the largest increase in two decades.

√ **$2.6 billion in savings over five years in reduced loan fees** for student loan borrowers -- putting more money into the hands of students when they pay tuition bills and other college expenses.

√ **Financial support for worker training** through the tuition deduction and the extension of the tax-free treatment of up to $5,250 per employee in employer-provided educational assistance.

KEY ELEMENTS OF THE HOPE ACT OF 1997

- **Includes a $1,500 per student HOPE Scholarship tax credit** for tuition and fees in the student's first year and another $1,500 in the second year if the student earns at least a B minus average. That credit will help 4.2 million students in 1998.
- **Provides a $10,000 tuition tax deduction** for higher education and training, which is expected to help the families of 8.1 million students in 1998.
- **Provides the largest Pell Grant increase in two decades** -- from $2,700 in FY 1997 to $3,000 in FY 1998. Over 3.6 million students now eligible will receive an increase of up to $300. This increase and other changes will make an additional 348,000 families eligible for the grant.
- **Lowers fees and reduces interest rates for millions of student borrowers.**

OVER 250 COLLEGE PRESIDENTS EXPRESS SUPPORT FOR THE PRESIDENT'S HIGHER EDUCATION PLAN. Already, over 250 college presidents -- representing community colleges, public and private colleges and universities -- have expressed support for the President's higher education initiatives.

NEW STATE-BY-STATE ANALYSIS SHOWS EVERY REGION OF THE COUNTRY BENEFITTING FROM THE HOPE ACT. For the 1998-99 academic year, these proposals will provide nearly $1.7 billion in Federal benefits for students in California, and over $300 million for students in Virginia.

Benefits to Students under Hope and Opportunity for Postsecondary Education Act of 1997

(dollars in millions)

State	Total Pell Budget Authority in Award Year 1998-99	Combined Tax Benefits for Calendar Year 1998	Cut in Student Loan Fees for Award Year 1998-99	Total Benefits for Award Year 1998-99
Alabama	$144.2	$92	$5.8	$242.0
Alaska	8.7	13	0.3	21.9
Arizona	135.8	115	10.3	261.1
Arkansas	76.3	37	3.0	116.3
California	873.8	777	46.0	1696.7
Colorado	98.2	103	8.5	209.6
Connecticut	47.2	70	5.2	122.3
Delaware	10.4	20	1.0	31.4
District of Columbia	19.8	35	6.4	61.2
Florida	358.5	260	19.5	638.0
Georgia	168.8	125	11.6	305.4
Hawaii	14.5	29	0.8	44.2
Idaho	40.8	24	2.2	67.1
Illinois	275.1	314	20.0	609.0
Indiana	139.0	122	11.1	272.1
Iowa	93.0	71	8.4	172.4
Kansas	82.3	71	4.6	157.9
Kentucky	125.6	72	5.6	203.3
Louisiana	175.9	78	9.1	263.0
Maine	28.1	24	2.2	54.3
Maryland	99.0	114	6.1	219.1
Massachusetts	153.1	180	18.9	352.0
Michigan	248.7	231	15.3	495.0
Minnesota	128.9	121	9.6	259.6
Mississippi	111.4	45	3.7	160.2
Missouri	146.5	122	11.2	279.7
Montana	34.2	15	1.9	51.1
Nebraska	50.4	49	3.9	103.4
Nevada	15.9	28	1.1	45.0
New Hampshire	23.5	27	2.7	53.1
New Jersey	145.5	143	7.9	296.4
New Mexico	64.6	41	2.5	108.1
New York	744.6	422	42.6	1209.2
North Carolina	157.4	157	10.8	325.1
North Dakota	28.4	16	1.8	46.2
Ohio	288.4	226	20.7	535.1
Oklahoma	129.8	73	6.1	208.9
Oregon	74.8	69	5.8	149.6
Pennsylvania	294.7	256	27.9	578.6
Puerto Rico	412.3	--	2.6	414.9
Rhode Island	32.2	32	3.5	67.6
South Carolina	94.3	71	5.5	170.8
South Dakota	29.9	14	1.9	45.8
Tennessee	136.9	99	8.1	244.0
Texas	495.7	395	25.1	915.8
Utah	82.1	59	3.2	144.3
Vermont	16.2	15	2.2	33.4
Virginia	143.8	151	11.4	306.2
Washington	132.7	120	8.9	261.7
West Virginia	59.2	35	3.0	97.2
Wisconsin	115.7	130	8.5	254.3
Wyoming	16.1	13	0.7	29.9
Outlying Areas	12.1	0	0.0	12.1
TOTAL	$7,635.0	$5,921.0	$466.5	$14,022.5

Pell Benefits to Students under the President's FY1998 Budget Policy

(Recipients in thousands, dollars in millions)

State	Total Pell Recipients in Award Year 1998-99	Increase in Pell Recipients From Award Year 1997-98	Total Pell Budget Authority in Award Year 1998-99	Increase in 1998 Pell Budget Authority from 1997
Alabama	79.3	6.9	$144.2	$32.4
Alaska	4.6	0.4	8.7	1.9
Arizona	72.7	6.3	135.8	30.5
Arkansas	39.1	3.4	76.3	17.2
California	431.6	37.5	873.8	196.4
Colorado	53.7	4.7	98.2	22.1
Connecticut	26.9	2.3	47.2	10.6
Delaware	6.1	0.5	10.4	2.3
District of Columbia	10.6	0.9	19.8	4.5
Florida	189.5	16.4	358.5	80.6
Georgia	99	8.6	168.8	37.9
Hawaii	7.7	0.7	14.5	3.3
Idaho	21	1.8	40.8	9.2
Illinois	149.7	13	275.1	61.8
Indiana	77.4	6.7	139.0	31.2
Iowa	51.8	4.5	93.0	20.9
Kansas	45.2	3.9	82.3	18.5
Kentucky	65.2	5.7	125.6	28.2
Louisiana	86.2	7.5	175.9	39.5
Maine	15.2	1.3	28.1	6.3
Maryland	55.1	4.8	99.0	22.3
Massachusetts	82.1	7.1	153.1	34.4
Michigan	138.6	12	248.7	55.9
Minnesota	73.9	6.4	128.9	29.0
Mississippi	54.8	4.8	111.4	25.0
Missouri	80.5	7	146.5	32.9
Montana	17.5	1.5	34.2	7.7
Nebraska	29.3	2.5	50.4	11.3
Nevada	9.1	0.8	15.9	3.6
New Hampshire	13.2	1.1	23.5	5.3
New Jersey	75.7	6.6	145.5	32.7
New Mexico	33.7	2.9	64.6	14.5
New York	369.5	32.1	744.6	167.3
North Carolina	85.9	7.5	157.4	35.4
North Dakota	15	1.3	28.4	6.4
Ohio	158.3	13.7	288.4	64.8
Oklahoma	67.8	5.9	129.8	29.2
Oregon	40.5	3.5	74.8	16.8
Pennsylvania	156.4	13.6	294.7	66.2
Puerto Rico	180.5	15.7	412.3	92.7
Rhode Island	17.9	1.6	32.2	7.2
South Carolina	53.1	4.6	94.3	21.2
South Dakota	16.2	1.4	29.9	6.7
Tennessee	72.7	6.3	136.9	30.8
Texas	266.4	23.1	495.7	111.4
Utah	46	4	82.1	18.4
Vermont	9.3	0.8	16.2	3.6
Virginia	79.4	6.9	143.8	32.3
Washington	69.6	6	132.7	29.8
West Virginia	29.7	2.6	59.2	13.3
Wisconsin	64.5	5.6	115.7	26.0
Wyoming	8.7	0.8	16.1	3.6
Outlying Areas	6	0.5	12.1	2.7
TOTAL	4,009.4	348	$7,635.0	$1,716.0

Explanation of State-by-State Tables

Table 1 – Benefits to Students under the HOPE Act

The first column provides the total estimated Pell Grant funding in the 1998-99 academic year for students attending postsecondary institutions in the State.

The second column provides the total estimated reduction in taxes (as a result of the HOPE Scholarship and the higher education tax deduction) in the 1998 calendar year for students attending postsecondary institutions in the State.

The third column provides the total estimated reduction in loan fees in the 1998-99 academic year for students and parents attending postsecondary institutions in the State.

The final column is a total of the first three columns: **the total benefit for students in the State.**

Table 2 – Pell Grant Benefits to Students

For students attending postsecondary institutions in the State in the 1998-99 academic year:

- the first column shows the number of Pell Grant recipients;
- the second column shows the increase in the number of recipients over the previous year;
- the third column shows the total Pell Grant funding; and
- the fourth column shows the increased Pell Grant funding over the previous year.

Methodology of State-by-State Analysis

Pell Grant Budget Authority for Academic Year 1998-99
Estimates are based on 1998-99 Pell Grant projections, adjusted by the 1994-95 academic year distribution of Pell recipients and funding among different States.

Combined Tax Benefits for Calendar Year 1998
Using a nationally-representative sample of postsecondary students, we first determined the likelihood of a Pell and non-Pell recipient receiving a tax benefit. Using these data and the Pell Grant distributions discussed above, we estimated the number of students that would receive a tax benefit in each state. We then used this relative distribution of tax beneficiaries to allocate calendar year 1998 benefit amounts ($5.9 billion) among the States.

Cuts in Student Loan Origination Fees for Academic Year 1998-99
Estimates are based on projected loan amounts and number of borrowers for academic year 1998-99, and the historical distribution of loans by State. Two percent of Stafford (subsidized) loan volume and one percent of unsubsidized loan volume equal the estimated student savings by State.

Highlights of the
Hope and Opportunity for Postsecondary Education (HOPE) Act of 1997

INITIATIVE	DESCRIPTION	AMOUNT	IMPACT
Title I: Higher Education Tax Incentives			
HOPE Scholarship Tax Credit	Up to $1,500 per-student tax credit for tuition and fees in student's first year and another $1,500 in the second year if student earns at least a B-average.	$18.6 billion over five years.	Expected to help 4.2 million students in 1998.
$10,000 Tax Deduction for Higher Education and Training	Phases up from $5,000 in 1997 to a $10,000 maximum deduction in 1999 for tuition and fees. Also available for training and lifelong learning.	$17.5 billion over five years.	Expected to help 8.1 million students in 1998.
Tax-Free Education Savings*	Families with incomes up to $100,000 would be eligible for IRAs, and could make penalty-free withdrawals for higher education.	Education specific estimates not available.	Combined with tax deduction, IRA used for education will never be taxed. Will make over 20 million families eligible for such a benefit.
Educational Assistance from Employers	Extends tax exclusion for employer-provided education assistance through 2000, for both undergraduate and graduate education. Also provides tax credit to small businesses.	$2.4 billion between 1997-2001.	Benefits 1.7 million employees a year.
Community Service: Loan Forgiveness	Tax relief for community service loan forgiveness and for borrowers who repay through the income contingent repayment plan for 25 years.	$15 million over five years.	Not available.
Title II: Financial Aid for Needy Students			
Pell Grant Increase and Expansion	Largest increase in two decades -- from $2,700 in FY97 to $3,000 in FY98. Combined with the FY97 increase, the maximum grant has increased $530 since FY96.	At least $40 billion over five years. $1.7 billion more in 1998 than the FY97 appropriation -- a 25% increase in aid.	Over 3.6 million students now eligible will receive an increase up to $300. This increase will also make an additional 130,000 families eligible for the grant.
Pell Grant Expansion for Older, Low-Income Students	Increases eligibility for older, low-income students to receive a Pell Grant.	$3.9 billion over five years.	An additional 218,000 low-income students generally aged 24 or over will be newly eligible for Pell Grants. The new recipients will receive, on average, a grant of $1,431.
Cut in Student Loan Fees	Cuts loan fees from 4% to 2% on need-based Stafford loans -- and to 3% on other loans for students and parents.	$2.6 billion in savings for borrowers over five years	Loan fees will be cut in half for 4 million low- and middle-income students, and by a quarter for 2.5 million other loans.

*The IRA proposal is not part of the HOPE Act but will be transmitted to Congress separately.

Summary of the Hope and Opportunity for Postsecondary Education (HOPE) Act of 1997

March 20, 1997

Today's employers look for job applicants with more than a high school diploma. Since the success of the post-World War II GI Bill, the Federal Government has expanded college aid, making it possible for more Americans to attend college. But for too many, the financial strains of continuing their education are still severe. The President's Hope and Opportunity for Postsecondary Education (HOPE) Act of 1997 ensures that these barriers to higher education continue to fall for all Americans and provides tax relief for middle-income families struggling to pay for college.

Title I: HIGHER EDUCATION TAX INCENTIVES

HOPE Scholarship Tax Credits

- Up to a $1,500 per student credit for tuition and fees for course work beginning on or after July 1, 1997.

- Credit can be claimed in two tax years for any student who has not finished 13th and 14th years of education.

- The tax credit is expected to help 4.2 million students (1998), and would save families $18.6 billion over five years.

The non-refundable tax credit is available for students enrolled on at least a half-time basis during the first two years of postsecondary education. The credit may be claimed in no more than two years. To receive the credit for the second time, the student must have at least a B minus grade point average in course work completed before that year. Federal grants (but not loans or work-study) generally would reduce the allowable tax credit. No credit would be available for any student convicted of a drug-related felony.

The credit would be phased out for taxpayers filing a joint return with adjusted gross income between $80,000 and $100,000. For taxpayers filing single and head-of-household returns, the credit would be phased out for adjusted gross income between $50,000 and 70,000. (The phase-out ranges and the amount of the credit would be indexed).

Tax Deduction for Higher Education and Training

- $10,000 per family maximum deduction for lifelong learning ($5,000 maximum in 1997 and 1998).

- Available for job training and re-training, in addition to traditional undergraduate and graduate education.

- Deduction is "above the line" -- available even if the taxpayer does not itemize.

- Expected to help 8.1 million students (1998), and would save families $17.5 billion over five years.

The deduction could be claimed for out-of-pocket tuition and fees paid for any student enrolled at least half-time in a degree or certificate program, including graduate programs, at an eligible postsecondary institution. In addition, the deduction would be available for the cost of training -- whether or not it leads to a degree -- that helps the student, older worker, or job-seeker improve or acquire job skills. A student in the first two years of postsecondary education could choose either the credit or the deduction, but not both. The deduction phases in, beginning with a $5,000 maximum per family for payments made after December 31, 1996 to cover course work beginning on or after July 1, 1997. It increases to a $10,000 maximum deduction beginning in 1999. The deduction would be phased out at the same income levels as the credit.

Tax-free Education Savings*

- Families with incomes up to $100,000 would be eligible for IRAs, and could make penalty-free withdrawals for higher education.

- Combined with tuition deduction (above), the IRA savings spent by middle-income families on tuition and fees would never be taxed.

* As part of his balanced budget plan, the President has proposed a number of changes to IRAs to make it possible for families to use them to pay for education tax-free. Although the specific legislation providing for these changes is not included in the HOPE Act, it will be transmitted to Congress soon.

The President's budget plan would allow IRAs to be used for postsecondary education expenses free from early withdrawal tax penalties, and would make over 20 million families eligible to make tax-deductible IRA contributions. Currently, if an individual (or spouse) already participates in an employer's retirement plan, eligibility is phased out for taxpayers filing a joint return with adjusted gross income between $40,000 and $50,000 (between $25,000 and $35,000 for single filers). The proposal would expand the phase-out ranges for 1997 through 1999 to $70,000 to $90,000 for joint filers ($45,000 to $65,000 for single). Beginning in 2000, the phase-out range would match the ranges described for the higher education tax credit. The proposal would also create a special IRA that could be used to save for education and other needs, subject to the same income limits.

Educational Assistance from Employers

- Extends tax exclusion for employer-provided education assistance (Section 127) through the year 2000, for both undergraduate and graduate education.

- Tax credit to encourage small businesses to offer educational assistance to employees.

- Benefits 1.7 million employees a year.

The current exclusion from an employee's income of up to $5,250 per year of postsecondary educational assistance provided by an employer expires this year, and expired for graduate-level assistance last year. The President would extend the exclusion, and reinstate the graduate-level component, through the year 2000. In addition, for 1998-2000, small businesses would be given a new incentive to provide educational assistance to their employees through a ten-percent tax credit for amounts paid under an employer-provided educational assistance program for education provided by a third party.

Community Service: Loan Forgiveness

- Tax-free loan cancellation for public service and forgiveness under the income contingent repayment plan.

Under current law, a charity or private educational institution that forgives a loan as part of a program that enables graduates working in certain professions (such as rural medicine or teaching) to pay off their student loans through community service must report the loan forgiveness as income to the graduate. This proposal would exclude the loan forgiveness from an individual's income and clarify that the same treatment would be provided for forgiveness under the income contingent loan repayment plan for direct loans.

Title II: FINANCIAL AID FOR NEEDY STUDENTS

Pell Grant Increase and Expansion

- Largest increase in Pell Grants in two decades.
- $300 boost in the Pell Grant maximum, to a $3,000 maximum award. Since FY 1996, the maximum award will have increased $530.
- A 25 percent funding increase over last year -- $1.7 billion more than the FY 1997 appropriation.
- 3.6 million students now receiving Pell Grants will be eligible to receive an increase of up to $300. The increase will make 130,000 more moderate-income families eligible for the grant.
- Older student provision will make Pell Grants available to additional 218,000 low-income students generally aged 24 or over.
- With these changes, the number of Pell Grant recipients will exceed 4 million in FY 1998.
- At least $40 billion available for Pell Grants for needy students over five years.

Pell Grants are the foundation of student aid for low- and moderate-income families. Increasing the maximum award to $3,000 provides more aid to currently eligible students, and makes an additional 130,000 students eligible for the grants. In addition, the proposal would increase the eligibility of older, low-income students. With this change, more low-income students who are 24 years old or older and financially independent from parents would receive a Pell Grant. Pell Grants are particularly beneficial for low-income students who have little or no tax liability because of the high award level and its availability for all four years of undergraduate education.

Cut Student Loan Fees and Interest

- Borrower-paid loan fees cut in half for 4 million low- and middle-income students, and by a quarter for 2.5 million other loans to student and parent borrowers.
- $2.6 billion in borrower savings over five years produced by the fee cut alone.

- Interest rate during in-school period cut for 2 million students, saving them an additional $1 billion.

Before 1993, borrowers lost up to 8 percent of their student loans in required fees before the money ever reached them. In 1993, the President's aggressive student loan reforms spurred a 50 percent cut in allowable fees that has already saved families nearly $2 billion. The President's plan proposes -- for both the Direct and guaranteed loan programs -- to cut loan fees from 4 percent to just 2 percent on need-based Stafford loans, and to 3 percent on other loans for students and parents.

The Congressional Budget Office and other analysts have noted that lender costs during the in-school period -- when students are not required to make payments on their loans -- are very low. The budget reduces the interest rate during that period by one percentage point.

The proposal provides these benefits to students while saving taxpayers $3.5 billion over five years by streamlining the guaranty agency system to make it more efficient and cost effective and by eliminating excess lender profits.

College Work-Study*

- Budget funds 1 million College Work-Study slots by the year 2000.

- Incentives to reach the goal of 100,000 work-study reading tutors by 1999.

The President's 1998 budget also increases aid for students through subsidized jobs in the College Work-Study program. The President has called on colleges to commit half of the increased funding since FY 1996, $120 million for FY 1998, to supporting community service jobs. The Secretary of Education recently waived the institution's required portion of the awards for students that participate as reading tutors -- part of America's Reading Challenge, helping to ensure that every child can read independently and well by the end of third grade. The President's budget is on a path to achieve the President's goal to raise the number of Work-Study recipients to a million by the year 2000, and 100,000 reading tutors by 1999.

* College Work-Study proposal is included in the President's budget request and appropriations language but not in the HOPE Act.

Case Studies:
How the President's Higher Education Proposals Benefit Typical American Families

Two Examples of How to Save for College Tax-Free

Taken together, the Administration's proposal to allow penalty-free withdrawals from IRAs for college tuition and the tuition tax deduction allow families to save tax-free for their children's education. Families pay no income taxes on money they contribute to an IRA, and the interest accumulates tax-free. Under the Administration's proposal, families would be allowed to withdraw money from their IRA to pay higher education expenses without paying the usual excise tax. And because they can deduct tuition expenses of up to $10,000 per year from taxable income, they will not have to pay the income tax normally due on IRA withdrawals. *This adds up to tax-free saving for college.*

The following examples demonstrate how the Administration's proposals help families save for their children's college tuition:

Example 1
$35,000 Family Income

A family with combined income of $35,000 per year in a 15% marginal tax bracket saving for college expenses of $10,000 per year for 4 years. The family earns an 8% annual return.

- Under the Administration's proposal this family would need to put $955 per year in before tax savings into an IRA for 18 years.

- Without the Administration's proposal, the same family would need to put away almost $1,090 per year *after taxes*. That means that they need to earn more than $1,280 per year *before taxes*, **a difference of $325 per year to reach the same savings goal.**

Example 2
$60,000 Family Income

A family with combined income of $60,000 per year in a 28% marginal tax bracket saving for college expenses of $10,000 per year for 4 years. The family earns an 8% annual return.

- Under the Administration's proposal this family would need to put $955 per year in before-tax savings into an IRA for 18 years.

- Without the Administration's proposal, the same family would need to put away $1,220 per year *after taxes*. That means that they need to earn nearly $1,700 per year *before taxes*, **a difference of almost $750 per year to reach the same savings goal.**

Four Examples of How the HOPE Act Works

The tax liabilities used in the following four examples are based on the personal exemption, standard deduction and the beginning point for the 28 percent rate bracket assumed to be in effect in 1998, the first year the increased Pell Grants will be available under the President's proposal. Under the proposal, the maximum tuition deduction for 1998 is $5,000. It is $10,000 for years thereafter. Tax liabilities are estimated on the assumption that itemized deductions of 18 percent of adjusted gross income are claimed if that amount exceeds the standard deduction.

Example 3
$60,000 Family Income
Married Couple With One Child in College
1998 Benefit: $1,500

Larry and Jill O'Neill are a married couple with two children. Larry and Jill earn $60,000 in 1998. They claim both children as dependents because they provide more than half of their support. Bobby, the O'Neills' older child, enrolls as a freshman in a community college in the fall of 1998 and is charged $1,500 in tuition and required fees. Bobby's parents pay his tuition. Under the President's proposals, the O'Neill are entitled to a HOPE Scholarship tuition credit of $1,500. (Because a credit is being claimed for Bobby's freshman year, his grade point average does not affect his eligibility for the credit.) The credit reduces their tax liability by $1,500. **Thus, the O'Neills get a total benefit of $1,500 from the President's proposals.**

Without the President's Proposals	With the President's Proposals
Tuition cost: $1,500	Tuition cost: $1,500
Pell grant: $0	Pell grant: $0
Tax liability: $5,760	Tax liability: $4,260

Example 4
$10,000 income
Independent College Student
1998 Benefit: $3,458

Joe Jefferson is a college freshman in the fall of 1998. He is single and supports himself. He earns $10,000 in 1998. In September 1998, Joe enrolls in college and pays $3,025 in tuition and required fees for the fall semester. In December he is charged $3,025 in tuition and fees for the spring semester. Under the President's proposals, Joe is entitled to a Pell grant of $3,000 that he uses to pay part of his tuition. He pays the remaining $3,050 with a combination of savings and loans. Under the President's proposals, he is entitled to a tuition deduction for his $3,050 payment. The deduction reduces Joe's tax bill by $458, which is more than his total tax liability for the year. **Thus, Joe gets a total benefit of $3,458 from the President's proposals, $3000 in Pell Grants and $458 in reduced taxes.**

Without the President's Proposals	With the President's Proposals
Tuition cost: $6,050	Tuition cost: $6,050
Pell grant: $0	Pell grant: $3,000
Tax liability: $458 (less $3 EITC)	Tax liability: $0 (plus $3 EITC refund)

Example 5
$30,000 Family Income
Married Couple with One Child in College
1998 Benefit: $1,050

Victor and Susan Montoya are a married couple with one child, Maria. Tom and Susan earn $30,000 in 1998. They claim Maria as a dependent because they provide more than half of her support. Maria attends college for two semesters in 1998 and is charged $6,850 in tuition and required fees at the beginning of the year. Under the President's proposals, Maria receives a Pell grant for $1,850. Her parents pay $1,000 of her tuition. She pays the rest of the tuition bill with a combination of savings and loans. Under the President's proposals, the Montoyas are entitled to a tuition deduction for the $5,000 their family has paid in tuition and required fees. The deduction reduces the Montoyas' tax bill by $750. **Thus, the Montoyas get a total benefit of $1,050 from the President's proposals, $300 in additional Pell Grants and $750 in reduced taxes.**

Without the President's Proposals	With the President's Proposals
Tuition cost: $6,850	Tuition cost: $6,850
Pell grant: $1,550	Pell grant: $1,850
Tax liability: $2,220	Tax liability: $1,470

Example 6
$90,000 Family Income
Married Couple With Two Children in College
1998 Benefit: $1,450

Paul and Debbie Green are a married couple with two children, David and Barbara. Paul and Debbie have income of $90,000 in 1998 (including income from an IRA withdrawal, described below). They claim David and Barbara as dependents because they provide more than half of their support. In 1998, David is enrolled in college for the second semester of his junior year and the first semester of his senior year. Barbara is enrolled in the second semester of her freshman year and the first semester of her sophomore year. At the beginning of 1998, Barbara has a B+ grade point average. David's bill for tuition and required fees is $5,000, and Barbara's is $1,500. Paul and Debbie pay their children's tuition and required fees with a combination of savings, including $2,000 they withdraw from their IRAs, and loans. Under the President's proposals, they avoid any penalty for early withdrawal from their IRAs, and they are entitled to a credit of $750 for Barbara's tuition and a deduction of $2,500 for David's tuition. (Because their income places them in the middle of the $80,000 to $100,000 phase-out range, they claim half the maximum credit and deduction.) The credit and the deduction reduce their tax liability by $1,450. **Thus, the Greens get a total benefit of $1,450 from the President's proposals.**

Without the President's Proposals	With the President's Proposals
Tuition cost: $6,500	Tuition cost: $6,500
Pell grant: $0	Pell grant: $0
Tax liability: $12,128	Tax liability: $10,678
Penalty for early withdrawal: $200.	

COLLEGE AND UNIVERSITY PRESIDENTS SUPPORT PRESIDENT CLINTON'S HIGHER EDUCATION INITIATIVE

Already, over 250 college presidents -- representing community colleges, public and private colleges and universities -- have expressed support for President Clinton's higher education initiatives.

- 70 community college presidents and 280 community college trustees signed the American Association of Community Colleges and Trustees letter of support for the President's higher education initiatives
- 105 private college presidents joined the president of Dickinson College in signing a letter of support for the President's initiatives
- 23 California State University presidents joined the Chancellor of the California State University System in a letter of support for the President's initiatives
- 63 Christian college presidents signed the Coalition for Christian Colleges & Universities letter commending the President for his higher education efforts
- The American Council on Education Board of Directors, which represents 1,700 college and university presidents, passed a resolution in support of the President's initiatives
- The National Association of Student Financial Aid Administrators, representing over 3,100 colleges and universities, expressed support for the President's initiatives

This is Treasury's current view of the Treasury vs. Education role on HOPE.

education expenses with regard to a single student, the taxpayer could choose between the credit and the deduction, but could not claim both. In addition, a taxpayer could claim the credit for some students and the deduction for others. An eligible student would not be entitled to claim a credit under this provision if that student is claimed as a dependent for tax purposes by another taxpayer. Thus, if a parent claimed a student as a dependent on the parent's tax return, only the parent is entitled to claim the credit. In that case, any education expenses paid by the student would be treated as paid by the parent for purposes of this proposal.

The proposal grants the Secretary of the Treasury authority to issue regulations to implement the provision. For example, such regulations would provide rules to determine whether a student has completed the first two years of postsecondary education, and when and how a student must meet the GPA requirement. In addition, the Secretary would have authority to issue regulations providing appropriate rules for record keeping and information reporting. These regulations would direct institutions of higher education to file an information report for each student that would assist the student and the IRS in determining that the student meets the eligibility requirements for the credit and calculating the amount of the credit that is potentially available. The report would include a taxpayer identification number for the student and the taxpayer claiming the credit, if that taxpayer was not the student. It would also include other information relevant to the credit, such as the tuition and fees paid, the amount of Federal grants received by the student, and the student's status (e.g., that the student was enrolled at least half-time in a degree or certificate program during the year). In addition, the student and the student's parents would be required to maintain records showing that they had paid the tuition and fees charged. These regulations would be issued in consultation with, and coordinated with regulations issued by, the Secretary of Education.

The proposal would be effective for payments made on or after January 1, 1997, for education commencing on or after July 1, 1997.

Education and Job Training Tax Deduction Proposal

A taxpayer would be allowed a deduction for qualified higher education expenses paid during the taxable year for the education or training of the taxpayer, the taxpayer's spouse, or the taxpayer's dependents. The deduction would be allowed in determining AGI. Therefore, taxpayers could claim the deduction even if they do not itemize their deductions and even if they do not meet the two-percent of AGI floor on miscellaneous itemized deductions.

The term "eligible student" generally is defined in the same way for the proposed deduction as it is for the proposed tuition credit, that is, to include students enrolled at least half-time in a degree or certificate program at an institution of higher education. However, a student taking a course to improve or acquire job skills from an

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

24-Jan-1997 10:05pm

TO: SPERLING_G

FROM: Robert M. Shireman

CC: Barry White

SUBJECT: As we discussed in the conference call:

Message Creation Date was at 24-JAN-1997 22:01:00

It needs to be made clear to Treasury and to the higher education groups that the Secretary of Education will be making the education-related decisions on HOPE and the tax deduction. Treasury has already agreed to cross-reference the Higher Education Act to determine the "eligible schools." The Education Department should also have sole responsibility for clarifying (by regulation or other interpretation):

--how to determine a 2.75 GPA or "a substantially similar measure of achievement"
--the definition of an "academic period" and an "academic year"
--what qualifies as "tuition and fees" and what are "nonacademic fees"
--the method for determining whether a student is at least half-time or full-time
--the definition of "education to acquire or improve job skills"
--other items that may appear in the new draft bill

Treasury is worried about any implication that the tax system is being administered by anyone other than Treasury/IRS. I have suggested to Mike Thompson (Treasury's tax legislative counsel) a way to address that: the HOPE legislation can amend the Higher Education Act to create definitions and authorities for these education-related items, then the tax code can reference the HEA (just as is already done for school eligibility). He thought it was a good idea; but nothing has been nailed down.

ED would like to go further and have joint authority with Treasury for regulations relating to HOPE (Riley reportedly talked to Rubin about it at the retreat). My guess is that Treasury would win that fight, but Barry doesn't agree. At a minimum, there should be some consultation requirement, particularly for any record-keeping or information-reporting requirement that might be imposed on colleges.

HOPE and Opportunity:
Making college affordable for all Americans

More than ever, today's employers look for job applicants with more than a high school diploma. Since the success of the post-World War II GI Bill, the Federal Government has expanded college aid, making it possible for more Americans to attend college. But for too many, the financial strains are still severe. The President's eight-point "HOPE and Opportunity" plan ensures that these barriers to higher education continue to fall for all Americans. Through higher education tax cuts, a new merit-based scholarship, and increased support for current grant, loan, and work-study programs, **this five-year plan would *more than double* the amount of federal college aid available between 1993 and 2002.**

1. HOPE Scholarship tax credits for 4.2 million students. HOPE scholarships would make two years of college universally available. Families can claim a $1,500 per student non-refundable tax credit for tuition and fees paid for postsecondary degree and certificate programs that begin on or after July 1, 1997. The full tax credit is available twice to anyone who attends school on at least a half-time basis, for any portion of the year, in the first two years of postsecondary education. To receive the credit the second time, the student must have at least a B- grade point average in prior coursework. Federal grants (but not loans or work-study) would be subtracted from the allowable tax credit amount (for example, a student who receives an $800 Pell Grant would be eligible for a $700 HOPE Scholarship). **The tax credit would save families $18.6 billion from 1997-2002.**

2. A Tax Deduction for 8.1 million students. To encourage Americans to pursue higher education beyond the first two years, and to promote lifelong learning, the budget proposes to give families a tax deduction for postsecondary tuition and fees of up to $5,000 per taxpayer in 1997 and 1998, and $10,000 starting in 1999. The deduction could be claimed for any degree or certificate programs at eligible schools beyond high school, including part-time and graduate school. In addition, the deduction would be available for any training -- whether or not it leads to a degree -- that improves the student's job skills. A student in the first two years of college could choose either the credit or the deduction, but not both. Both the credit and the deduction would be phased out for taxpayers filing a joint return with adjusted gross income (before the deduction) between $80,000 and 100,000. For single and head-of-household returns, they would be phased out between $50,000 and 70,000. (The phase-out ranges are indexed beginning in 2000). **The tax deduction would cut taxes by $17.6 billion from 1997-2002.**

3. Pell Grants for more than 4 million students. To ensure that low- and moderate-income families have the resources to attend college, the President proposes to raise the maximum Pell Grant award by $300, to $3,000, marking the largest increase in two decades. In addition, the budget would bring 218,000 low-income students into the Pell Grant program who had been denied grants because of overly strict award rules. (These are mostly students over 24 years old, veterans, and others without dependents other than a spouse.) Including these students costs $3.9 billion over five years. (This change is in lieu of making the HOPE tax credit refundable, which also would have had a five-year cost of $3.9 billion, and involved many of the same students). **The Pell Grant increase and expansion costs $XX over five years.**

4. Presidential Honors Scholarships for the 132,000 top high school graduates. The President proposes an achievement-based scholarship program, rewarding the best and the brightest of high school students. It would grant $1,000 honors awards to the top five percent of graduating students in ever secondary school in the Nation, making clear the Government's commitment to excellence. The President has budgeted $XXX over five years for this program.

5. Education IRAs for [more] Americans. The President's budget would allow Individual Retirement Accounts to be used for postsecondary education expenses [would this apply to current IRAs?], while expanding by XX million the number of taxpayers who would be eligible to deduct contributions from IRAs from their taxes. Eligibility is currently phased out between $25,000 and $35,000 for single taxpayers, and between $40,000 and $50,000 for joint returns. For 1997 through 1999, the phase-out ranges would be $45,000 to $65,000 for single taxpayers, and $70,000 to $90,000 for joint. Beginning in 2000, the phase-out range would match the ranges described for the higher education tax deduction. [An education-specific cost figure may not be available. Should the whole IRA improvement cost be cited?]

6. Lower-cost Student Loans for 5.5 million students and parents. In 1993, the President's aggressive student loan reforms spurred a 50 percent cut in borrower-paid fees that has already saved families nearly $2 billion. The 1998 budget proposes to cut loan fees in half again for needy students, and by a quarter for others, **saving student and parent borrowers $2 billion more over five years.** [I assume there should be no discussion of restructuring of guarantee system, etc.]

7. Work-Study slots for one million students by the year 2000. The College Work-Study program provides students with additional aid through subsidized jobs. The President has called on colleges to commit many of their work-study slots to America's Reading Corps -- tutors who will help meet the goal of every child being able to read independently and well by the end of third grade. The budget's $857 million for Work-study, three percent more than in 1997, continues the President's commitment to raise the number of Work-study recipients to a million by the year 2000, including 100,000 reading tutors.

8. Employer-provided Education Assistance for XX workers. The current tax deduction for postsecondary assistance provided by an employer expires this year, and was eliminated for graduate students last year. The President would restore the deduction for graduate school, and extend both through the year 2000. in addition, beginning in 1998, small businesses would be encouraged to provide aid to their employees through a ten percent tax credit for any amounts paid under an employer-provided educational assistance program. [What firms eligible? Through 2000 or permanent?] By ensuring that workers will not have to pay taxes on these benefits, **these provisions will save taxpayers $Xx billion from 1997 to 2000.**

CC: Bowles
Raines
Sperling

From Hilley

Corrected Copy

cc: Linda R.
Alec Sec
Maura
Jared

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6348

January 22, 1997

The Honorable Robert E. Rubin
Secretary
Department of the Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

In anticipation of receiving the President's FY '98 budget, it is my high hope and expectation that we will be successful in achieving a bi-partisan agreement that balances the budget, while providing permanent tax relief to the American people. I look forward to working with you and other members of the Clinton Administration to achieve these important goals.

I believe we should be able to find common ground on many areas, including how best to use the tax code to help young Americans obtain affordable college educations. During the last Congress, Republicans passed a measure allowing parents and grandparents tax-free withdrawals from their Individual Retirement Accounts to help pay for their children's and grandchildren's post-secondary education. We also passed a measure allowing students up to a $2500 tax deduction for interest paid on their student loans. These educational tax provisions were contained in the Balanced Budget Act, which was vetoed by the President. I understand the President's budget will include the 'Hope Scholarship' initiative announced during the campaign that features a tax deduction and a tax credit contingent on a student's receiving a 'B' average.

I note from a just published book that you, Budget Director Alice Rivlin, National Economic Adviser Laura Tyson, and Education Secretary Richard Riley raised strong objections to these provisions at the time they were proposed.

I share many of the concerns that you and others are reported to have expressed. In order to proceed with consideration of these provisions, I have four questions that I hope you can answer:

1. How will the federal government know if a student has a 'B' average? Will the Internal Revenue Service collect students' report cards in the same manner in which they obtain written reports to verify other tax data?

2. Won't these proposals contribute to educational inflation and drive up the cost of college for all Americans? Secretary Riley is cited in the book as raising this objection and former Congressional Budget Office Director Robert Reischauer has stated these proposals will drive up educational costs.

3. Will this proposal put teachers under pressure to give students 'B' averages, compounding the problems of grade inflation?

4. Tax years are one calendar-year long. School years are divided into semesters. If a student has a C+ average in the fall of 1996, and a B+ average in the spring of 1997, will he or she qualify for the credit?

The principle of using the tax code to help provide for affordable educational opportunities represents common ground, but I await your reply in order to evaluate the merits of this particular tax proposal.

Sincerely,

Bill Archer
Chairman

FAX COVER

Education Branch
Executive Office of the President
Office of Management and Budget
Washington, D.C. 20503

TO: Gene Sperling

FAX NUMBER:

FROM: Bob Shireman

DATE: **TIME:**

NUMBER OF PAGES: Cover +

Notes: I'll be back around 9 p.m. to pull more Q&A's together (and combine into one document), and edit the overview. If you have edits by then, let me know

395-3429

home: 362-8030

Education Branch Fax Number: 202/395-4875
Voice Confirmation: 202/395-5880

HOPE and Opportunity:
Making college affordable for all Americans

More than ever, today's employers look for job applicants with more than a high school diploma. Since the success of the post-World War II GI Bill, the Federal Government has expanded college aid, making it possible for more Americans to attend college. But for too many, the financial strains are still severe. The President's eight-point "HOPE and Opportunity" plan ensures that these barriers to higher education continue to fall for all Americans.

What's *new* in the plan being announced today?

- ✓ A huge Pell Grant increase (even *bigger* than last year).
- ✓ $4 billion boost for Older Students.
- ✓ Borrower fees slashed and interest rates reduced.
- ✓ Community service loan forgiveness excluded from taxation.
- ✓ New details and changes in the HOPE Scholarship tax credit.
- ✓ Estimates of costs and impacts.

1. Pell Grant increase and expansion

- $300 increase in the Pell Grant maximum, making a $3,000 award.
- Largest increase in two decades, marking a dramatic two-year increase of $530, or 21% since FY 1996.
- 3.x million students will receive an average increase of $300. The increase will make 130,000 new moderate-income families eligible for the grant.
- Older Student provision will make Pell Grants available to 218,000 students who are low-income and 24 years old or older, at a cost of $3.9 billion over five years.
- Number of Pell Grant recipients will exceed 4 million.

Pell Grants are the foundation of student aid for poor and moderate-income families. Increasing the maximum award to $3,000 provides additional aid to currently eligible students, and makes an additional 130,000 students eligible for the grants. In addition, the budget would increase the eligibility of older, low-income students. With this change, any student from a low-income family can receive a Pell Grant, eliminating any need for the HOPE tax credit to be refundable (available to those without tax liability, i.e. for low-income families). These students benefit more from the Pell Grant program than they would from HOPE.

2. Cheaper Student Loans

- Borrower-paid loan fees cut in half for 4 million low- and middle-income students, and by a quarter for 2.5 million other loans to student and parent borrowers.

- $2.6 billion in borrower savings over five years from the fee cut alone.

- Interest rate during in-school period cut on 2.5 million student and parent loans.

Before 1993, borrowers lost up to 8 percent of their student loan in required fees before it ever reached them. In 1993, the President's aggressive student loan reforms spurred a 50 percent cut in borrower-paid fees that has already saved families nearly $2 billion. The 1998 budget proposes -- for both the Direct and guaranteed loan programs -- to cut loan fees from 4 percent to just 2 percent on need-based Stafford loans, and to 3 percent on other loans for students and parents. CBO has pointed out that lender costs during the in-school period -- when students are not required to make payments on their loans -- are very low. The budget adopts CBO's recommendation of a lower interest rate during that period.

3. HOPE Scholarship tax credits.

- Up to $1,500 tuition credit for coursework beginning after July 1 of this year.

- Non-refundable.

- The tax credit is expected to help 4.2 million students (1998), and would save families $18.6 billion from 1997-2002.

The tax credit is available for students enrolled on at least a half-time basis during the first two years of postsecondary education. To receive the credit for the second time, the student must have at least a B- grade point average in coursework completed before that year. Federal grants (but not loans or work-study) would reduce the allowable tax credit. No credit would be available for any student convicted of a drug-related felony. Refundability was eliminated because the needs of the poorest students are better addressed in the Pell Grant program (the proposed changes in Pell Grants for Older Students, described above, cost the same as refunability would have cost over five years).

The credit would be phased out for taxpayers filing a joint return with adjusted gross income (before the deduction) between $80,000 and 100,000. For single and head-of-household returns, they would be phased out between $50,000 and 70,000. (The phase-out ranges and the amount of the credit would be indexed).

4. Tax Deduction for higher education and training

- $5,000 deduction per family for coursework beginning after July 1, 1997, $10,000 deduction beginning in 1999.
- Available for job training and re-training, in addition to traditional higher education.
- Deduction is "above the line" -- available even if the taxpayer does not itemize.
- Expected to help 8.1 million students (1998), and would save families $17.6 billion in lower taxes between 1997-2002.

The deduction could be claimed for tuition and fees of any student enrolled at least half-time in a degree or certificate programs at an eligible school beyond high school, including graduate school. In addition, the deduction would be available for the cost of training -- whether or not it leads to a degree -- that helps the student, older worker, or job-seeker improve or acquire job skills. A student in the first two years of postsecondary education could choose either the credit or the deduction, but not both. The deduction would be phased out at the same income levels as the credit. **[Would the deduction amount be indexed? If so, starting when?]**

5. Tax-free Education Savings

- Families with incomes up to $100,000 would be eligible for IRAs, and may make penalty-free withdrawals for higher education.
- Combined with tax deduction (above), savings for higher education would be never be taxed.

The President's budget would allow Individual Retirement Accounts to be used for postsecondary education expenses free from early withdrawal tax penalties, and would expand by XX million the number of taxpayers eligible to make tax-deductible IRA contributions. Currently, if an individual (or spouse) already participates in an employer's retirement plan, eligibility is phased out for taxpayers filing a joint return with adjusted gross income between $40,000 and $50,000 (between $25,000 and $35,000 for single taxpayers). The proposal would expand the phase-out ranges for 1997 through 1999 to $70,000 to $90,000 for joint files ($45,000 to $65,000 for single. Beginning in 2000, the phase-out range would match the ranges described for the higher education tax credit. The budget would also create a new type of "backloaded" IRA that could be used for saving for education and other needs, subject to the same income limits.

6. Community Service: Work-Study and loan forgiveness

- Five-year budget funds 1 million College Work-Study slots, including the 100,000 reading tutors that the President has challenged colleges to commit.

- Tax-free loan cancellation for public service.

The College Work-Study program provides students with additional aid through subsidized jobs. The President has called on colleges to commit half of the increased funding since FY 1996 -- $XXX,XXX with the increase in the FY 1998 budget -- to community service. The Secretary of Education has waived the institution's required portion of the awards for students that participate as reading tutors -- part of America's Reading Challenge, helping to ensure that every child can read independently and well by the end of third grade. The budget's $857 million for Work-study, three percent more than in 1997, continues the President's commitment to raise the number of Work-study recipients to a million by the year 2000, including 100,000 reading tutors.

Under current law, a State or charity that forgives a loan for students who go into certain professions (such as teaching, or rural medicine) must report the loan forgiveness as income to the borrower. The budget would exclude this from income, and would also clarify that amounts forgiven under the income-contingent repayment provisions of the Federal Direct Loan Program would not be taxable.

7. Financial Aid from Employers

- Extend tax exclusion for employer-provided education assistance (Section 127) through the year 2000, for both undergraduate and graduate education.

- Tax credit to encourage small businesses to offer college aid benefits to employees.

- Saves XX employees $Xx billion from 1997 to ____.

The current exclusion from an employee's income of up to $5,250 per year of postsecondary educational assistance provided by an employer expires this year, and expired for graduate-level assistance last year. The President would extend the exclusion, and reinstate the graduate-level component, through the year 2000. In addition, for 1998-2000, small businesses would be given a new incentive to provide educational assistance to their employees through a ten percent tax credit for amounts paid under an employer-provided educational assistance program for education provided by a third party.

8. Presidential Honors Scholarships

- $1,000 scholarships for the 132,000 top high school graduates.
- $XXX million over five years.

The President proposes an achievement-based scholarship program, rewarding the best and the brightest of high school students. It would grant $1,000 honors awards to the top five percent of graduating students in ever secondary school in the Nation, making clear the Government's commitment to excellence.

(Treasury)

Questions Posed by Chairman Archer

Q: What response do you have to the four questions posed by Chairman Archer to Secretary Rubin with respect to the HOPE Scholarship proposal?

Question 1

How will the federal government know if a student has a "B" average? Will the IRS collect students' report cards the same way they obtain written reports to verify other tax data?

Answer:

> The Secretary of the Treasury and the Secretary of Education will issue regulations to implement the credit. These regulations would require the educational institutions to file an information report for each student that would assist the student and the IRS in determining that the student meets the eligibility requirements for the credit and calculating the amount of the credit that is potentially available. Schools will not be asked to report the student's actual grades or grade point average, only to verify whether the student has met the B- average requirement. The standards for evaluating whether a student has a B- average will be established by the Department of Education, working with the higher-education community. These standards will accommodate institutions that do not use traditional grading systems.

Follow-up question

Won't all of this required information reporting place a substantial burden on the educational institutions:

Answer:

> The burden will be modest in comparison to the benefit to students provided by these proposals. Together, the credit and the deduction will make an additional $36 billion available for higher education over the next five years. The cost of preparing a report for each student should be nominal. As a point of comparison, the federal government reimburses educational institutions five dollars for each Pell grant application it processes. The processing of these reports should be significantly less complicated.

Follow-up question

Won't this information reporting lead to IRS audits of student transcripts and further IRS intrusion into matters that have nothing to do with taxpayer finances?

Answer:

Absolutely not. The IRS will not know the student's grades or grade point average. It will rely on the information provided by the school as to whether the student meets the GPA requirement for the second year of the credit. Furthermore, the GPA requirement will not apply to most students claiming the credit or the deduction. Except with respect to students who claim the credit for a second year, the IRS won't care about a student's grades.

Question 2

Won't these proposals contribute to educational inflation and drive up the cost of college for all Americans?

Answer:

The concern over tuition inflation is inherent in any assistance, whether in the form of a scholarship or grant program, or in the form of a tax credit or deduction. The Hope Scholarship Tuition Credit and Deduction is not unique in this respect. Scholarship and grant programs have a history of increasing educational opportunity, and we think the possibility of inflation is not a reason to abandon these programs.

In fact, there are a number of pressures that should keep inflation in tuition to a minimum. Even after taking the Hope Scholarship tuition credit and deduction into account, increases in college tuition generally will result in higher after-tax costs to students. We believe that the strong competition among post-secondary institutions for students will make institutions reluctant to impose higher costs. This is supported by the recent downward trend in the rate of tuition increases by post-secondary institutions. [Can Education provide statistics on lower rate of inflation?]

Even when the full-time tuition at an institution is less that $1500 per year, we believe there are pressures to counteract the incentive to increase tuition. In general, annual tuition of less than $1500 is charged by smaller, two-year institutions and community colleges. The tuition pricing policies of these institutions are heavily influenced by the per-course costs independent working students are willing to pay. The market for these students is very competitive. Since these students usually attend less than half-time, they are likely to qualify for the tuition deduction rather than the credit, and therefore will be sensitive to any increase in tuition. Thus, the tuition charged by the schools competing for their attendance is likely to reflect the pressure to keep costs as low as possible.

Question 3

Will this proposal put teachers under pressure to give students "B" averages, compounding the problem of grade inflation?

Answer:

We believe that the B- grade point average required for a student to be eligible for a second $1500 Hope Scholarship Tuition Credit will not put significant additional pressure on professors to increase the grades of their students.

The Hope Scholarship Tuition Credit and Deduction is modeled on the very successful program created by the state of Georgia. We understand that Georgia has seen no evidence of grade inflation since they instituted their program __ years ago.

Teachers face many pressures to give students high grades. For example, in many states students with a certain grade point average pay lower automobile insurance rates. Similarly, students who participate in athletics or other activities, or who want to go to law school or medical school, need a certain grade point average. We are confident that the sense of integrity and fairness in the classroom that has enabled professors, teachers and instructors to resist the pressure to increase student's grades will not be eroded by the Hope Scholarship program.

Some might argue, however, that wide availability of the Hope Scholarship Tuition Credit makes it different from other grade pressures. We think this is an overstatement. A student's grade point average is relevant only for the second $1500 Hope Scholarship Tuition Credit. In addition, there are a number of variables that influence whether a student will claim the credit. Thus, it will be difficult for most instructors to know whether the grade they give to a student will affect the student's (or the student's parents') taxes.

Follow up question

Why have a B- gpa requirement at all?

Answer:

Remember that the B- grade point average is only a requirement to obtain the second $1500 tuition credit. It is not required to get the credit in the first year or to get the tuition deduction.

The B- gpa is required because the credit is a form of Federal scholarship. We believe that it is very important to use this very direct, dollar-for-dollar assistance both to encourage students to acheive their academic goals and to reward hard work.

The second, but also important, roll of the B-gpa requirement is to ensure that the credit is available only when a student is making adequate progress in his or her education.

Question 4

Tax years are one calendar year long. Schools years are divided into semesters. If a student has a C+ average in the fall of 1996 and a B+ average in the spring of 1997, will he or she qualify for the credit?

Answer

It's now very simple. We have reworked the credit so that it is available in no more than two calendar years. As long as a student is enrolled in the first or second year of postsecondary education at any point during a given calendar year, that year can be one of the student's two credit years. The GPA requirement applies in the second year for which the student claims a credit.

Background

Assuming the credit were fully effective, the treatment of the specific student Mr. Archer has described would depend upon a number of factors, such as the student's year of enrollment (e.g. freshman, sophomore), when the student paid tuition, whether the student preferred the deduction, and whether the student had already taken the credit.

(kmr)

COMPETITION IN HIGHER EDUCATION AND THE ABILITY TO RAISE TUITION

- The market for higher education is extremely competitive. There are 1,500 community colleges in the United States, with enrollment of 6 million students. Competition among the community colleges, as well as competition with other providers of higher education, limits their ability to raise tuition. As Robert Atwell, president of the American Council of Education, has stated, colleges "wouldn't want to drive more students away by raising costs." [*New York Times*, December 19, 1994]

- Georgia's experience may illustrate the beneficial effects of competition in limiting any price increases from tuition subsidies. Tuition costs in Georgia, home of the Hope scholarship program upon which the President's proposal is based, have risen relatively slowly since the program was introduced in 1993. Between the 1992-3 academic year and the 1995-6 academic year, tuition at public 2-year colleges in Georgia rose 13 percent -- from $937 to $1,062. In the U.S. as a whole, tuition rose 21 percent -- from $1,026 to $1,245. [Digest of Education Statistics 1996, Table 310.]

- In addition, other types of Federal aid do not seem to have much effect on tuition costs:

  -- According to data from the College Board and the Department of Education, real Federal aid to college students rose 7 percent per year during the 1970's, but real college tuition and required fees at public colleges fell slightly (as did real tuition and required fees at 2-year public community colleges).

  -- The pattern was reversed during the 1980's: real Federal aid fell by 1 percent per year, while tuition rose by 4 percent per year in real terms (and tuition at 2-year community colleges rose by 3 percent per year). So there is no simple connection between tuition and Federal aid to higher education.

  -- As Robert Atwell, President of the American Council on Education, has stated: "When William Bennett was Secretary of Education in the 1980's, he argued that if you raised Federal aid to education, tuition would increase, but the evidence of the 1970's and 80's demolishes that."[*New York Times*, December 19, 1994]

FAX COVER SHEET

OFFICE OF THE ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
1500 PENNSYLVANIA AVENUE, NW (ROOM 3120)
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Fax Number: 202/622-0646

DATE: 1/30/97

NUMBER OF PAGES: 5
(including transmittal sheet)

Fax Number: 456-2878

TO: Gene Sperling

FROM: Don Lubick & Mike Thomson

Comments/Special Instructions:

Comments needed immediately.

The Honorable Bill Archer
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Archer:

Thank you for your letter concerning the Administration's proposals for a HOPE Scholarship tuition credit and a tuition deduction. As you know, the President announced this week that we would be including these proposals in the Administration's budget for Fiscal Year 1998.

We want to assure you that any concerns we may have raised in the course of developing these proposals have been addressed to our satisfaction. The proposed credit was thoroughly reviewed in the course of preparing the budget, and a number of improvements have been made. The principal change has been the substitution of a large increase in the maximum Pell grant for refundability of the tax credit. This change ensures that generous aid is available to the neediest students and addresses compliance concerns associated with refundable tax credits. We have also made changes that should minimize any administrative problems created by the difference between taxable years and academic years. Specifically, we limited the credit to two taxable years while increasing the maximum credit to $1500 regardless of whether the student enrolls half-time or full-time. In addition, it is now clear that the expenses paid for a student in a taxable year may be used either for the credit or the deduction, and need not be subdivided into expenses eligible only for the credit but not the deduction. We support the President's proposals and believe they would provide vital support for higher education while easing the tax burden on middle-income Americans.

In your letter, you raised four questions about specific aspects of these proposals. We enclose an attachment providing answers. We will be sure to provide you with the full details of these proposals as soon as they are ready.

We look forward to working with you in the coming year and share your hope of being able to reach a bipartisan agreement on the budget and tax cuts.

Sincerely,

Richard W. Riley
Secretary of Education

Robert E. Rubin
Secretary of the Treasury

Enclosure

RESPONSES TO SPECIFIC QUESTIONS RAISED BY CHAIRMAN ARCHER IN HIS JANUARY 22, 1997 LETTER TO SECRETARY RUBIN

1. How will the federal government know if a student has a "B" average? Will the IRS collect students' report cards the same way they obtain written reports to verify other tax data?

The Secretary of the Treasury and the Secretary of Education will issue regulations to implement the credit. These regulations would require educational institutions to file an information report for each student that would assist the student and the IRS in determining that the student meets the eligibility requirements for the credit and calculating the amount of the credit that is potentially available. The IRS will not be collecting student transcripts or student grade point averages. Rather, colleges and universities will simply check a box on the information report indicating whether the student has met the B- average requirement. The standards for evaluating whether a student has a B- average will be established by the Department of Education, working with the higher-education community. These standards will accommodate institutions that do not use traditional grading systems.

2. Won't these proposals contribute to educational inflation and drive up the cost of college for all Americans?

The possibility for tuition inflation is inherent in many types of student assistance, whether in the form of a scholarship or grant program, or in the form of a tax credit or deduction. That concern should not deter us from seeking to expand the benefits Americans have realized from student financial aid, particularly when the increases and decreases in student aid over the past three decades have produced little evidence of a relationship between federal aid and college tuition levels. In Georgia -- where the HOPE scholarship idea began in 1993 -- tuition at public two-year colleges grew by 13% between the 1992-3 and the 1995-6 academic year, compared to a national average of 21%.

Educational institutions face a number of pressures that should keep tuition inflation to a minimum. For example, community college fees are heavily influenced by the community member who takes just one course at a time. These students are not eligible for HOPE, and even with the aid of the tuition deduction, would be sensitive to price increases. Similarly, tuition increases at four-year institutions will affect not only the freshmen and sophomores who are eligible for HOPE Scholarships but also juniors and seniors who would be eligible only for the deduction and therefore be more price sensitive. We also believe that the competition for students among post-secondary institutions will make them reluctant to impose higher costs.

3. Will this proposal put teachers under pressure to give students "B" averages, compounding the problem of grade inflation?

Professors already withstand pressure to raise grades for students who need to maintain a high grade point average in order to get into graduate school or keep an athletic scholarship or receive a discount on their automobile insurance premiums. We believe that the B- grade point average required for a student to be eligible for a second $1500 Hope Scholarship tuition credit will not put significant additional pressure on professors to increase the grades of their students. We understand that Georgia has seen no evidence of grade inflation since they instituted their program several years ago.

Some might argue that the wide availability of the HOPE Scholarship tuition credit makes it different from other grade pressures. We think this is an overstatement. A student's grade point average is relevant only in the second year for which a $1500 Hope Scholarship tuition credit is claimed. In addition, there are a number of variables that influence whether a student will claim the credit. Thus, it will be difficult for most instructors to know whether the grade they give to a student will affect the student's (or the student's parents') taxes.

4. Tax years are one calendar-year long. Schools years are divided into semesters. If a student has a C+ average in the fall of 1996 and a B+ average in the spring of 1997, will he or she qualify for the credit?

As we have already mentioned, the credit has been reworked and is now very simple. It is available in no more than two calendar years. As long as a student is enrolled in the first or second year of postsecondary education at any point during a given calendar year, that year can be one of the student's two credit years. The grade point average requirement applies in the second year for which the student claims a credit. The student's grade point average is measured at the beginning of the second calendar year for which a credit is being claimed.

Assuming the credit were fully effective in the years mentioned in your question, the treatment of the specific student you have described would depend upon a number of factors, such as the student's year of enrollment (e.g., freshman, sophomore), when the student paid tuition, whether the student preferred the deduction, and whether the student had already taken the credit in a previous year.

Corrected Copy

cc: Linda R
Alec
Sec

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6348

January 22, 1997

The Honorable Robert E. Rubin
Secretary
Department of the Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

In anticipation of receiving the President's FY '98 budget, it is my high hope and expectation that we will be successful in achieving a bi-partisan agreement that balances the budget, while providing permanent tax relief to the American people. I look forward to working with you and other members of the Clinton Administration to achieve these important goals.

I believe we should be able to find common ground on many areas, including how best to use the tax code to help young Americans obtain affordable college educations. During the last Congress, Republicans passed a measure allowing parents and grandparents tax-free withdrawals from their Individual Retirement Accounts to help pay for their children's and grandchildren's post-secondary education. We also passed a measure allowing students up to a $2500 tax deduction for interest paid on their student loans. These educational tax provisions were contained in the Balanced Budget Act, which was vetoed by the President. I understand the President's budget will include the 'Hope Scholarship' initiative announced during the campaign that features a tax deduction and a tax credit contingent on a student's receiving a 'B' average.

I note from a just published book that you, Budget Director Alice Rivlin, National Economic Adviser Laura Tyson, and Education Secretary Richard Riley raised strong objections to these provisions at the time they were proposed.

I share many of the concerns that you and others are reported to have expressed. In order to proceed with consideration of these provisions, I have four questions that I hope you can answer:

1. How will the federal government know if a student has a 'B' average? Will the Internal Revenue Service collect students' report cards in the same mann in which they obtain written reports to verify other tax data?

2. Won't these proposals contribute to educational inflation and drive up the cost of college for all Americans? Secretary Riley is cited in the book as raising this objection and former Congressional Budget Office Director Robert Reischauer has stated these proposals will drive up educational costs.

3. Will this proposal put teachers under pressure to give students 'B' averages, compounding the problems of grade inflation?

4. Tax years are one calendar-year long. School years are divided into semesters. If a student has a C+ average in the fall of 1996, and a B+ average in the spring of 1997, will he or she qualify for the credit?

The principle of using the tax code to help provide for affordable educational opportunities represents common ground, but I await your reply in order to evaluate the merits of this particular tax proposal.

Sincerely,

Bill Archer
Chairman

HOPE and Opportunity:
Making college affordable for all Americans

More than ever, today's employers look for job applicants with more than a high school diploma. Since the success of the post-World War II GI Bill, the Federal Government has expanded college aid, making it possible for more Americans to attend college. But for too many, the financial strains are still severe. The President's HOPE and Opportunity plan ensures that these barriers to higher education continue to fall for all Americans.

What's *new* in the plan being announced today?

- ✓ Largest Pell Grant increase in 20 years -- a funding boost of 25%.
- ✓ Nearly $4 billion in new help for Older Students over five years.
- ✓ Student loan fees slashed and interest rates reduced.
- ✓ Community service loan forgiveness excluded from taxation.
- ✓ New details and changes in the HOPE Scholarship tax credit and the $10,000 tax deduction.
- ✓ Extend tax benefits for educational assistance from employers, and provide new tax incentive for small businesses to provide assistance.

Pell Grant increase and expansion

- Largest increase in two decades: $300 boost in the Pell Grant maximum, for a $3,000 maximum award. Since FY 1996, the maximum award will increase $530, or 21 percent.

- A 25 percent funding increase over last year -- $1.7 billion more than the FY 1997 appropriation.

- 3.6 million students now eligible will receive an increase of up to $300. The increase will make 130,000 more moderate-income families eligible for the grant.

- Older student provision will make Pell Grants available to additional 218,000 low-income students generally aged 24 or over, at a cost of $3.9 billion over five years.

- After these changes, the number of Pell Grant recipients will exceed 4 million.

Pell Grants are the foundation of student aid for low- and moderate-income families. Increasing the maximum award to $3,000 provides more aid to currently eligible students, and makes an additional 130,000 students eligible for the grants. In addition, the budget would increase the eligibility of older, low-income students. With this change, any student from a low-income family can receive a Pell Grant, eliminating the need for the HOPE tuition tax credit to be refundable (i.e., available to those without tax liability). Poor students -- those who have little or no tax liability -- benefit more from the Pell Grant program than they would from HOPE, because of the higher award level and its availability for all four years of undergraduate education.

Cut student loan fees and interest

- Borrower-paid loan fees cut in half for 4 million low- and middle-income students, and by a quarter for 2.5 million other loans to student and parent borrowers.
- $2.6 billion in borrower savings over five years produced by the fee cut alone.
- Interest rate during in-school period cut for 2 million students.

Before 1993, borrowers lost up to 8 percent of their student loans in required fees before the money ever reached them. In 1993, the President's aggressive student loan reforms spurred a 50 percent cut in allowable fees that has already saved families nearly $2 billion. The 1998 budget proposes -- for both the Direct and guaranteed loan programs -- to cut loan fees from 4 percent to just 2 percent on need-based Stafford loans, and to 3 percent on other loans for students and parents.

The Congressional Budget Office and other analysts have noted that lender costs during the in-school period -- when students are not required to make payments on their loans -- are very low. The budget reduces the interest rate during that period by one percentage point.

HOPE Scholarship tax credits.

- Up to $1,500 per-student tuition credit for course work beginning on or after July 1 of this year.
- Non-refundable.
- Credit can be claimed in 2 taxable years.
- Credit can be claimed for any students who have not finished 13th and 14th years of education.
- The tax credit is expected to help 4.2 million students (1998), and would save families $18.6 billion from 1997-2002.

The tax credit is available for students enrolled on at least a half-time basis during the first two years of postsecondary education. The credit may be claimed in no more than 2 taxable years. To receive the credit for the second time, the student must have at least a B- grade point average in course work completed before that year. Federal grants (but not loans or work-study) would reduce the allowable tax credit. No credit would be available for any student convicted of a drug-related felony. Refundability was eliminated because the needs of the poorest students are better addressed in the Pell Grant program discussed above (the proposed changes in Pell Grants for older students, described above, cost the same as refundability would have cost over five years).

The credit would be phased out for taxpayers filing a joint return with adjusted gross income between $80,000 and 100,000. For single and head-of-household returns, the credit would be phased out between $50,000 and 70,000. (The phase-out ranges and the amount of the credit would be indexed).

Tax deduction for higher education and training

- $10,000 maximum deduction.
- Available for job training and re-training, in addition to traditional higher education.
- Deduction is "above the line" --available even if the taxpayer does not itemize.
- Expected to help 8.1 million students (1998), and would save families $17.6 billion in taxes between 1997-2002.

The deduction could be claimed for out-of-pocket tuition and fees paid for any student enrolled at least half-time in a degree or certificate program at an eligible school beyond high school, including graduate school. In addition, the deduction would be available for the cost of training -- whether or not it leads to a degree -- that helps the student, older worker, or job-seeker improve or acquire job skills. A student in the first two years of postsecondary education could choose either the credit or the deduction, but not both. The deduction phases in, beginning with a $5,000 maximum per-family for course work beginning on or after July 1, 1997, and increasing to a $10,000 maximum deduction beginning in 1999. The deduction would be phased out at the same income levels as the credit.

Tax-free Education Savings

- Families with incomes up to $100,000 would be eligible for IRAs, and could make penalty-free withdrawals for higher education.

- Combined with tax deduction (above), the IRA savings for higher education for middle-income families would be never be taxed.

The President's budget would allow Individual Retirement Accounts to be used for postsecondary education expenses free from early withdrawal tax penalties, and would make over 20 million families eligible to make tax-deductible IRA contributions. Currently, if an individual (or spouse) already participates in an employer's retirement plan, eligibility is phased out for taxpayers filing a joint return with adjusted gross income between $40,000 and $50,000 (between $25,000 and $35,000 for single taxpayers). The proposal would expand the phase-out ranges for 1997 through 1999 to $70,000 to $90,000 for joint filers ($45,000 to $65,000 for single). Beginning in 2000, the phase-out range would match the ranges described for the higher education tax credit. The budget would also create a special IRA that could be used to save for education and other needs, subject to the same income limits.

Community Service: Work-Study and loan forgiveness

- Budget funds 1 million College Work-Study slots by the year 2000.

- Incentives to reach the goal of 100,000 work-study reading tutors by 1999.

- Tax-free loan cancellation for public service.

The College Work-Study program provides students with additional aid through subsidized jobs. The President has called on colleges to commit half of the increased funding since FY 1996, $120 million for FY 1998, to supporting community service jobs. The Secretary of Education recently waived the institution's required portion of the awards for students that participate as reading tutors -- part of America's Reading Challenge, helping to ensure that every child can read independently and well by the end of third grade. The budget's three percent increase over 1997 continues the President's commitment to raise the number of Work-Study recipients to a million by the year 2000, and 100,000 reading tutors by 1999.

Under current law, a charity or private educational institutions that forgives a loan as part of a program that enables graduates working in certain professions (such as rural medicine or teaching) to pay off their student loans through community service must report the loan forgiveness as income to the graduate. The budget would exclude the loan forgiveness from income.

Presidential Honors Scholarships

- One-year, $1,000 scholarships for at least 132,000 students constituting the top five-percent of all high school graduates in the country.
- The budget provides $132 million in FY 1998.

The President proposes an achievement-based scholarship program, rewarding the best and the brightest of high school students. It would grant $1,000 honors awards to the top five percent of graduating students in every secondary school in the Nation, making clear the Federal government's commitment to academic excellence.

Educational assistance from employers

- Extend tax exclusion for employer-provided education assistance (Section 127) through the year 2000, for both undergraduate and graduate education.
- Tax credit to encourage small businesses to offer educational assistance to employees.
- Benefit 1.7 million employees a year.

The current exclusion from an employee's income of up to $5,250 per year of postsecondary educational assistance provided by an employer expires this year, and expired for graduate-level assistance last year. The President would extend the exclusion, and reinstate the graduate-level component, through the year 2000. In addition, for 1998-2000, small businesses would be given a new incentive to provide educational assistance to their employees through a ten-percent tax credit for amounts paid under an employer-provided educational assistance program for education provided by a third party.

The Honorable Bill Archer
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Archer:

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expansion of the population eligible for

We want to assure you that any concerns we may have raised in the course of developing these proposals have been addressed to our satisfaction. The proposed credit was thoroughly reviewed in the course of preparing the budget, and a number of improvements have been made. The principal change has been the substitution of a expansion of the population eligible for ~~large increase in~~ the ~~maximum~~ Pell grant for refundability of the tax credit. This change ensures that generous aid is available to the neediest students and addresses compliance concerns associated with refundable tax credits. We have also made changes that should minimize any administrative problems created by the difference between taxable years and academic years. have Specifically, we limited the credit to two taxable years while increasing the maximum credit to $1500 regardless of whether the student enrolls half-time or full-time. In addition, it is now clear that the expenses paid for a student in a taxable year may be used either for the credit or the deduction, and need not be subdivided into expenses eligible only for the credit but not the deduction. We believe that ~~support~~ the President's proposals ~~and believe they~~ would provide vital support for ~~higher~~ postsecondary education and training while easing the tax burden on middle-income Americans.

IMPORTANT

In your letter, you raised four questions about specific aspects of these proposals. We enclose an attachment providing answers. We will be sure to provide you with the full details of these proposals as soon as they are ready.

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Sincerely,

Richard W. Riley
Secretary of Education

Robert E. Rubin
Secretary of the Treasury

Enclosure

RESPONSES TO SPECIFIC QUESTIONS RAISED BY CHAIRMAN ARCHER IN HIS JANUARY 22, 1997 LETTER TO SECRETARY RUBIN

1. How will the federal government know if a student has a "B" average? Will the IRS collect students' report cards the same way they obtain written reports to verify other tax data?

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2. Won't these proposals contribute to educational inflation and drive up the cost of college for all Americans?

We do not believe such concerns are warranted enough to

The possibility for tuition inflation is inherent in many types of student assistance, whether in the form of a scholarship or grant program, or in the form of a tax credit or deduction. ~~That concern should not~~ deter us from seeking to expand the benefits Americans have realized from student financial aid, particularly when the increases and decreases in student aid over the past three decades have produced little evidence of a relationship between federal aid and college tuition levels. In Georgia -- where the HOPE scholarship idea began in 1993 -- tuition at public two-year colleges grew by 13% between the 1992-3 and the 1995-6 academic year, compared to a national average of 21%.

Educational institutions face a number of pressures that should keep tuition inflation to a minimum. For example, community college fees are heavily influenced by the community scholarships member who takes just one course at a time. These students are not eligible for HOPE, and even with the aid of the tuition deduction, would be sensitive to price increases. [Similarly, tuition increases at four-year institutions will affect not only the freshmen and sophomores who are eligible for HOPE Scholarships but also juniors and seniors who would be eligible only for the deduction and therefore be more price sensitive.] We also believe that the competition for students among post-secondary institutions will make them reluctant to impose higher costs.

3. Will this proposal put teachers under pressure to give students "B" averages, compounding the problem of grade inflation?

Professors already withstand pressure to raise grades for students who need to maintain a high grade point average in order to get into graduate school or ~~keep an athletic scholarship or~~ get benefits such as ~~receive~~ a discount on their automobile insurance premiums. We believe that the B- grade point average required for a student to be eligible for a second $1500 Hope Scholarship tuition credit will not put significant additional pressure on professors to increase the grades of their students. We understand that Georgia has seen no evidence of grade inflation since they instituted their program several years ago. it?

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As we have already mentioned, the credit has been reworked and is now very simple. It is available in no more than two calendar years. As long as a student is enrolled in the first or second year of postsecondary education at any point during a given calendar year, that year can be one of the student's two credit years. The grade point average requirement applies in the second year for which the student claims a credit. The student's grade point average is measured at the beginning of the second calendar year for which a credit is being claimed.

sounds a little confusing!

Assuming the credit were fully effective in the years mentioned in your question, the treatment of the specific student you have described would depend upon a number of factors, such as the student's year of enrollment (e.g., freshman, sophomore), when the student paid tuition, whether the student preferred the deduction, and whether the student had already taken the credit in a previous year.

Ultimately, professors need a grading system that is equitable for all students, not just those with particular incentives.

FAX COVER

Education Branch
Executive Office of the President
Office of Management and Budget
Washington, D.C. 20503

TO: Russell / Gene

FAX NUMBER:

FROM: Bob S.

DATE: **TIME:**

NUMBER OF PAGES: Cover +

Notes: I faxed these edits to Treasury

Education Branch Fax Number: 202/395-4875
Voice Confirmation: 202/395-5880

Document No.__________

WHITE HOUSE STAFFING MEMORA

DATE: 2/4 ACTION/CONCURRENCE/COMMENT DUE BY: 2/5 9:00 am

SUBJECT: Remarks - Augusta, GA

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☑	☐	McCURRY	☐	☑
BOWLES	☑	☐	McGINTY	☐	☐
McLARTY	☐	☐	NASH	☐	☐
PODESTA	☑	☐	QUINN	☐	☐
MATHEWS	☑	☐	RASCO	☐	☐
RAINES	☐	☐	REED	☑	☐
BAER	☑	☐	SOSNIK	☑	☐
	☐	☐	LEWIS	☑	☐
EMANUEL	☑	☐	YELLEN	☐	☐
GIBBONS	☐	☐	STREETT	☐	☐
HALE	☐	☐	SPERLING	☑	☐
HERMAN	☐	☐	HAWLEY	☐	☐
HIGGINS	☐	☐	WILLIAMS	☐	☐
HILLEY	☑	☐	RADD	☑	☐
KLAIN	☐	☐	Waldman	☑	☐
BERGER	☐	☐	Cohen	☑	☐
LINDSEY	☐	☐		☐	☐

REMARKS:

Comments to Carolyn Curiel on the road or

RESPONSE:

Michael Waldman

Staff Secretary
Ext. 6-2702

'97 FEB 4 PM 8:19

President William J. Clinton
Prepared Remarks
HOPE Scholarships
Augusta, Georgia
February 5, 1997

[Following Dr. Bloodworth, President of Augusta State; Secretary Riley; Governor Miller; and student who introduces you. Other acknowledgments: Students of Augusta Technical Institute, and it's President, Terry Elam *(not a Dr.)*; Dr. Francis J. Tedesco and the students of the Medical College of Georgia; and Dr. Shirley A.R. Lewis *(she may not be present)* and the students of Payne College. And the students and faculty of Augusta State University.]

I am not the first President to come here. George Washington visited a precursor of your school, the Richmond Academy, in 1791. Then, as now, it was education that brought a President here. In fact, President Washington sat through oral exams. I came to Georgia to listen, too, but I'm happy that you're letting me do some of the talking today.

As I was flying down here on Air Force One with your Governor, my friend Zell Miller; with your Senator, Max Cleland; with my chief of staff, Erskine Bowles, who is from North Carolina; and with Dick Riley, our Education Secretary, from South Carolina, I couldn't help but think that I love coming to a place where people don't speak with an accent.

But I know this: you speak the language of excellence here in Georgia. You speak the language of the future. You speak the language of education.

In his visits here as he sought comfort and convalescence in Warm Springs, Franklin Roosevelt was moved by the plight of good people, strong families, struggling through tough times. And from those Georgia families, he drew the inspiration of rural electrification.

Again, in our time, as we prepare for a new century, we seek a new way to bring light to places that, for too long, have been in darkness. And once again, we have taken inspiration from Georgia. The visionary education reforms and the revolutionary increase in educational opportunities you have pioneered are a model for the nation. The Hope Scholarship that Zell Miller created is changing the face of your state. And it is improving the future of our country.

Just as with rural electrification, expanding education is a big job. But once the wire is laid, and the lines connected, you only need to flick a switch. And then watch the light go on. I've been watching the HOPE Scholarships turn on lights for years now. And even from as far away as Washington, we saw the light. You did the hard work -- setting standards, sticking to them, and challenging students and teachers, administrators and parents to reach them. Now, you have unleashed the power of an idea whose time has come.

And the idea came from Zell Miller. It is no wonder: He is the son of a teacher, who became a teacher himself, and who has devoted his public life to bringing education to every child of Georgia.

There are many here, in this auditorium, who would not be in school except for the HOPE scholarships.

I am here to thank Governor Miller, the teachers and administrators of Georgia's state schools for higher education and all the students who work so hard at those schools. You have given America a living laboratory on how to make the opportunity of a college education available and affordable for students who are responsible and willing to work for it. We are learning from your great success.

Last year, at Princeton University, I proposed a national version of the HOPE Scholarships, which would put college within reach of more Americans. It would provide for a tax credit of $1,500 for each of two years of college tuition, enough to pay for the typical community college. I also proposed a tax deduction of up to $10,000 a year for all tuition after high school; an expanded IRA you can withdraw from tax-free for education; and the largest increase in Pell Grant scholarships in 20 years. This plan will give most families the ability to pay no taxes on money saved for college tuition.

Last night, I asked Congress to pass our national HOPE Scholarship, as part of a plan to make American education the envy of the world -- improving it, innovating it, and making it the path to a better life for more and more of our people as we prepare for the 21st Century. America needs the HOPE Scholarship, and we need it now.

Make no mistake: Education is my Number One priority as President for the next four years. I want Americans to have the best education in the world. I want an America in which every 8 year old is able to read; every 12 year old is able to log on to the Internet; every 18 year old is able to go to college, and every adult American is able to keep on learning.

This is the lesson plan I am taking to the American people: [show the book?] It's a "Call to Action for American Education," based on these 10 principles.

First, I want us to set national standards for what every student must know to succeed in the 21st Century. I want every state and every school to design their courses of study to reflect these standards. Teachers would be trained to help students meet them. And to chart our students' progress, we would develop national tests of student achievement. By 1999, I want every state to test every 4th grader in reading and every 8th grader in math to make sure these standards are met. Every child should master the basics, and then be able to build on them.

You may not like tests. But I believe that we will all like the ultimate results of testing -- a better quality education. We will need to work harder to lift some students to meet higher standards. We may find we must change teaching methods or schools. But we will know that when students move from grade school to junior high and then to high school -- they earned it.

Now, I will tell you: I would not be where I am without the help of great teachers in the schools I attended. And to get to where you want to go, you need the best teachers, too. So, our second principle is just that: Let's work to produce the best teachers. Many of our finest educators have seen this need and have worked to establish national credentials for excellence in teaching. 400 master teachers have been certified since 1995. My budget will allow 100,000 more to try for this certification. That will be a big boost for education.

Third: Let's do more to help children read. I congratulate all those here who are part of the Literacy in Action Program here. It is important work, and we need everyone to help. 40 percent of 8 year olds cannot read on their own. That's why I have called for an army of one million volunteers to tutors to help these children, through an initiative I call "America Reads." Many of these tutors will be college students, many of them AmeriCorps volunteers. I know many of you work full-time or part-time while you are taking classes, but you can still do your part, especially if you have children at home. Read with your child every night.

Fourth: We cannot start teaching children too soon. We will reach more children of pre-school age with Head Start, which my budget expands to one million children by 2002. And now, we need to also focus on even younger children. Scientists are discovering amazing things about the intellectual and emotional development of very young children. This Spring the First Lady and I will convene a White House Conference on Early Learning and the Brain, to explore how parents and educators can best use these findings. And in June, the Vice President and Mrs. Gore will hold a family conference to discuss ways parents can help children to learn.

Now, here in Georgia, you have moved to empower parents by adopting legislation that allows the creation of charter schools without restricting their numbers. These schools set and meet the highest standards; in fact, they only survive so long as they do. That's our fifth principle: Every state should give parents the power to choose the right public school for their children. The competition and innovation that are part of charter schools helps all schools. Our plan helps to create 3,000 charter schools by the next century. That means more choice for parents and better schools for kids.

Sixth: We cannot do enough to teach children good character. It should be part of every curriculum. Parents must teach a child right from wrong, but schools need to help, by teaching good citizenship, promoting order and discipline, using school uniforms if that helps, enforcing truancy laws, removing disruptive students from classrooms. And very important, by having zero tolerance for guns and drugs. Together these steps teach an important lesson.

Seventh: We must act to repair crumbling classrooms and keep our schools in good repair. I am asking for $5 billion in my budget to help communities finance $20 billion in school construction in the next four years.

Eighth: Let's make the 13th and 14th years of education -- at least two years of college -- just as universal as a high school education is today. That's where the HOPE scholarship comes in. More than 230,000 students have attended college in Georgia with your HOPE scholarship. And while enrollment has gone down elsewhere, it is up here in Georgia.

That's the kind of progress we want to see across America with a national HOPE scholarship.

Ninth: People of all ages must have the chance to learn new skills. Most Americans live near a community college. Let's make that work for us. My G.I. Bill for Workers will take the confusing tangle of federal training programs and turn them into a simple skill grant that goes directly into an eligible workers hands. Congress should pass it, so all our workers will have the chance to learn and earn a better life.

Tenth: We must harness the power of the Information age for our schools. Last year, I challenged America to connect every classroom and library to the Internet by the year 2000. And when we do that, every child -- whether in the suburbs, or in a rural town or in a poor inner-city school -- will have the same access to the same universe of knowledge. That is education as an equalizer. We need to do it.

That's our plan -- a Call to Action for American Education.

Education has been at the heart of America's progress for more than 200 years. We have the chance now to make it our best vehicle to prepare our nation for the 21st Century. We have the strongest economy in the world. We have the strongest democracy. But to keep these blessings, to remain the global leader into the next century, we need to act now.

The students here today can say they were the first generation to benefit from the vision of more opportunity in higher education. And that is a good thing. But we cannot stop there.

I want your success to be repeated all across America. I want us to work together as a nation to make sure we have the best system of education in the world for all our people. Every American should have the chance to make the most of their God-given abilities. It's in our power to give every American the tools, beginning with an education that can be the envy of the world. Let's get to work, and do it.

Thank you and God bless you.

FAX COVER SHEET

OFFICE OF THE ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
1500 PENNSYLVANIA AVENUE, NW (ROOM 3120)
WASHINGTON, DC 20220
Telephone Number: 202/622-0050
Fax Number: 202/622-0646

DATE: 2/21/97

NUMBER OF PAGES: 2
(including transmittal sheet)

Fax Number: 456-2878

TO: Gene Sperling

FROM: Don Lubick

Comments/Special Instructions:

DEPARTMENT OF THE TREASURY
Assistant Secretary for Tax Policy
Washington

Gene Sperling -

~~Gene~~ - Here is my idea of language in the regulations issue

Don

Statement for Speech on Coordination Between Treasury and Education

The Department of the Treasury and the Department of Education have worked together closely in developing the proposal for HOPE Scholarships. Secretary Rubin and Secretary Riley have assured me that they will maintain that same close working relationship in every aspect of implementing the proposal. The Department of Education will take the lead on educational matters, such as establishing criteria for meeting scholastic standards and input on establishing compatible procedures with existing academic institutional capacities and techniques. The Department of the Treasury will do the primary work on developing procedures for claiming a HOPE Scholarship through the tax system. There will be close consultation between the two departments on all of these matters, but collaboration will be especially close with respect to reasonable uses of information reports that colleges and universities will be asked to provide for their students.

A number of questions have been raised about information reporting and the extent to which the IRS will be scrutinizing colleges and universities. The Treasury has committed to consultation with the Department of Education and the academic community prior to issuance of tax regulations interpreting the new law. Let me assure you that the IRS will not be interfering in the affairs of educational institutions. The IRS will have no need to audit student transcripts or grades. Schools will be asked only to provide simple, straightforward information reports for their students once a year. They will be able to check a single box on the form indicating whether a student has met the required academic standards and status to qualify. The forms themselves will be very short, like the various existing form 1099s, and ask only for information schools could reasonably be expected to gather, such as a student's name and social security number, amount of tuition and fees paid, and amount of federal grants administered by the institution. Every effort will be made to make reporting simple and flexible, and institutions will be given extensive opportunities to comment and plenty of lead time to establish reporting systems.

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE SECRETARY

FAX TRANSMITTAL

TO: Gene Sperling, Ken Apfel

ORGANIZATION:

PHONE NUMBER:

FAX NUMBER:

FROM: Frank S. Holleman III, Chief of Staff

TELEPHONE: 202-401-6143

FAX NUMBER: 202-401-2098

MESSAGE:

CONFIDENTIALITY NOTICE

9 PAGE(S) TO FOLLOW

600 INDEPENDENCE AVE., S.W. WASHINGTON, D.C. 20202

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE SECRETARY

February 5, 1997

Memorandum

To: Gene Sperling
Ken Apfel

From: Frank Holleman FH

Re: Hope

There was an important, but easily overlooked, statement in Monday's Washington Post article about the Administration's higher education tax proposals. The chart published in the Post was based on Thomas Mortenson's research and showed that students from families with incomes above $67,881 had dramatically improved their rate of obtaining a college degree since 1980, whereas students from families with incomes below $22,033 had held steady at about a 10% rate.

What the chart omitted was a statement made in the text, also based on Mortenson's research: "[T]he percentage of college-bound youngsters from families with incomes of $22,000 to $67,000 has held steady at around 20 percent." These families (particularly those from $30,000 to $67,000) benefit directly from the Hope tax credit and the $10,000 deduction. Based on Mortenson's research, they obviously need help to ensure that their children stay in college and obtain a degree.

Attached is the issue of Mortenson's Research Letter that contains the census-based research on which the Post chart was based. The chart on the first page shows the college attainment rate for those between $22,033 and $67,881 -- who were omitted from the Post's chart. We have not duplicated his research, but the Post largely based the thrust of its article on his findings.

Susan Frost picked up on the statement in the Post, followed up with Mortenson, and obtained from him a copy of his letter.

Attachment

cc: Mike Smith
David Longanecker
Susan Frost

Postsecondary Education
OPPORTUNITY

The Mortenson Research Letter on Public Policy Analysis of Opportunity for Postsecondary Education

Number 41 | Iowa City, Iowa | November 1995

Savage . . . . . . Inequalities

Educational Attainment by Family Income 1970 to 1994

Since 1965 the political concept of equality of opportunity has been the foundation of educational policy, particularly at the federal level, in postsecondary education and regarding financing of higher education through need-based student financial aid.

As recently as the 1992 reauthorization of the Higher Education Act of 1965, the committee reports of both the House of Representatives and the Senate to their respective chambers reasserted the national goal to equalize higher educational opportunities. Title IV, containing both federal student financial aid and outreach (TRIO) programs, targets federal investments on students from low and middle family income backgrounds.

Here, then, we update and extend our previous analysis (OPPORTUNITY, June 1994) of educational attainment by the family income backgrounds of Americans between the ages of 18 and 24 using data from the October 1994 Current Population Survey to be soon published by the Census Bureau .

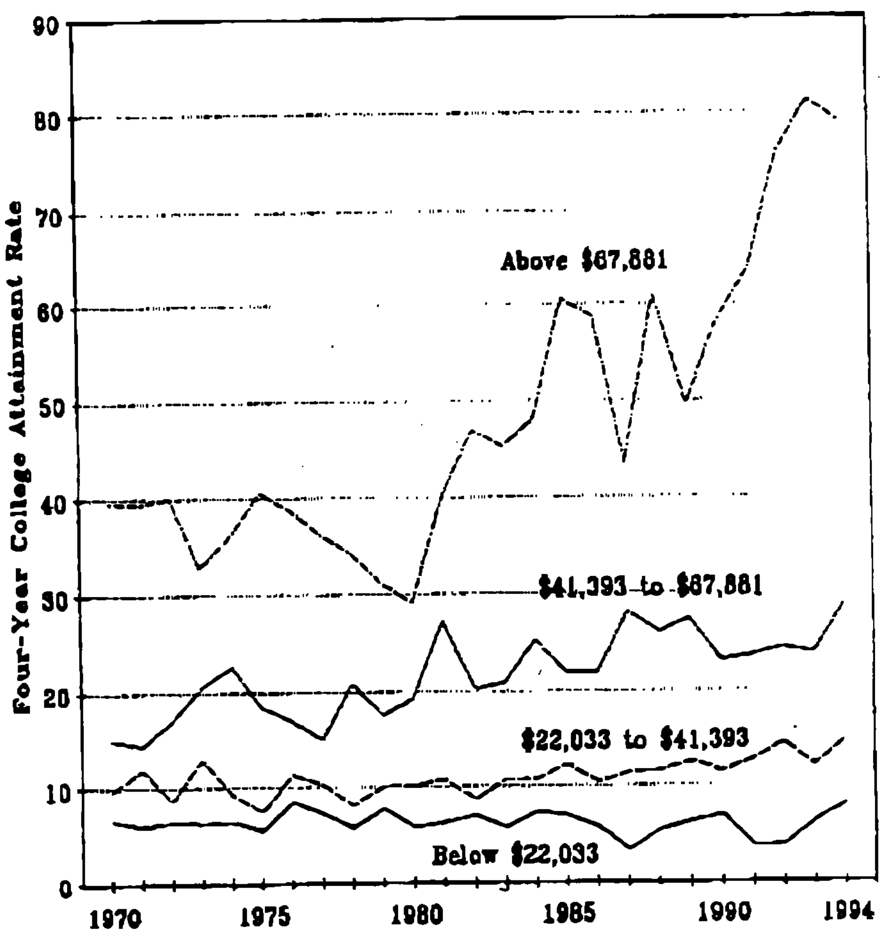
Our update with 1994 data confirms our previous conclusions. The disparities in educational attainment for young adults are:

- *Huge,*
- *Persistent,*
- *Growing, and*
- *Nearly as wide as these disparities have ever been.*

By age 24 a person whose family income falls in the top quartile is ten times more likely to have received a bachelor's degree than is another person whose family income falls in the bottom quartile. In 1979, before the redistribution of higher educational opportunity began, the difference was four times.

We have not only failed to achieve equality of higher educational

Estimated Chances for a Baccalaureate Degree by Age 24 by Family Income Quartile 1970 to 1994



opportunity but the gains made in the 1970s have been completely erased in the 1980s and 1990s and by the 1990s we have achieved greater inequality of higher educational attainment than has existed at any time in the last 25 years of reported Census data.

In a labor market that reserves its best paying jobs for those with the highest levels of educational attainment, the redistribution of higher educational opportunity since 1979 also redistributes human welfare.

- Those from the highest income families have, since 1979, achieved the greatest success in baccalaureate degree attainment.
- Those from the lowest income families have achieved the least success in degree attainment.

Whereas higher education provides access to the best paying jobs in the economy, the redistribution of higher educational opportunity since 1979 has increasingly limited access to those jobs to students whose family incomes fall in the top quartile of the family income distribution, above about $68,000 in 1994.

Higher educational opportunity is a double-edged sword. Opportunity provides preparation for high incomes and affluent living standards. But the rationing of opportunity since 1979 has also become a device of socio-economic stratification, segregation, frustration, and increasingly desperate impoverishment for those unable to participate and succeed in higher education.

Higher educational opportunity is simultaneously the vehicle for socio-economic mobility, and has become—through neglect—the means by which society is fracturing.

- The affluent are clearly succeeding in higher education, and their absolute and relative living standards can be expected to continue to thrive as they have since the end of World War II.
- The poor are clearly failing in higher education, and their absolute and relative living standards can be expected to continue to deteriorate as they have since 1973.

Whereas higher education was clearly thought of as the means to socio-economic mobility, its rationing since 1979 has also become the means by which the rich become richer and the poor become poorer.

Data and Analysis

This analysis updates and extends a study originally prepared at The American College Testing Program, which is now out of print. The original study contains additional data on high school graduation and college participation by family income by gender and race/ ethnicity.

Mortenson, T. G., and Wu, Z. (1990). *High School Graduation and College Participation of Young Adults by Family Income Backgrounds, 1970 to 1989.* Iowa City, IA: American College Testing Program.

The primary source for the data used in this analysis is data collected each year by the Census Bureau in the October Current Population Survey. These data are published in a comprehensive statistical report in the Current Population Reports series P20. The most recent published report is:

Bruno, R. R., and Adams, A. (1994). *School Enrollment-Social and Economic Characteristics of Students: October 1993.* Current Population Reports, Population Characteristics, P20-479. Washington, DC: U.S. Government Printing Office.

Postsecondary Education OPPORTUNITY
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Iowa City, Iowa 52244

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Mission Statement
This research letter is founded on two fundamental beliefs. First, sound public social policy requires accurate, current, independent, and focused information on the human condition. Second, education is essential to the development of human potential and resources for both private and public benefit. Therefore, the purpose of this research letter is to inform those who formulate, fund, and administer public policy and programs about the condition of and influences that affect postsecondary education opportunity for all Americans.

In this analysis we have also used unpublished data from the October 1994 Current Population Survey. These data are currently being prepared for publication by the Census Bureau and will become generally available in the next few months.

Data definitions and limitations are important in this analysis. We focus on 18 to 24 year olds here. We are concerned about parental family income in this analysis. We are not interested in married young adults, who have established new families and for whom parental income information is not available. The unmarried 18 to 24 year olds include both dependent family members as well as those in "other marital status" including divorced, separated and widowed. This population consists largely of very low income young females who are not dependent family members.

Our analysis of the data on unmarried 18 to 24 year olds adopts a three-stage model of educational attainment leading to the bachelor's degree. First a person must graduate from high school. Second, once graduated a student must "participate" in college. Third, once in college a student must earn a bachelor's degree by age 24. The product of each of these separate rates reflects the proportion of those 24 years old that have received a bachelor's degree from college.

College participation, as collected and reported by the Census Bureau, consists of 18 to 24 year olds currently enrolled in college, plus those not currently in college who have completed less than a bachelor's degree, plus those not currently in college who have completed a bachelor's degree or more from college.

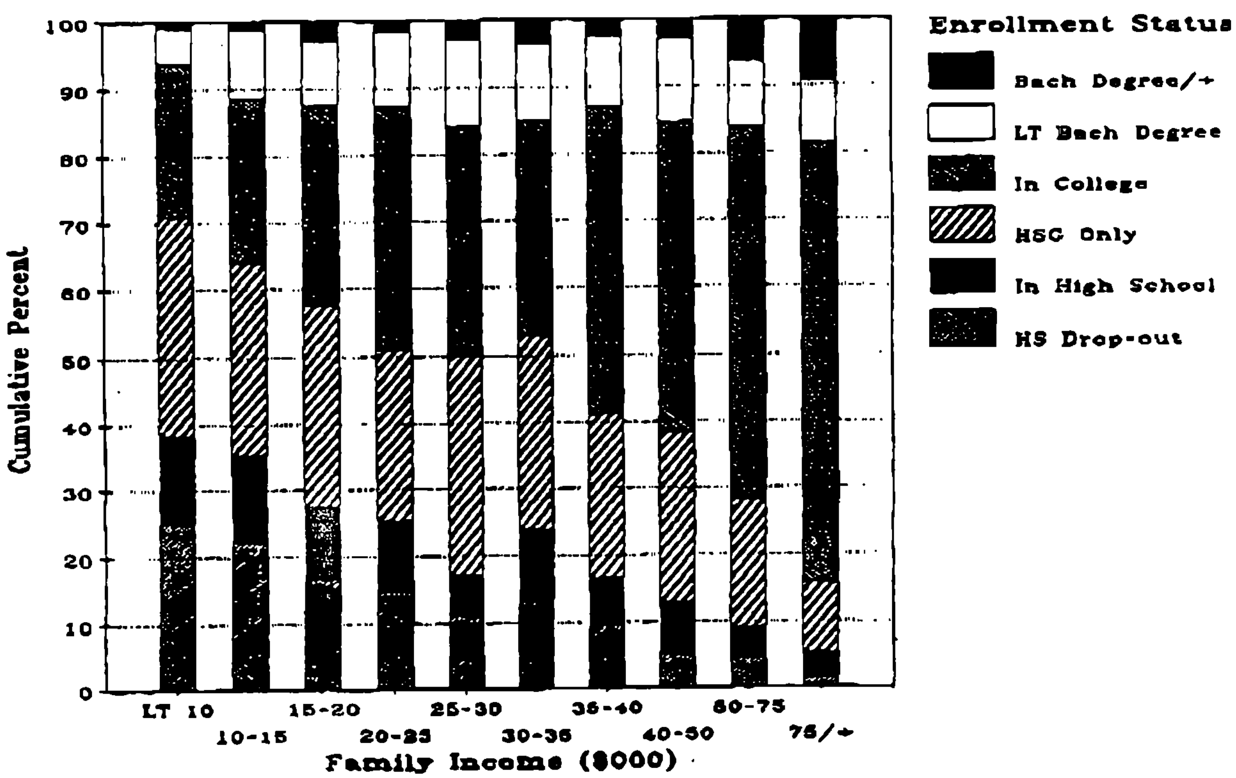
The quartiles of family income reported here have been calculated from the Census Bureau's tabulations. Those reported in this analysis refer to quartiles of family income collected in the October 1994 Current Population Survey. These are quartiles of families of high school graduates. In 1994 they are:

Q1:	$0 to $22,033
Q2:	$22,033 to $41,393
Q3:	$41,393 to $67,881
Q4:	greater than $67,881

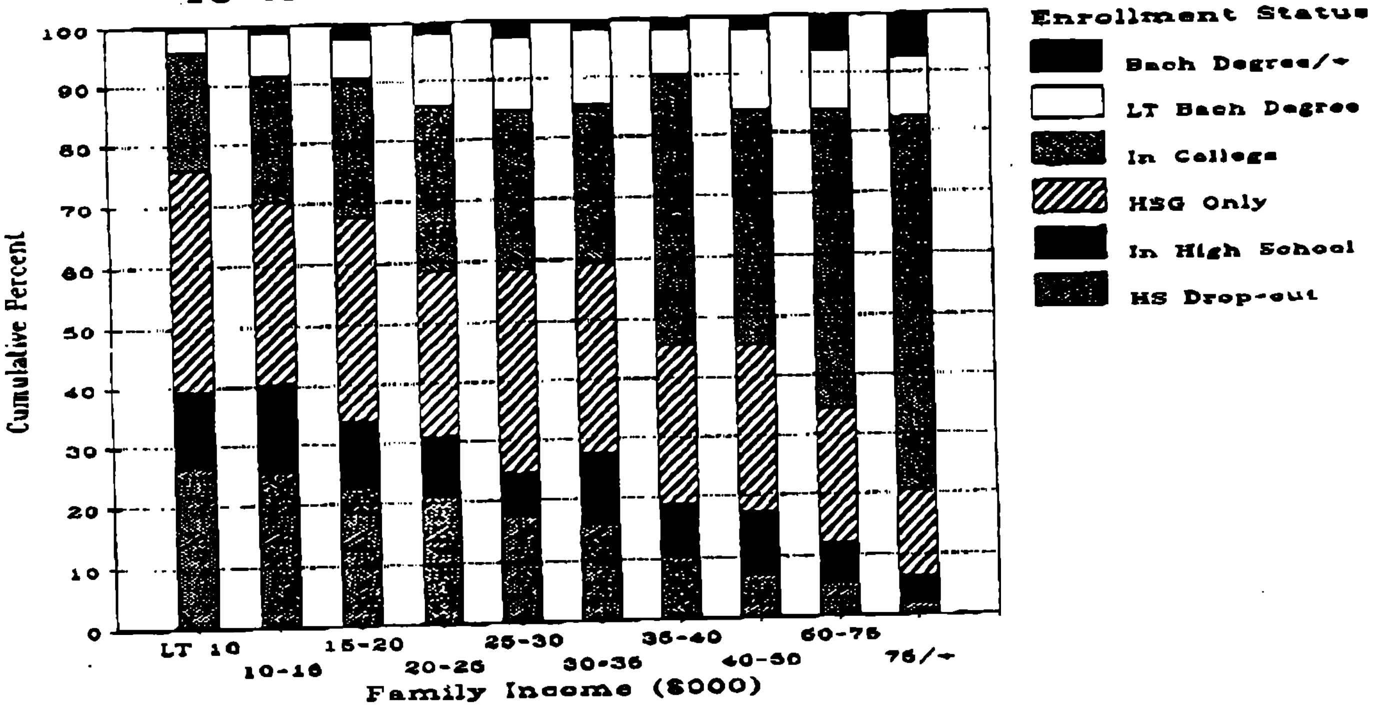
That is, exactly one quarter of all unmarried 18 to 24 year old high school graduates lived in families with incomes below $22,033; another quarter lived in families with incomes of between $22,033 and $41,393, etc.

Over the twenty-five year period between 1970 and 1994, family income has been redistributed: the

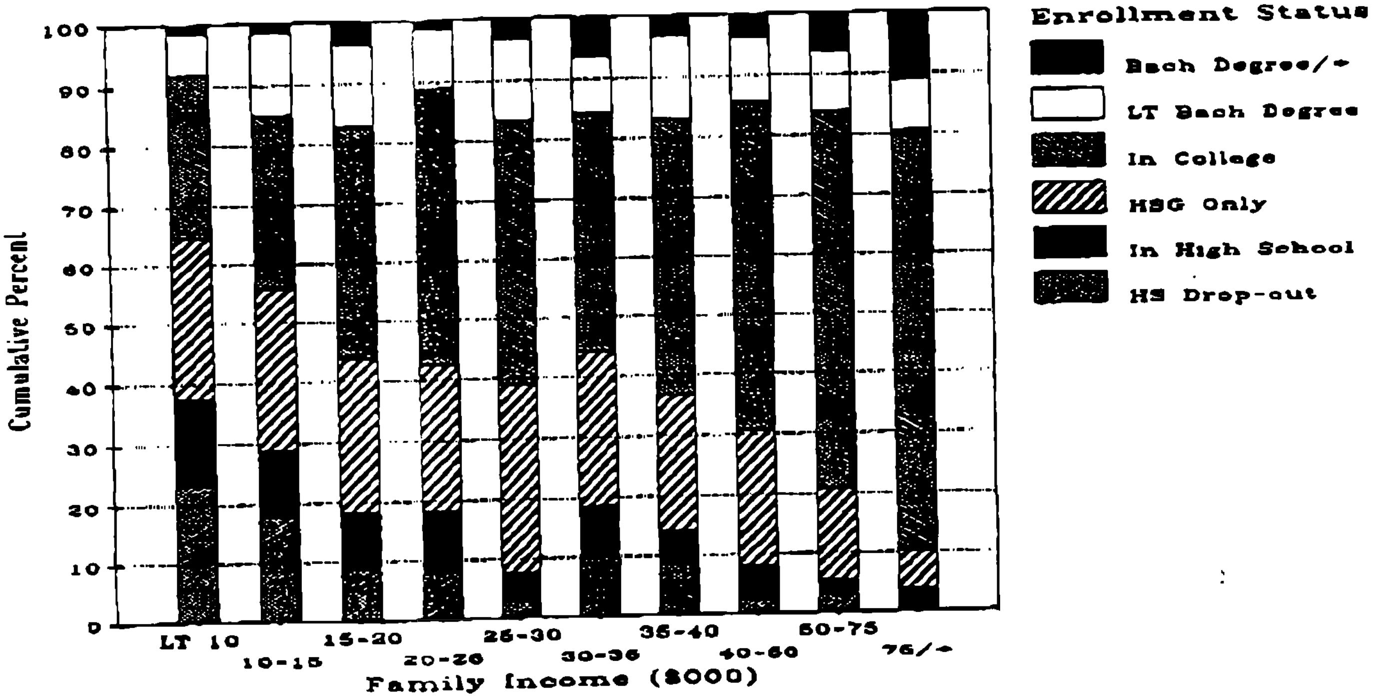
Enrollment Status of Dependent Family Members 18 to 24 Years Old by Family Income, 1994



Enrollment Status of Male Dependent Family Members 18 to 24 Years Old by Family Income, 1994



Enrollment Status of Female Dependent Family Members 18 to 24 Years Old by Family Income, 1994



most affluent families have more of it, and the poorest families have less of it. This growing inequality is reflected in the income data that defines family income quartiles used in this analysis.

Family Income Upper Limits in 1970 and 1994, Constant 1994 Dollars

Quartile	1970	1994
Q1:	$27,336	$22,033
Q2:	$41,538	$41,393
Q3:	$61,950	$67,881

While median family income remained about flat between 1970 and 1994, the bottom quartile of family income grew significantly poorer while the top quartile grew significantly more affluent during this period. Of the two middle income quartiles, the second quartile grew poorer while the third quartile became more affluent.

Enrollment Status in 1994

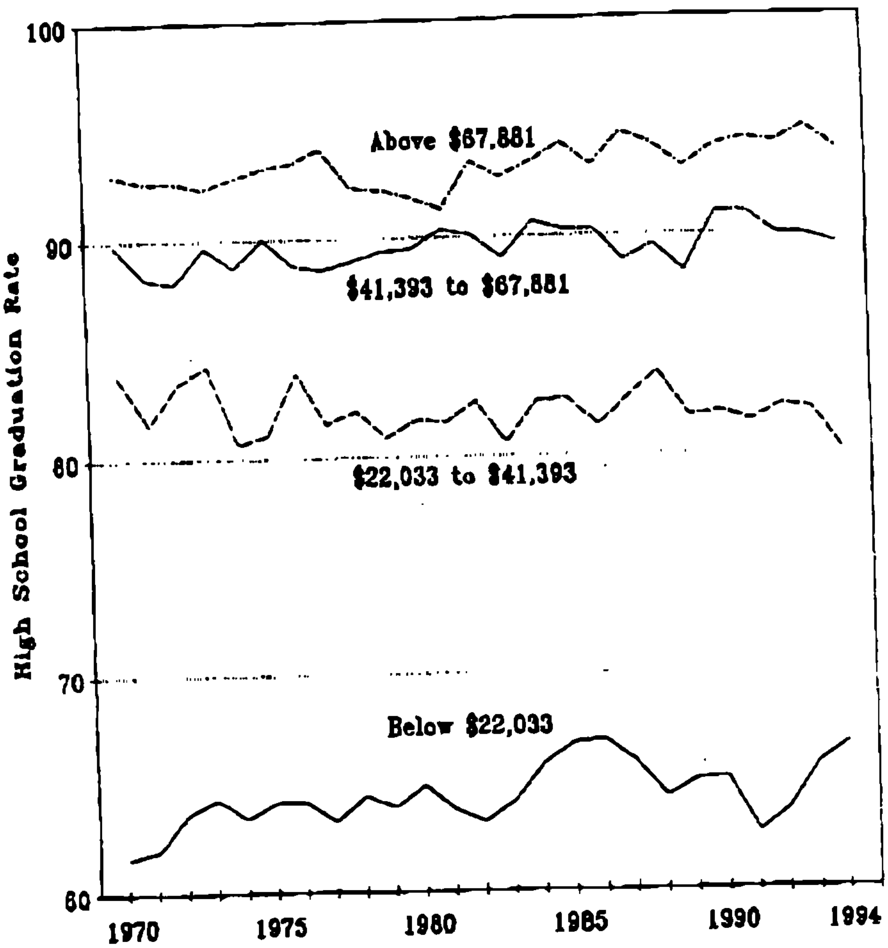
The chart on page 3 summarizes the enrollment status of dependent family members between the ages of 18 and 24 by family income ranges in October 1994. The charts on page 4 break these data down by gender.

The charts illustrate the powerful relationship between family income and educational status.

- Among those from families with incomes of less than $10,000 per year, 25.1 percent were high school dropouts, compared to 1.4 percent of those from families with incomes greater than $75,000.
- Those 18 to 24 still enrolled in high school comprised 13.3 percent of those from families with incomes below $10,000, but 3.8 percent of those from families with incomes above $75,000.
- At the other extreme, bachelor degree holders were 0.9 percent of those from families with incomes below $10,000, and 9.1 percent of those from families with incomes over $75,000.
- The college enrollment rate ranged from 22.8 percent of those from families with incomes of less than $10,000, to 65.5 percent for those from families with incomes greater than $75,000.

This general pattern holds for both males and females. The main difference is that at every level of family income, women are farther along in their educational attainment than are men. The differences are greatest in high school attrition where men are more likely to be dropouts than are women.

High School Graduation Rates by Family Income Quartiles for Unmarried 18 to 24 Year Olds 1970 to 1994



High School Graduation Rate Trends

The above chart shows the rates at which unmarried 18 to 24 year olds from each quartile of family income have graduated from high school between 1970 and 1994. In 1994 the high school graduation rate was 66.6 percent in the first quartile, 80.1 percent in the second, 89.4 percent in the third and 93.9 percent in the top quartile of family income.

At the very first hurdle along the path toward a baccalaureate degree from college, the field gets sorted out. Those from the highest family income levels have the greatest chance of graduating from high school, while those from the lowest income backgrounds have the least chance.

Moreover, this basic pattern has persisted without interruption for every one of the last twenty-five years. Very modest increases in high school graduation rates in the bottom quartile have been at least partially offset by modest declines in the rate for those from the second quartile of family income.

This lack of significant progress has occurred during a political era characterized by a public policy professing commitment to equalizing educational opportunities and more recently to increasing high school graduation rates. The gains apparent here have been modest at best.

College Participation Rate Trends

The chart on this page shows the rates at which unmarried 18 to 24 year old high school graduates from the four family income quartiles have participated in college between 1970 and 1994. Participation rates include those currently enrolled and those who were enrolled but have left with or without bachelor's degrees.

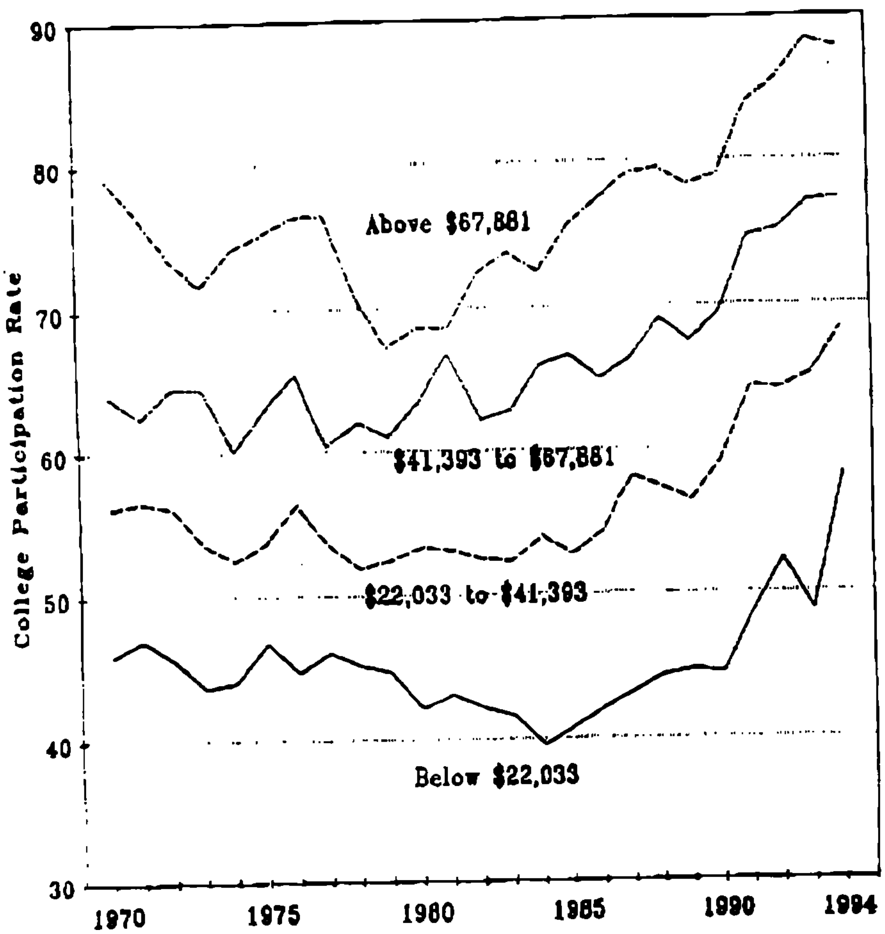
In 1994 the college participation rate was 58.2 percent for those from the bottom quartile of family income, 68.3 percent in the second quartile, 77.2 percent in the third, and 87.8 percent in the top quartile.

The inequality in high school graduation rates for young adults from different family income backgrounds carries over into college participation as well. In fact, given that this chart is limited to high school graduates, the disparities have been magnified at this the second hurdle on the path toward a baccalaureate degree.

Here, some of the inequality that accumulated after rationing of higher educational opportunity was effectively imposed beginning in 1980 was reversed in the 1994 data. College participation rates appear to have declined slightly in the top quartile of family income, remained flat in the third quartile, and increased substantially in the two lowest family income quartiles.

However, since rationing began in 1979, the gains in college participation rates have been least among those from lowest income families, and greatest among those from highest income families:

College Participation Rates by Family Income Quartiles for Unmarried 18 to 24 Year Old High School Graduates 1970 to 1994



Change in College Participation Rates between 1979 and 1994 by Family Income Quartiles

Quartile	Change
Q1:	+13.6%
Q2:	+16.2%
Q3:	+16.1%
Q4:	+20.5%

Enrollment Distribution by Type and Control of Institution

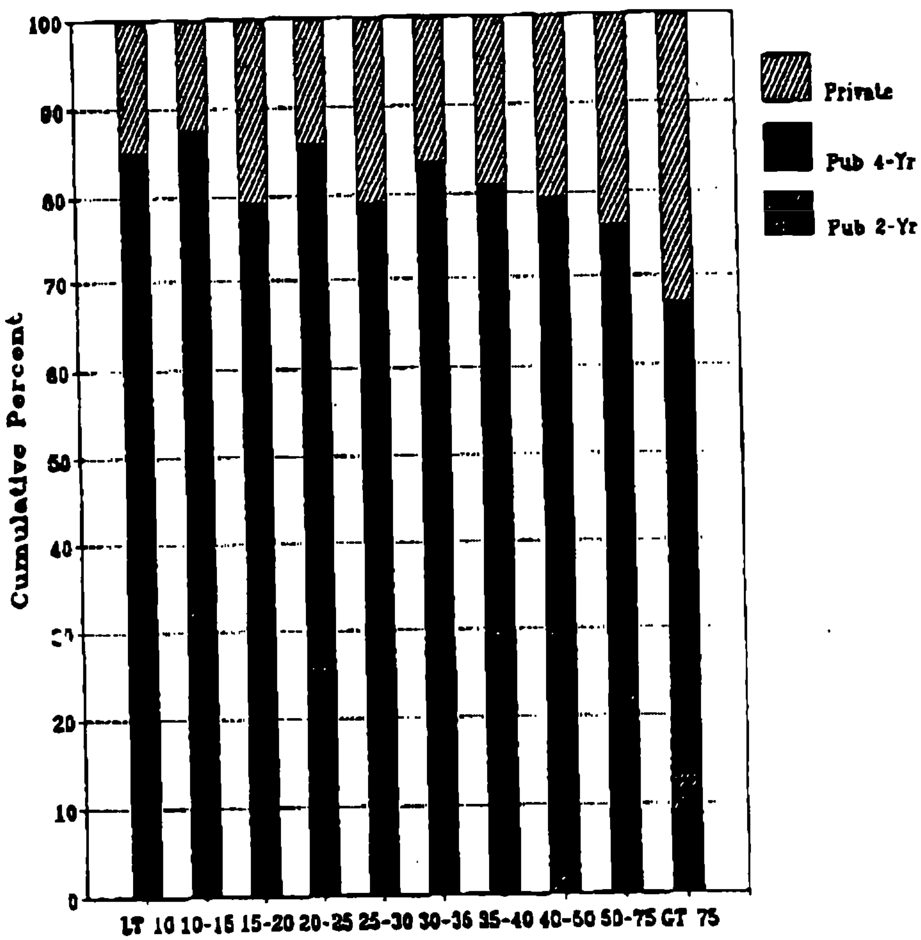
About half of all 18 to 24 year old dependent family members that were enrolled in college in October 1994 were enrolled in public 4-year colleges and universities. The balance were enrolled in either public 2-year colleges or private colleges and universities.

The distribution of college enrollments by institutional type and control varied by family income levels, as shown in the chart on this page. Looking only at dependent family members 18 to 24 years enrolled in college:

- Public 4-year colleges and universities enrolled as little as 47.4 percent of those from family incomes below $10,000, to as much as 59.9 percent of those from family incomes of between $20,000 and $25,000. Median family income was $53,046.
- Public 2-year colleges enrolled as much as 37.6 percent of those from families with incomes below $10,000 to as little as 13.4 percent of those from families with incomes of more than $75,000. Median family income was $42,909.
- Private colleges and universities enrolled as little as 12.4 percent of those from families with incomes of between $10,000 and $15,000, to as much as 33.1 percent of those from families with incomes greater than $75,000. Median family income was $63,095.

As these data suggest, the proportion of enrollment of dependent 18 to 24 year olds in 2-year institutions was highest among students from lowest income families, and lowest among students from highest income family backgrounds. The proportion of freshmen enrolled in 4-year colleges and universities was highest at the highest levels of family income, particularly above $50,000 per year.

Enrollment Distribution of Dependent Family Members Age 18 to 24 Years by Family Income and Institutional Type 1994



Enrollment by Attendance Status

In 1994 84.8 percent of all dependent 18 to 24 year olds enrolled in college were enrolled on a full-time basis. This proportion ranged from 73.4 percent among those from families with incomes of $10,000 to $15,000, to a high of 89.9 percent for those from family incomes above $75,000. Those at the extremes of the family income distribution were most likely to be enrolled full-time. Except for the lowest income range--below $10,000--full-time college enrollment increased with family income.

Among dependent family members 18 to 24 years old:

- Males were enrolled full-time at a rate of 85.4 percent, compared to 84.3 percent for females. Generally males and females had similar full-time rates across income levels except below $15,000 in family income where males were more likely to be enrolled full-time than females by about 10 percentage points.
- Students in public colleges were enrolled full-time at a rate of 82.8 percent, compared to 91.6 percent in private colleges.

- Of those enrolled in public colleges, 71.5 percent of those enrolled in 2-year colleges were attending full-time, compared to 87.8 percent of those in 4-year colleges and universities.

College Completion

We have constructed *estimates* of bachelor's degree completion by age 24 by family income quartile for those who enroll in college. These estimates combine Current Population Survey data with other data on graduation rates by family income level collected in the six-year follow-up to the 1980 cohort in High School and Beyond. Our *estimates* of bachelor degree completion by age 24 by family income quartile for the years between 1970 and 1994 are shown in the chart on this page.

In 1994, of the unmarried 18 to 24 year olds from the bottom quartile of family income who enrolled in college, 20.8 percent are estimated to have completed a bachelor's degree by age 24. This percentage increased to 26.7 percent in the second quartile, 41.7 percent in the third quartile, and 96.0 percent in the top quartile of family income.

At this, the final hurdle along the path to a baccalaureate degree by age 24, the very large disparities in educational progression across levels of family income that exist at the high school graduation and college participation level are magnified even further.

Baccalaureate Degree Attainment

We have constructed the high school graduation, college participation, and college completion rates such that their product measures the proportion of the unmarried 24 year old population that holds a bachelor's degree. This is shown on page 1 of this issue of OPPORTUNITY.

By 1994 our analysis indicates that 8.0 percent of those from the bottom quartile will have earned a bachelor's degree by age 24. This is the mathematical product of the following:

High school graduation	.6661
x College participation	.5820
x College completion	.2076
= College attainment	.0805

Similarly, in the second quartile of family income, the proportion earning a bachelor's degree by age 24 increases to 14.6 percent. In the third quartile the proportion increases to 28.8 percent. And in the top quartile of family income, 79.1 percent have a bachelor's degree by age 24.

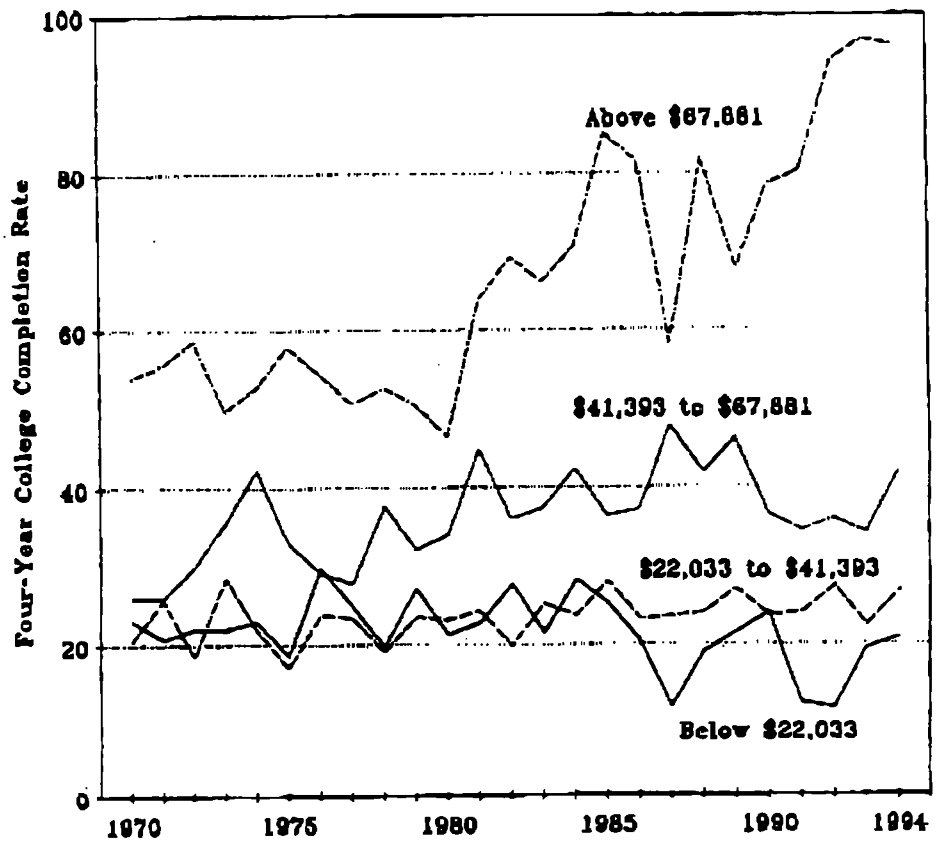
There are different ways to express the significance of these findings.

Given the federal aid to equalize higher educational opportunity:

- In 1994 a student from the top quartile of family income was about ten times more likely to earn a bachelor's degree by age 24 than was a student from the bottom quartile.
- In 1979, at the end of the equity era and just before the beginning of rationing of higher educational opportunity, a student from the top quartile was four times more likely to have the degree by age 24 than was the student in the bottom quartile.

This measures how far we have fallen away from the federal goal to equalize higher educational opportunity in the last 15 years.

Estimated Four-Year College Completion Rates by Age 24 by Family Income Quartiles for Unmarried College Students 1970 to 1994



THE WHITE HOUSE

WASHINGTON

January 24, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: ERSKINE BOWLES

SUBJECT: Rep. Archer's Letter to Secretary Rubin re: education tax relief

Attached is a copy of Chairman Archer's letter to Secretary Rubin on January 22, 1997 regarding his concerns with our HOPE Scholarships tuition tax cuts. I have asked Gene Sperling to forward you responses to each of Rep. Archer's concerns.

Gene -
Peter Orszag is your staff contact on this project -- he is in charge of working w/ TR: ED on ~~final~~ answers you will have final signoff.

cc: Secretary Rubin
Sylvia Mathews
Gene Sperling
John Hilley

Corrected Copy

cc: Linda R., OEC Sec, Maria, Janet

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6348

January 22, 1997

The Honorable Robert E. Rubin
Secretary
Department of the Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

In anticipation of receiving the President's FY '98 budget, it is my high hope and expectation that we will be successful in achieving a bi-partisan agreement that balances the budget, while providing permanent tax relief to the American people. I look forward to working with you and other members of the Clinton Administration to achieve these important goals.

I believe we should be able to find common ground on many areas, including how best to use the tax code to help young Americans obtain affordable college educations. During the last Congress, Republicans passed a measure allowing parents and grandparents tax-free withdrawals from their Individual Retirement Accounts to help pay for their children's and grandchildren's post-secondary education. We also passed a measure allowing students up to a $2500 tax deduction for interest paid on their student loans. These educational tax provisions were contained in the Balanced Budget Act, which was vetoed by the President. I understand the President's budget will include the 'Hope Scholarship' initiative announced during the campaign that features a tax deduction and a tax credit contingent on a student's receiving a 'B' average.

I note from a just published book that you, Budget Director Alice Rivlin, National Economic Adviser Laura Tyson, and Education Secretary Richard Riley raised strong objections to these provisions at the time they were proposed.

I share many of the concerns that you and others are reported to have expressed. In order to proceed with consideration of these provisions, I have four questions that I hope you can answer:

1. How will the federal government know if a student has a 'B' average? Will the Internal Revenue Service collect students' report cards in the same manner in which they obtain written reports to verify other tax data?

2. Won't these proposals contribute to educational inflation and drive up the cost of college for all Americans? Secretary Riley is cited in the book as raising this objection and former Congressional Budget Office Director Robert Reischauer has stated these proposals will drive up educational costs.

3. Will this proposal put teachers under pressure to give students 'B' averages, compounding the problems of grade inflation?

4. Tax years are one calendar-year long. School years are divided into semesters. If a student has a C+ average in the fall of 1996, and a B+ average in the spring of 1997, will he or she qualify for the credit?

The principle of using the tax code to help provide for affordable educational opportunities represents common ground, but I await your reply in order to evaluate the merits of this particular tax proposal.

Sincerely,

Bill Archer
Chairman

THE WHITE HOUSE

WASHINGTON

January 24, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: ERSKINE BOWLES

SUBJECT: Rep. Archer's Letter to Secretary Rubin re: education tax relief

Attached is a copy of Chairman Archer's letter to Secretary Rubin on January 22, 1997 regarding his concerns with our HOPE Scholarships tuition tax cuts. I have asked Gene Sperling to forward you responses to each of Rep. Archer's concerns.

Gene -

Peter Orszag is your staff contact on this project -- he is in charge of working w/ TR & ED on ~~final~~ answers. You will have final signoff.

cc: Secretary Rubin
Sylvia Mathews
Gene Sperling
John Hilley

NO. 006 P.02

Corrected Copy

cc: Linda R.

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6348

January 22, 1997

The Honorable Robert E. Rubin
Secretary
Department of the Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

In anticipation of receiving the President's FY '98 budget, it is my high hope and expectation that we will be successful in achieving a bi-partisan agreement that balances the budget, while providing permanent tax relief to the American people. I look forward to working with you and other members of the Clinton Administration to achieve these important goals.

I believe we should be able to find common ground on many areas, including how best to use the tax code to help young Americans obtain affordable college educations. During the last Congress, Republicans passed a measure allowing parents and grandparents tax-free withdrawals from their Individual Retirement Accounts to help pay for their children's and grandchildren's post-secondary education. We also passed a measure allowing students up to a $2500 tax deduction for interest paid on their student loans. These educational tax provisions were contained in the Balanced Budget Act, which was vetoed by the President. I understand the President's budget will include the 'Hope Scholarship' initiative announced during the campaign that features a tax deduction and a tax credit contingent on a student's receiving a 'B' average.

I note from a just published book that you, Budget Director Alice Rivlin, National Economic Adviser Laura Tyson, and Education Secretary Richard Riley raised strong objections to these provisions at the time they were proposed.

I share many of the concerns that you and others are reported to have expressed. In order to proceed with consideration of these provisions, I have four questions that I hope you can answer:

1. How will the federal government know if a student has a 'B' average? Will the Internal Revenue Service collect students' report cards in the same manner in which they obtain written reports to verify other tax data?

2. Won't these proposals contribute to educational inflation and drive up the cost of college for all Americans? Secretary Riley is cited in the book as raising this objection and former Congressional Budget Office Director Robert Reischauer has stated these proposals will drive up educational costs.

3. Will this proposal put teachers under pressure to give students 'B' averages, compounding the problems of grade inflation?

4. Tax years are one calendar-year long. School years are divided into semesters. If a student has a C+ average in the fall of 1996, and a B+ average in the spring of 1997, will he or she qualify for the credit?

The principle of using the tax code to help provide for affordable educational opportunities represents common ground, but I await your reply in order to evaluate the merits of this particular tax proposal.

Sincerely,

Bill Archer
Chairman

Improve Pell Grant formula for Independent Students

Pros:

- More equitable than current law
- Supported by parts of higher education community
- Helps some dislocated workers

Cons:

- Large cost for no apparent increase in maximum grant

Make Pell Grants mandatory

Pros:

- Remove funding uncertainty
- Place program on same footing as HOPE
- Send clear signal to needy students
- Enthusiastic support from higher education community

Cons:

- Expose Administration to charge of fiscal irresponsibility for creating a new entitlement program
- Costs less controllable; annual rationing process has kept program costs down

Include Non-degree Students

Pros:

- Benefits many working people and dislocated workers
- Encourages lifelong learning

Cons:

- Increases cost by perhaps $1 billion per year
- Increases gatekeeping needs
- May be opposed by some segments of higher education community

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Use prospective income for dislocated workers

Pros:

- Expand student aid benefits for dislocated workers
- Relatively easy to implement

Cons:

- Increases costs
- Complicates financial aid form
- Other groups will seek comparable treatment (e.g. displaced homemakers, families with private el-sec costs)

December 11, 1996

MEMORANDUM FOR GENE SPERLING

FROM: PAUL DIMOND PD

SUBJECT: POST-SECONDARY EDUCATION VOUCHERS

CC: LAURA TYSON
BRUCE REED
KEN APFEL
BARRY WHITE

I hereby appeal from the public execution by you of me on this topic last evening. I apologize if my unartful elocution leading up to your tentative decision was inadequate to present the basic issues for decision. So, I'll try one more time.

Undisputed Facts:

- All Americans regardless of Age or working status. The more flexible, mandatory Pell Grant (with the three proposed modifications and increase in amount), the Hope Scholarship, the Education Tax Deduction and Pay-As-You-Earn student loans will -- if enacted in a balanced budget reconciliation agreement -- guarantee for a generation to come that every American student, worker, and dislocated worker has access to a substantial federal financial "voucher" to invest in the education and training they choose to earn a better standard of living through learning more to engage in more rewarding work. *This is the means to achieve the fundamental legacy so eloquently articulated by the President: to empower every American with the key to unlocking the door to the greater rewards and challenges of upward mobility and rising middle-income living standards in the information age at the dawn of the new century.* As a result, this is fight worth making -- and winning -- whether called a "new mandatory investment" or "a new entitlement." As you so rightly noted, that's the kind of fight we should relish in the context of achieving fundamental agreement on a framework for balanced budget.

- Dislocated and Disadvantaged Workers. Achieving this historic Presidential legacy through such a balanced budget reconciliation agreement will *also assure a flow of federal funds through such individual purchasing power -- "Skill Grants" if you please -- to "unemployed and underemployed workers" in amounts that dwarf the comparatively small appropriated dollars that can be achieved if we secure the authorization and appropriation of the $2600 federal Skill Grant that was the sole presidential centerpiece in his proposed G.I. Bill for America's Workers.* Stated another way, the need for passing a G.I. Bill for America's Workers to provide "Individual Skill Grants" for dislocated and disadvantaged workers is rendered moot if we achieve what we are proposing in a balanced budget agreement.

Basic Tactical Issues on G.I. Bill for America's Workers:

- Whether and How Declare Victory. If we don't need an authorization and appropriation to achieve the President's legacy of "individual Skill Grants" for "unemployed and underemployed workers," then we need to decide whether and, if so, how we should declare victory on this front if we achieve the balanced budget reconciliation. That is the only reason I suggested a Hope Skill Credit (or a mandatory Skill Grant) for dislocated workers -- to gain support among the organized labor constituency and to broaden public recognition of the universal nature of the President's legacy. If there are more adroit ways to broaden political and popular support and to declare victory for the President's legacy, *I will gladly defer*.

- Relevance to DoL Training Appropriations. *Whether or not such a mandatory* Dislocated Worker Skill Credit or Skill Grant is added to the mandatory budget reconciliation, John Kasich -- like most others -- will quickly grasp two things: (1) our mandatory proposal provides post-secondary education and training vouchers for everyone (including dislocated and low-income workers), and (2) any other federal budget support for other post-secondary training is either (a) largely redundant or, worse, (b) will serve to continue what all parties have already agreed is a largely ineffective, crazy-quilt pattern of federal categorical post-secondary education and training services contracted by states or localities. I can't believe that the President, Vice-President, or even the resigning Secretary of Labor will ultimately see the matter any other way: because these three leaders -- *particularly the President* -- initiated, led, and fought the fight for an individually empowering, market transformation of all federal assistance for post-secondary education and training.

- Relevance to achieving Balanced Budget Reconciliation Agreement. Thus, the only issue concerning a G.I. Bill for America's Workers is whether we should propose it again as part of the *tactics* to achieving the President's real legacy of assuring individual purchasing power for all Americans through the mandatory budget reconciliation. I don't claim to understand or know the answer to this issue, but I hope that your deeper understanding of the budget, media, congressional, constituency, and public support will enable you to do so -- *once you focus on this issue*.

All other issues in the G.I. Bill for America's Workers -- labor market exchange, labor market information, state-local-private sector roles, vocational education, out-of-school youth, School-to-Work, achieving literacy or earning a high school diploma that means something -- can be considered and resolved once you help the President decide the prior and paramount issue: *how best to achieve the President's historic legacy of assuring that every American worker, student and family has direct access to federal assistance to invest in the post-secondary education and training they choose*. Please don't be misled by my unartful elocution or the self-interested, knowing or unintended obfuscation of anyone else.

HOPE Scholarships and Pell Grants

- Tax credit/deduction cost $42.9 billion 1997-2002, $32.3 billion 1998-2002 (start date not decided).
- Cost can be reduced by $1.5 billion in 1998-2002 through simplifications that are essential to reducing paperwork and the extreme complexity of the original proposal.
- $4 billion of the cost is for refundability, which is essential to reaching poor students (particularly *independent* students now ineligible for the Pell Grant). Treasury concerned that refundability adds to potential for fraud.
- Refundability can be eliminated if comparable benefits are provided to the poorest students in another way -- through Pell Grants.
- If refundability is eliminated and simplification is adopted, savings would total $5.5 billion 1998-2002.

Bringing low-income independent students into Pell

- Refundability can be eliminated only if those who would have benefited are brought into the Pell Grant system.
- Independent students can be brought into the Pell Grant system at a cost of about $4 billion over five years, which addresses the bulk of the refundability benefits issue.

Using "prospective income" for dislocated worker Pell Grant eligibility

- Some dislocated workers are shut out of the Pell Grant system because their prior year income -- used to determine financial aid eligibility -- is too high.
- Current law allows colleges to give dislocated workers special consideration, using projected current-year income to determine eligibility. But dislocated workers do not know that they can ask, and colleges need not cooperate.
- Requiring the use of projected current-year income for dislocated workers would cost roughly an additional $1 billion over five years.

Opening Pell to non-degree, non-certificate students

- Pell Grants are only available to students in degree or certificate programs.
- Eligibility could be expanded for other students (for example, a worker being trained how to use a particular computer program).

- Rough estimates suggest a cost in the range of $5 billion over five years, which is not affordable through Hope savings. These students are eligible for JTPA, which will, if more independent students are made eligible for Pell, be freed up to better serve this population because of the migration of the other students to Pell.

Increasing the Pell Grant maximum

- After spending $5 billion total over 1998-2002 to bring independent students into the Pell Grant program and to figure dislocated worker income on a current-year basis, there is $500 million of the savings (over five years) still available for other purposes.

- The remaining savings could buy an increase in the Pell Grant maximum of perhaps $35 in FY98 with inflationary increases in the out years.

- If the "prospective income" change (costing $1 billion over five years) was not made, there would be a total of $1.5 billion available, which would pay for a $100 increase in the Pell Grant maximum (with inflation increases in the out years).

Making Pell Grants an entitlement

- The "fix" for independent students and an increase in the Pell Grant would help address the concerns of some in the higher education community about the Hope proposal.

- In reducing tax benefits, the fix will only be viewed as credible by the higher education community if the Pell Grant is turned into an entitlement, giving the program the same importance and permanence as Hope.

- Creating a new entitlement would be controversial and would be seen as encouraging higher spending over time.

- While the Pell Grant *increases* outlined above would be PAYGO offset by reductions in HOPE, the increase in mandatory spending represented by moving the *current* Pell Grant program would be offset by reducing the discretionary caps. While OMB has supported the reduction of discretionary spending caps as an offset for PAYGO, CBO and the Budget Committees have not.

December 8, 1996

MEMORANDUM FOR GENE SPERLING

FROM: PAUL DIMOND PD

SUBJECT: HOPE SCHOLARSHIPS, SKILL GRANTS, PELL GRANTS AND G.I. BILL FOR AMERICA'S WORKERS

CC: BRUCE REED, KEN APFEL

Proposal: offer the President an option to propose in his FY98-2001 Balanced Budget that essential resources and good information be placed directly in the hands of individuals and families on the mandatory side of the budget so that students and workers of all ages are assured that they will be better able to invest in the post-secondary education and training they choose to get ahead in the new economy. In particular, I propose full exploration and presentation of an option that incorporates the following on the mandatory side of the budget:

- $1500 Hope Scholarship for up to two years, $10000 Education Tax Deduction and expanded IRA, all with the same income phase-outs
- An additional $1500 Hope Skill Credit for one year for Dislocated Workers (who cannot get back to work with their current skills based on a minimum of 12 weeks of job search)
- Pell Grants (with whatever maximum you deem appropriate, e.g., $3000, the median cost of tuition for a year at a four-year college or university), including non-degree training programs so long as their consumer information and gatekeeping is based not only on the rate of completion of the offered curriculum but also on the earnings of the student in the year following completion of the prescribed course-work
- Pay-As-You-Earn Student Loans (in both Direct and GSL Loans) so that students and workers of all ages can invest in learning new skills and repaying based on future earnings.

I. Relevance to POTUS legacy. Since the mid-term elections in 1994 and throughout the 1996 campaign, the President staked his affirmative legacy on empowering all American individuals and families with the tools they need to learn new skills to make a successful crossing from the old industrial era to a new age of discovery, knowledge and information. That is the motive for his "Pay-As-You-Earn" student loans, increases in Pell Grants, proposed Middle Class Bill of Rights (including the Education Tax Deduction, expanded IRA, and individual Skill Grants in a G.I. Bill for America's Workers), and the Hope Scholarship. *Given the pressures on Non-Defense Discretionary Spending for at least the next generation, there is only one way to assure that the President's legacy is built into the fabric of federal budgeting: put all of these forms of federal support and incentives to increase individual and family "education purchasing power" on the mandatory side of the budget.*

II. Other considerations:

- Balanced Budget. I take a back seat to no one in this Administration as a deficit hawk -- I continue to urge that the President balance the budget on his watch, including proposing a budget that achieves a zero deficit in FY2001. That means that the full budget implications of the proposal (and any alternatives) should be fully fleshed out. Then, the hard budget priorities and trade-offs can be presented to the President. I am confident that he will choose to include this proposal as a centerpiece of his proposed Balanced Budget. And I am just as confident that the President will negotiate to include this proposal as an essential component of any Balanced Budget agreement. *But the President will have this opportunity only if you make sure that the option is fairly presented to him.*

- Constituency and Hill Politics. Adding an increased, more flexible Pell Grant and a Hope Skill Credit for Dislocated Workers will build support for the entire package (including the Hope Scholarship, the Education Tax Deduction, and the Expanded IRA) among student, higher ed, and union groups. It will make clear to all of these constituencies -- and to the American people -- that the President is serious about making sure that all Americans have the most important key to unlocking the door to greater opportunities as the U.S. leads the world into a more challenging and more rewarding new age of discovery, knowledge and information. It will give liberal and moderate Democrats on the Budget, Ways and Means, and Finance Committees (with the full support of their compatriots on the Authorizing Committees) something to fight for that is right at the top of the President's agenda. And it will make clear to Republicans that these essential tax cuts and Pell Grants must become an integral -- and lasting -- part of a Balanced Budget agreement.

- Agency Concerns. DoEd will generally support all aspects of the proposal, although they will express concern about making Pell Grants more flexible because the increased information and gate-keeping requirements on non-degree programs may raise concerns among the higher ed community: But we can strike a deal, first, with the community colleges and the proprietary schools (and, then, with four-year colleges and universities) that this is a very small and very fair price for making Pell Grants mandatory and enabling them to compete for higher amounts on the mandatory side of the budget, now and in the years ahead. DoL will waffle on all counts for a variety of reasons, most of which relate to fears of losing support for appropriations for DoL training programs: Even if this fear were born out, however, it should not distract the President for one second from assuring that the increased purchasing power he has always fought for is assured to be placed directly in the hands of individuals and families, students and workers of all ages by including the mandatory proposal in a Balanced Budget agreement. [N.B.: Moreover, we can still craft an adult-only G.I. Bill for America's Workers, modelled after the Careers bill in the House, that includes most of the components of our proposal last year -- One-Stop Shops (supplemented by the major advances DoL is making with its electronic labor exchange, America's Job Bank, Talent Bank, Labor Market Information and Training Network), area-wide Local Workforce Boards and flexible, state-local designed individual Skill Grants. DoEd will be submitting a separate Voc Ed bill (hopefully based on the principles of accountability, choice and excellence, and retaining all kids in "school" until graduation.) We should avoid any provision relating to School-to-Work in order to avoid renewing this controversy with the Conservative Right in the House.]

20

Questions and Answers

PELL GRANTS

Moving funds from middle-income HOPE recipients?

Q: The early press reports imply that in order to fund the increase in Pell Grants for low-income students, money was shifted from the middle-class HOPE Scholarship. Is that accurate?

A. Absolutely not. The "refundability" in the prior design of the HOPE Scholarship was there to provide the credit to low-income students with little or no tax liability. That provision has been eliminated because those same low-income students can be better served by this increase and expansion of the Pell Grant. So it is essentially the same population; there is no shift of funds from one income category of students to another.

Need Determination Rule Change

Q: You say that many poor older students aren't eligible for Pell Grants now. What level of income are you talking about? Why is that the case?

A: The formula for determining a student's need for Federal aid, under changes made in 1992, is less generous to needy students aged 24 or over than other students. The President's proposal will restore equity for older students and thereby increase their eligibility for Pell Grants. This expansion will bring 218,000 students into the program who are currently not eligible. They are generally students with annual incomes from $10,000 to $20,000. In addition, 891,000 students, generally with incomes between $5,000 and $20,000, will see increases in their grants of an average of more than $800.

Change in Announced Pell Policy

Q: Last year, the President talked about increasing the Pell Grant maximum to $2,780 in FY1998 and $3,120 by FY2002. Now the President proposes increasing a maximum Pell Grant to $3,000 in FY1998. Which programs are proposed to be cut to pay for the large increase in the maximum Pell Grant? How much increase will the President seek in future years?

A: The five-year budget builds in continued inflation-offset increases for spending on Pell Grants. That's a floor, not a ceiling. The President certainly wouldn't want to rule out additional increases in future years, depending on the budget situation. Similar increases are predicted for other Education programs. Education is one of the President's highest priorities.

STUDENT LOANS

Reduced Origination Fees

Q: The committee and subcommittee chairmen who handle education have warned that if the Administration puts student loan changes into reconciliation, they will renew their attacks on the direct loan program. Are these cuts in fees paid for by imposing costs on the student loan industry, and do you plan for this to be in reconciliation?

A: The bank-backed guaranteed loan program is not under attack. The Secretary of Education met with the committee leadership and told them that there would be student loan changes in the budget. They had heard rumors that the industry subsidies would be reduced by $8 or $9 billion. That figure is way off. The bank reductions will be on the order of what was included in the Republican budget plan last year. And there will be some restructuring of the program, to improve management and accountability.

Student Loan Interest Rates

Q: You say that in addition to reduced origination fees, student loan interest rates will be reduced. Would you explain this reduction?

A: It is a one percentage point reduction during the in-school and deferment periods, when banks don't have any significant work that they have to do. This saves money for taxpayers on Stafford loans (where the government picks up the in-school interest), and saves money for borrowers on Unsubsidized and Parent loans.

Competition of Direct and Guaranteed Loans

Q: Is there any change in your policy of competition between the Direct and guaranteed loan programs?

A: No. The budget will support allowing colleges to choose between the two loan programs, and will propose changes to remove barriers so that the guaranteed program can try to do some of the innovative things that the Direct Loan Program has been able to do.

STUDENT LOANS (Continued)

Bank-Paid Fee Proposal

Q: On fees, Chairman Goodling tried to move a bill last year that would allow banks to pay the fees for students, but it ran into trouble from Democrats in the Senate and the Administration. Do you think that will change?

A: The Administration's proposal is much broader and more equitable than Chairman Goodling's proposal. It should be embraced by Republicans and Democrats alike.

HOPE SCHOLARSHIPS AND TUITION TAX DEDUCTION

IRS Role of Information Collection

Q: Will the IRS be collecting transcripts to confirm the B average requirement?

A: No, the Federal government is **not** going to be collecting transcripts. A simple, non-intrusive procedure will be used to provide students and the IRS with the information they need to administer the tax credit. As currently envisioned, colleges would simply check a box if the student has at least a B- average or the equivalent, on the same simple computer printout that would tell the student and the IRS how much tuition he paid, and how much Federal aid he got. We will continue working with the higher education community to determine the details of this reporting requirement to ensure as little burden as possible,

Non-Traditional Grading System

Q: How do colleges that don't use traditional grading systems satisfy this requirement?

A: Those colleges are accustomed to dealing with this problem for things like auto insurance that offers discounts for good grades. The Secretary of Education will work with the higher education community to develop whatever standards are necessary.

Reporting Burden on Schools

Q: This reporting system sounds like it could be a burden on colleges. Is that going to be a problem, either administratively or politically?

A: The burden will be very small compared to the $36.2 billion that will be made available for higher education over the next five years. A few key pieces of information -- many already on the school's computer system -- will need to be provided. The cost will be minimal. (As a point of comparison, the federal government reimburses educational institutions $5 for each Pell Grant application it processes; these reports would be far less complicated).

Grade Inflation

Q: Won't this cause grade inflation?

A: This proposal is based on a successful program in Georgia, and there hasn't been any evidence of a grade inflation problem since that program began four years ago.

Keep in mind that professors always have a lot of pressure to raise grades -- for some students who want to go to a top graduate school, for lower auto insurance rates, or for other reasons. Ultimately, professors need a grading system that is equitable for all students, not just those with special circumstances. Moreover, the HOPE grade requirement is only relevant for second-year, middle-income students.

That's not to say that we don't want to see an increase in grades. The purpose of the B requirement is to give freshmen an additional incentive to really apply themselves, because students who get off to a good start are most likely to finish college successfully.

Tuition Inflation

Q: Won't colleges, especially community colleges, increase their tuition, now that so many students will be getting this $1500 credit?

A: This is always an issue with any tax benefit or government program, so it is something to watch for. But even with the increases and decreases in student aid over the past three decades, there is little evidence of a relationship between federal aid and college tuition levels. In Georgia -- where the HOPE scholarship idea began in 1993 -- tuition at public two-year colleges grew by 13% between the 1992-3 and the 1995-6 academic year, compared to a national average of 21%.

Community college fees are heavily influenced by the community member who takes just one course at a time. Those students are not eligible for HOPE, so this would be a strong counter-weight to any inflationary pressure in that sector.

Remember also that the credit is available for only the first two years. The third- and fourth-year students taking advantage of the deduction would still be very sensitive to price. Four-year institutions don't have different tuition levels for juniors and seniors than for freshmen and sophomores, and that should help keep any inflationary pressure under control.

Mismatch between Academic and Tax Years

Q: Isn't there a mismatch here between academic years and tax (calendar) years that could cause some real confusion? Chairman Archer raised the issue of a student who has a C+ average in the fall of 1996, and a B+ average in the spring of 1997. Could he or she take the second credit?

A: We have reworked the credit so it is now very simple. If you have already taken the credit once, then, the second time you plan to take it, you look at your GPA at the beginning of that second taxable year. Students would not have to track precisely when they technically finished their first or second academic years.

Part-Year Attendance

Q: But if I'm starting college this fall, and I want to claim the credit next April at tax time, I would only have gone to school for one semester. Does that cut my credit in half?

A: No. Whatever you paid for tuition and fees in 1997 would count toward your full credit eligibility (up to $1500). You could even pay for the spring '98 semester in December, so that you could claim that payment for the credit or deduction. (We expect that taxpayers will learn to take advantage of this, and that colleges may use it as a carrot to get students to pay their bills on time).

Distributional Effects

Q: How would the benefits of the credit and deduction be distributed across the income scale?

A: This is a targeted, *middle-class* tax cut. At a higher tuition school, the deduction would be a benefit to any tax-paying family, even Pell Grant recipients. The value of the deduction is obviously greater in the higher tax brackets, but both the credit and deduction phase out completely at a $100,000 income level (for joint filers).

Expanded Access to Postsecondary Education

Q: The President has talked about the tax breaks as a means of increasing access to higher education by making it available to those who currently cannot afford it. Will the tax credit and deduction boost postsecondary enrollment? How many more students would be likely to attend college as a result of the tax break?

A: There is no question that the Federal government's investments in higher education -- the post WWII G.I. Bill, student loans, Pell Grants -- have helped to boost college enrollment. We expect that this will also have a modest effect. But this is also a *tax cut*, to help middle class families who are struggling now to pay to send their kids to college. Just because some families are *successfully* struggling doesn't mean they don't deserve a break.

Shift from a Refundable to Non-Refundable Credit

Q: Refundability of HOPE was the key aspect of the proposal that offered aid to lowest income families. Why have you eliminated it?

A: Essentially, it was a trade. The purpose of refundability is to provide a tax benefit to the poorest Americans, those who don't have enough tax liability to make use of the credit. We decided it would be better to serve these students through the Pell Grant program. That's one of the reasons for the increased Pell Grant maximum, and particularly for the $4 billion eligibility change for low-income older students. They would have benefited from refundability, but with Pell they can get even more aid, over four years of college.

Impacts of Non-Refundable Credits on Needy Students

Q: The tax credit amount is reduced by all non-taxable Federal educational grants (including Pell grants) received by the student. Will the HOPE scholarship (and tuition tax deduction) really help low- and moderate- income students who have the most difficulty meeting tuition costs?

A: The dramatic increases -- both last year and this year -- in the Pell Grant program are designed to address the needs of low-income students. HOPE is part of a targeted, middle-class tax cut plan.

Timing of Tax Credit Benefits

Q: How will students be able to use a tax credit to pay for their education if they cannot get their refund until many months after their tuition bill is due?

A: As many people do when planning how to pay their mortgages, taxpayers will be able to adjust their withholding in anticipation of taking the credit or the deduction.

Students Who Stop and Then Resume Their Education

Q: Many students transfer after their first year (especially at community colleges) or "stop out" and after several years resume their academic careers at a different institution. How would grade and student account reporting requirements be handled for these students?

A: The school would not need old financial data to prepare its information report. Grades and academic credits are already generally transferred from one institution to the next. (To the extent that any problems are raised, the Secretary of Education will work with the higher education community to develop workable solutions).

Duration of Keeping Student Information

Q: Individuals are generally advised to keep their tax records for at least seven years. Most institutions do not keep account records for that long. If institutions were to provide information to the IRS, how long would they be required to maintain records?

A: The institutions would generally want to retain their records for student information in much the same way they keep their tax records on employees. This may be as long as seven years, but it depends on the institution and its advisors.

Eligible Institutions

Q: To receive the HOPE scholarships or tax deductions, do students need to attend any particular type of schools?

A: Eligible institutions are defined by section 481 of the Higher Education Act. Such institutions generally would be accredited postsecondary education institutions offering credit toward a bachelor's degree, an associate's degree, or another recognized postsecondary credential. They could also be proprietary institutions or postsecondary vocational institutions. The institution must be eligible by the Department of Education to participate in the student aid program under rules issued.

Changes in HEA Resulted from New Tax Proposals

Q: The tax deduction is "above the line." That is, it is an "adjustment to income," such as the IRA deduction, that lowers AGI. There must be significant implications of this adjustment for the results of need analysis and the distribution of HEA Title IV aid. What are these effects?

A: As part of the President's total package of education proposals, the Department of Education has already drafted legislative language to ensure that need analysis and aid eligibility will not change as a result of the education tax cuts.

Authority to Write Regulations

Q: Who will have responsibility for writing the regulations to implement the HOPE Scholarship and tuition deduction propsoals?

A: The Department of Treasury will be primarily responsible for writing regulations concerning tax administration, and the Department of Education will be primarily responsible for writing regulations concerning the educational issues. There will be careful coordination between the two Departments.

Older or Dislocated Workers

Q: How will the deduction help older workers who lost jobs or want to learn new job skills?

A: Even if they are not pursuing a degree, they can enroll in courses and the cost will be tax-deductible. For example, they could take a course in computer programming or auto repair.

Courses for Hobbies vs. Courses for Career Development

Q: The President's tuition tax deduction proposal provides tax relief to those who pursue postsecondary education or training to improve their job skills. How is the IRS going to tell whether a course was for fun or for job improvement?

A: Our tax system is called a self-assessment system because there are many times where the IRS must rely on the judgement and honesty of taxpayers filling out tax returns. For example, taxpayers are required to distinguish between deductible business expenses and non-deductible personal expenses. Of course, the IRS will provide guidance to taxpayers on how to distinguish between a course that is for job training or skill enhancement and one that is simply for fun.

Felony Drug Conviction

Q: If a student has been convicted of a drug felony, may he/she claim the tuition deduction?

A: Yes.

GPA Requirement

Q: If a student does not have a B- average at the end of the second year for which he wants to claim a HOPE Scholarship credit, may he/she claim the tuition deduction instead?

A: Yes, but not the credit.

Half-Time Requirement

Q: If a student is enrolled in school less than half-time, may he/she claim either the deduction or credit?

A: The student may not claim the credit, but may claim the deduction if the courses are being taken to improve or acquire job skills.

Foreign Students Not Eligible for Credit or Deduction

Q: May foreign students claim the HOPE Scholarship or the tuition deduction?

A: No. To be eligible, a student must first meet the eligibility requirements for Federal student aid and must then also be a permanent resident of the United States.

Prevention of Multiple Claims for Same Student

Q: What prevents both the parent and the student from claiming the credit for the student's educational expenses?

A: If the parent is claiming the student as a dependent, only the parent is permitted to claim the credit or the deduction. Because the credit is no longer refundable, there is no incentive for a student to elect to be treated as independent.

Interaction of Credit and Deduction

Q: Can a student -- or the student's parents -- choose between the tuition credit and the tuition deduction?

A: Yes. A family can take either the credit or the deduction for tuition expenses incurred during a student's first two years of college. However, the family cannot take both for a single student in the same year.

Claiming the Credit and/or Deduction

Q: If a family has multiple dependent children enrolled in college, may the parents claim more than one tuition credit?

A: Yes. The family may claim a credit for the tuition expenses of each child in the first or second year of college. Alternatively, they may claim a deduction for their tuition expenses during those years if it produces a better tax benefit for the family. The deduction, but not the credit, is also available for tuition expenses after the second year of college. However, the largest tuition deduction a family may claim in any single year is $10,000 ($5,000 for 1997 and 1998), regardless of how many children they have enrolled in college.

New Tax Form For The Credit and Deduction

Q: Will taxpayers have to fill out a separate form to claim the tax credit or deduction? Tell us what the form will look like.

A: There will be a separate schedule to attach to the regular tax return.

Temporary vs. Permanent Tax Breaks

Q: Are these tax benefits permanent or temporary? Do any of these spending or tax provisions end just before the budget must be balanced?

A: No games. The tax credit and deduction are proposed to be permanent, as are the IRA changes and the public service provision. Section 127 (employer-paid educational assistance) is extended through 2000.

WORK-STUDY

Number of Work-Study Jobs Created in FY1998

Q: How many Work-Study slots can be funded at the FY98 funding level of $857 million?

A: We estimate that the FY98 funding level would provide about 973,000 work-study employment opportunities and would guarantee about $1 billion in student earnings..

View on Making Work-Study Earnings Non-Taxable

Q: What do you think of the Republican proposal of making Work-Study earnings nontaxable to students? Will the Administration support the Republican proposal?

A: None of the Republican ideas for higher education tax breaks are bad ideas. We are pleased that they agree on the need for some tax initiatives to support higher education, and look forward to working with both parties in Congress to determine the best way to target the benefits. Obviously, we feel that our plan is the best mix.

Requirement for Spending Increased Funding on Community Service Jobs

Q: Will colleges be *required* to spend a portion of their increased work-study funds on reading tutors for America Reads?

A: The response of college presidents to the President's challenge has been remarkable, so we don't expect to need to make it a requirement. The Secretary of Education has waived the required institutional match for reading tutors for pre K through elementary school children, which has helped to encourage colleges to sign on to the effort.

HONORS SCHOLARSHIPS

Means Test for Honors Scholarships

Q: Is the President's Honors Scholarships means-tested? And if not, why not?

A: The President's Honors Scholarships are not means-tested. This program provides a one-time, $1,000 scholarship to every high school senior finishing in the top five-percent of his or her graduating class. The purpose of this program is to encourage high academic performance among all students.

Honors vs. Byrd Scholarships

Q: How are the President's Honors Scholarships different from Byrd Scholarships?

A: Both the proposed Presidential Honors Scholarship program and the existing Robert Byrd Honors Scholarship program provide financial reward in recognition of the academic achievement of graduating high school students. Byrd Scholarships, which the Administration also supports, are not available to students at every high school in the country, go to a far more limited population, and are four-year academic scholarships.

Student Loan Forgiveness Proposal

Beneficiaries of The New Propsoal

Q: Whom do you expect to help with your proposals for student loan forgiveness?

A: We expect to help students who enter what may become a growing number of programs run by educational and charitable organization that essentially allow students to make their debt payments through work in low-paying public or community service jobs.

REPUBLICAN PROPOSALS

Republican vs. President's Packages

Q: How does the President's package compare to the Republican bill just introduced?

A: As far as the higher education components, the President's package is far more comprehensive. The President's tax proposals complement significant increases in Pell Grants and substantial reductions in borrower fees. So far, at least, Republicans have not proposed such increases in benefits for students receiving grants and loans. In addition, the President's proposals include many components that encourage lifelong learning and attempt to help not only traditional college students but also all other people who try to improve their job skills or acquire new skills.

Permanent vs. Temporary Extension of Section 127

Q: Republicans propose extending tax exclusion for employer-provided education assistance (Section 127) permanently. Why does the President extend it only through the year 2000?

A: Section 127 has frequently been extended for short periods, sometimes even retrospectively. Section 127 needs to be extended for a significant length of time so that employers and employees can count on the exclusion. The budget extends section 127 through the end of the year 2000. Further extension could be considered in advance of expiration and evaluated as part of development of future balanced budgets.

Bob Dole Education Investment Account

Q: The Bob Dole Education Investment Account proposal seems to aim at encouraging savings specifically for college education, whereas the President's expanded IRA proposal seems to encourage people to replace IRA savings with educational investments. Wouldn't it be better to encourage people to save for their retirement as well as for their children's college education?

A: You have to look at each package as a whole and then evaluate whose plan would be more effective in making college affordable to working families. We believe our package does the best job of helping the broadest class of students.

Deductibility of Student Loan Interest Payment

Q: Why doesn't the Administration support deductibility of student loan interest as do the Republicans and Democrats?

A: Again, there are a lot of ideas to consider. We will work with Congress to develop a healthy package of targeted tax cuts for higher education. We have provided a package that helps students while they are in school and allows them to reduce the debt they need to incur and leaves the cost of the loans they do take out.

Making Qualified State Tuition Programs Tax-Free

Q: What is the Administration's position on the Republicans' proposal to eliminate the income tax on distributions from qualified state tuition plans?

A: The Small Business Job Protection Act of 1996 made it clear that distributions from state tuition plans would be taxed as income to the student beneficiaries. In most cases students will not have sufficient income, even when the distributions are recognized, to have a significant tax liability. Furthermore, our proposals for the HOPE Scholarship and the tuition deduction would likely eliminate that tax liability. Because there are no income limits for qualified state tuition programs, if distributions were completely tax free when used not only for tuition but personal living expenses as well, wealthy families would be given a vehicle for deferring or avoiding tax entirely on large amounts of income.