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Bob - FYI. - Pete

A second criticism is that the tax proposals will encourage colleges to drive up tuition. But this criticism would seemingly apply to all Federal aid for higher education, and the evidence suggests that such aid has not had much effect on tuition costs. Postrel noted that college tuition rose rapidly in the 1980's, but she failed to recognize that inflation-adjusted Federal aid fell about 1 percent per year during that time. Conversely, during the latter half of the 1970's, real Federal aid rose while real tuition levels remained roughly flat. Furthermore, Postrel's argument would suggest that Georgia should have experienced rapid tuition increases since the Georgia Hope Scholarship was introduced in 1993. But since 1992, tuition costs at public 2-year community colleges in Georgia have risen less than in the nation as a whole.

Forbes

November 18, 1996

SECTION: ON THE COVER; Pg. 108

LENGTH: 2545 words

HEADLINE: Educonomics

BYLINE: By Susan Lee and Daniel Roth

HIGHLIGHT:
Because what they sell is such a good investment, colleges have gotten away with obscene price increases. Not much longer.

BODY:
THEY'VE DONE IT AGAIN. Colleges and universities ramped up tuition for this academic year by almost double the rate of inflation. Four years of room, board and tuition at a decent private liberal arts college now costs about $ 100,000.

But hold the outrage. The overall figure is hiding some amazing countertrends -- dozens and dozens of schools actually cut tuition this year. Yep, the market for higher education is beginning to show signs of competition.

"Students and parents are confronted with a huge variety of choices," says Gordon Davies, director of the Council of Higher Education for Virginia. "They are shopping around for the best deals. And it's going to become even more competitive."

Look at what's happening at North Carolina Wesleyan in Rocky Mount. Potential students were shunning this private liberal arts college to attend cheaper neighboring public colleges. "A lot of folks wonder if a small private college is worth the investment," says President John White. "Why shouldn't a parent send his or her kid to Virginia Commonwealth or East Carolina University if it's cheaper?"

And -- with the cost of higher education already a nightmare for middle-class families -- why not, indeed?

So this year North Carolina Wesleyan cut tuition for incoming students 23% and froze payments for returning students. Now, with tuition at $ 6,600 a year, Wesleyan is within about $ 2,000 of its public school competitors. (And the new, lower tariff bounced up enrollment by 40 students.)

North Carolina Wesleyan is not alone. Among the price-cutters are the University of Rochester in New York State, Pine Manor College in Chestnut Hill, Mass., Waldorf College in Forest City, Iowa and Muskingum College in New Concord, Ohio.

Some schools, like Bennington College in Vermont, have frozen tuition, while others, like prestigious Rice University in Houston, have limited increases to the rate of inflation for continuing students.

While a lot of the cutting comes from the generally pricier private schools, some state schools have also gotten into the spirit. Tuition at public colleges and universities is, of course, politically negotiated. Here, the downdraft in charges is the result of public pressure on state legislatures.

Massachusetts lowered tuition by 5% this year for its 24 schools; Virginia froze tuition at 39 schools through 1998; and all 23 California state schools are holding payments at 1994-95 levels. Other public institutions, like those in the state of Michigan, Washington and Pennsylvania, have limited increases to close to the rate of inflation.

Also notable, a few private and public schools, such as Arizona's three state universities, have started to reduce the cost of getting a degree indirectly by reducing the length of time it takes to get one. Bates College in Lewiston, Me. and the State University of New York at Brockport have started three-year degree programs. Cutting a year off degree time means both a smaller tuition bill and earlier entry into the work force.

Few things grow at high compound rates for very long periods of time. Medical care costs seemed to be an exception, growing at roughly twice the rate of inflation throughout the 1970s and 1980s and into the early 1990s. But just when people figured there was no slowing medical costs, in the last few years the darned thing suddenly ceased defying gravity.

A bit later, but just as inevitably, the same thing is happening with college education. Parents who have been paralyzed by sticker shock in the past are finally responding the way any strapped consumer would -- they are searching out lower-cost alternatives. And colleges are responding to this resistance the way any business would -- they are lowering prices and searching for ways to increase their employees' productivity.

These price breaks are coming after 15 years of sharply rising tuition costs. According to a GAO report, at public four-year colleges and universities, which enroll about two-thirds of all college students, tuition rose an astonishing 256% from 1980 to 1996, despite the fact that the Consumer Price Index logged only a 79% increase during the same period. At private schools the runup from 1980 to 1995 was 219%. If costs continue to grow at past rates, then parents having a child this year could expect to pay about $ 90,000 per year in tuition, room and board to send him or her to a private college.

Why were colleges and universities able to exercise what business people call pricing power at a time when businesses were finding it progressively harder to pass cost increases on to their customers?

In economic terms the answer is that higher education has been such a good investment. By all measures, and even after factoring in the compounding costs, a college degree pays off. In round numbers, a college diploma earns an annual return -- after accounting for inflation -- of 13% to 14% on its cost. That beats the long-run returns on stocks. It swamps the returns on bonds. It explains why your kid probably wouldn't be better off if she or he invested the college money and went directly to work after high school.

(Technical note: Returns are figured by comparing the present value of a college graduate's expected lifetime earnings to the present value of a high school graduate's earnings. The difference between them is then cast against

the present value of all the costs involved in getting a degree, including income not earned by going to college. This result is the return on the college degree's cost. As W. Lee Hansen, professor emeritus of economics at the University of Wisconsin at Madison, explains: "The return is a rough equivalent of the inverse of a price/earnings ratio." In other words, the potential yield from investing in a college education is akin to buying stocks when the market is trading at around 7.5 times earnings.)

As you would expect in an economy that has shifted rapidly toward depending more heavily on brainpower than on brawn, the return on a college degree is nearly at a record high. After slipping to single digits in the 1970s, returns on a college degree started going back up in the early 1980s.

Kevin Murphy, economics professor at the University of Chicago, found that in 1980 a college graduate earned about 43% more an hour than a worker with only a high school diploma. By 1994 that earnings advantage had ballooned to 73%. "The premium attached to a college degree may be as high as 75% to 80% now," says Murphy.

For women the earnings reward is even more dramatic. According to U.S.

Department of Education figures, college women earned 99% more than their high school counterparts. Forbes, November 18, 1996

Even at the most primitive level -- employment -- people who hold a college degree are better off. Rates of unemployment are three times higher for 25-to-29-year-olds with only a high school diploma than for those with a college education.

What's the magic? When he dropped out of Harvard, Bill Gates showed that lack of a sheepskin is no handicap for a smart and determined entrepreneur. By the same token, among Forbes' 200 Best Small Companies, one in five has a chief executive who didn't graduate from college.

But whatever the exceptional cases, the fact is that on average college graduates do earn more and nongraduates are more likely to end up in dead-end jobs. There aren't many parents willing to gamble their children's future on Bill Gates' example. Statistics say that a college education, no matter how costly, is a splendid investment. Even more when you think of college as a meeting place for future mates.

Not to put too fine a point on it, but the demand for places in the top 25 schools is so strong that many feel the proper question is: Why is tuition so low? These colleges have an enormous excess supply of students who not only can pay current charges, but also would cheerfully pay even more for a ritzy degree. Tuition at elite schools would have to rise a lot more before a

market-clearing price is reached.

All this helps explain why a college education has become so costly. Nevertheless, market forces have finally started to assert themselves. Why now? The answers lie in the weird financing structure of higher education.

First, the purchase of a higher degree involves an intergenerational transfer. While it is true that children reap a high return, and often bear some of the burden in the form of student loans, which must be serviced, it is their parents who normally bear the brunt of the investment. This financial burden, both in terms of absolute dollars and as a share of family budgets, has reached the breaking point.

The higher education issue is identical to the medical cost issue. The question is no longer: Is it a good investment? The question is becoming: Can we really afford it?

From 1980 to 1995, as tuition costs were streaking out of sight, median household income rose only 82%. For public colleges, tuition has risen almost three times more than household income. Tuition at private colleges and universities now takes almost twice the proportion of household income it did in 1980. No wonder the middle class is screaming: "Enough!"

Forbes, November 18, 1996

As Peter Likins, president of Lehigh University in Bethlehem, Pa., puts it: "Families realize that this is a good investment, but they don't have the money up front. Median family income is not growing fast enough to sustain the tuition hikes." (Lehigh has been reducing the growth rate of its tuition over the past two years, with an eye to keeping it within the rate of inflation.)

In Virginia, for example, tuition as a percent of per capital income went from 13% between 1969 and 1989 to 18% from 1991 to 1994. "We were losing touch with the ability of Virginians to pay for college tuition," says Gordon Davies.

With the continued deterioration of public elementary and secondary education, more and more parents sacrifice to send their kids to private schools. By the time the kids are ready to go to college, the family exchequer is looking pretty empty -- especially if the kids' grandparents suddenly need looking after.

Second, and probably just as important, the growing cross-subsidization among students is beginning to annoy parent investors. The spread of racial and gender quotas means that a larger portion of the student body must be subsidized to meet the diversity goals. Schools, in turn, are finding that money by intensifying their price discrimination -- charging more to those who can afford it, and using the surplus to pay for those who cannot.

Forbes, November 18, 1996

This kind of price discrimination, by the way, is perfectly rational; enterprises from airlines to museums do it. It's a way of maximizing revenue by catering to different demand elasticities -- charging different prices to customers who have different budgets and priorities.

But however rational it is for schools, the practice strikes parents whose kids receive little or no financial aid as unfair and discriminatory. They are being asked to make an investment in the children of others, and at a time when the cost of the investment is painfully high. "Parents of full-freight [paying] students are becoming aware that half the students are receiving subsidies," says David Breneman, dean of education at the University of Virginia in Charlottesville. "These parents are increasingly rebellious."

Many educators are seeking to quash the rebellion by making concessions to the rebels.

Why haven't prices fallen further? And faster?

The pressure on schools to reduce tuition is being met with a powerful opposing force -- raw need. Colleges and universities, public and private, have become increasingly dependent on tuition as a source of funds while state and federal aid, as a percentage of revenue, has declined. For public schools, Forbes, November 18, 1996

government aid per full-time student has shrunk from 66% of revenue in 1978 to 51% in 1993, while tuition climbed from 16% of revenue to almost 24% in that same period.

Meanwhile, costs per full-time student have been shooting up faster than the rate of inflation for the past two decades. The main engines of these costs have been faculty salaries and administration.

Some of the burgeoning expenditures are driven by increases in the costs of complying with federal regulations, such as the hazardous waste disposal laws, title IX of the Education Amendments of 1972 (which prohibits discrimination on the basis of sex, including collegiate sports for women) and the Americans with Disabilities Act of 1990.

Also, the diversity commitment has accelerated the cost of recruiting students, counseling them, providing remedial help and expanding financial aid programs. (There are more than 700 regulations governing student aid programs alone.)

These are the sorts of expenditures that are difficult to keep in hand.

The good news is that faculty salaries are pretty much under control. The mega-increases of the 1980s had flattened out by 1990, and salaries have been relatively stable since. Moreover, colleges are discovering that they can wring productivity increases from instruction. (See box, opposite.) A decade later than industry did it, and much more timidly, educators are starting a certain amount of downsizing and reengineering.

So what can parents expect as they seek ways to finance this high-return investment? Not total relief, but some easing of the pressures. The most significant price slashing will come from lesser-known private colleges and universities that are in direct competition with the vastly cheaper state schools. (Don't count on the brand names to follow suit, however; tuition cuts for the top tier will be decorous -- if at all.)

Generally speaking, college cost increases should slow to the inflation rate over the next decade. The winds of competition are howling, and not even those sturdy old redbrick buildings will be able to keep out the chill.

Reversing the trend . . .

School	Tuition '94-'95	'95-'96	'96-'97	% change
Pine Manor College, Massachusetts *	--	$ 15,650	$ 10,000	-36.10%
Muskingum College, Ohio	--	13,850	9,850	-28.88
University of Rochester, New York *	$ 17,840	13,730	--	-28.03
North Carolina Wesleyan	--	8,600	6,600	-23.26
College of New Rochelle, New York	--	12,200	11,000	-9.84
Waldorf College, Iowa	10,355	9,450	--	-8.74
University of Massachusetts schools (average)	--	2,040	1,938	-5.00
Massachusetts state colleges (average)	--	1,420	1,350	-4.93

* For in-state students only.
Sources: Forbes; National Association of Independent Colleges & Universities.

. . . or freezing it

School	Tuition '96-'97
Bennington College, Vermont *	$ 25,800

□ 3:00 mtg.

[redacted]

Bruce Reeves

Frank Holleman
Maureen
David
Mike Jenkins
Mike Thompson
— Clarissa & Cathy

Summers ?

- Portman Aflarcu
  - tax credit - still have to pay...
  - only fresh-soph - not jun. sen..
  - also not have to raise for most needy & high income.
  - political - where 75% of it
    (expensive

① Report Card
  - Insti certify that there was a GPA

W-2
1098 to IRS, copy to student

- To all students, every year

  - students have to request that it be provided ??

Gene
- Why deduction need reporting ?
  = above-the-line deduction

reduce admin burden ??
> Cost per-student - $1 - $6 20 ??

Increase??

> So now the IRS will be monitoring report cards?

A: below or above, not a GPA

ED → Russell Horowitz w/Gene

what abt schools w/o grades

Gene: → ED will work out a solution

2. Inflation of tuition?

Larry Summers: ①. This is inherent in any kind of scholarship, nothing new (we drat alignment indicated bec. of dir may raise)

Treasury

② • Colleges pricing influenced by the large # who pay by the cause - part-time; can't charge more

③ • Competition betw. colleges for students - marketing.

Gene • ~~Pts~~ state legislature, often - ~~but~~ not easy...

David • Col. Council: ed have a rise price for many who wdn't benefit (i.e. low income)....

• Tax credit - they do have a small effect initially...

(But

many need scholarship, part-time

(Peter Orszack - NBC)

3. Put teachers under pressure - grade inflation.
- Athlete scholarships?

③ Quiz some students. They have to think of the whole class...
- They don't know who's eligible -
→ applies who take credit

- We hope there is some ↑ in grades bec we want students to ach. at higher levels.

Profs don't know when it will or won't matter for which students.

(The draft - did happen)

① Ga. haven't seen a problem...

(AFT/NEA concerned their faculty will be under pressure)

② - Teachers have pressures to raise grades for all sorts of things -
- athletics
- getting into med school
Grades are sacred
→ fairness & equity in class, integrity in things is the driving force.
- No study shows auto insurance problem
Another pressure, but no reason to expect it will be a problem...

+ Good incentive for students to work hard...

4875

③ ~~Academic year~~ ~~[illegible]~~ vs tax year; and grades

④. why drop refundability

OMB

OMB

EO vs. Treasury

Mon

Ken - walk thru?

Riley - pep talk

622-0170

* Mark Avery - IRA

Treasury - Thompson's

employee benefits

Sec 127

DEATH NOTICES

PESCE, ANNA L.
On Friday, March 21, 1997, ANNA L. PESCE, of Columbia, MD, beloved wife of the late John A. Pesce, mother of JoAnn M. Soporowski, Dennis C. Pesce and Frank J. Pesce; sister of Mary Seria and the late Louis Luisi and Anthony Luisi; mother in law of Raymond, Deborah and Dorothy, grandmother of Jennifer, Ray, Anthony, Nathan, Jonathan, John and Diana. Relatives and friends may call at COLLINS FUNERAL HOME, 500 University Blvd. West, Silver Spring, MD, Monday 2 to 4 and 7 to 9 p.m. Mass of Christian Burial at Holy Redeemer Catholic Church, Summit Avenue and Cable Drive, Kensington, MD, Tuesday, March 25, 1997 at 9:30 a.m. Entombment Gate of Heaven Cemetery

PHILLIPS, WILMA W.
On Friday, March 21, 1997 of Annapolis, MD. Beloved wife of the late John W. Phillips; mother of Deborah Sugar and Michael Weeks, stepmother of Wayne Bruce Philips, Sr., Lawrence Anthony and Alan Brian Phillips, grandmother of Nichole and Kristin Sugar. Relatives and friends may call at the EVANS FUNERAL HOME, Inc. on Monday 2 to 4 and 7 to 9 p.m. where services will be held on Tuesday, March 25 at 1 p.m. Interment private. In lieu of flowers memorial contributions may be made to the American Cancer Society, 1041 Route 3 North, Gambrills, MD 21054

PICKERALL, RUSSELL H.
On Thursday, March 20, 1997, Russell H. Pickerall beloved husband of C. Susan Pickerall; father of Sari C. Pickerall, brother of Mary E. and Marjorie E. Eckard. Friends may call at THE GEORGE P. KALAS FUNERAL HOME, 6160 Oxon Hill Rd, Oxon Hill, Md., on Tuesday from 2-4 & 7-9 p.m., where services will be held on Wednesday, March 26 at 9 a.m. Interment Maryland Veterans Cemetery, Cheltenham, Md

PILSON, VERA E.
On Friday, March 21, 1997 of Arlington, VA. Loving wife of Thomas Alfred Pilson, Sr.; mother of Mary Lou Johnson of McLean, VA, Thomas Alfred Pilson, Jr. Of Potomac, MD and Barbara Snyder of Seattle, WA. She is also survived by six grandchildren and two great grandchildren. Graveside services will be held at 2 p.m. on Monday, March 24 at Columbia Gardens Cemetery. Friends may assemble at the cemetery office at 1:45 p.m. A memorial service will be held at 2:00 p.m. on Saturday, March 29 at the Foundry United Methodist Church, 16th & P Sts. NW, Washington, DC. Contributions may be made to Asbury College Wilmore, KY 40390. Arrangements by MURPHY'S FUNERAL HOME of Arlington.

PRAGER, LESLIE KAREN
On Friday, March 21, 1997, LESLIE KAREN PRAGER, of Bowie, MD, beloved wife of John Prager, devoted mother of Lauren and Adam Prager; dear daughter of Steven and Lillian Landis. Services at DANZANSKY-GOLDBERG MEMORIAL CHAPELS, 1170 Rockville Pike, Rockville, MD on Monday, March 24 at 1 p.m. Interment Mt. Lebanon Cemetery, Adelphi, MD. The family will be in mourning at the residence of John Prager through Wednesday evening. Expressions of sympathy in her memory may be made to the American Cancer Society or SPCA, Bowie Chapter.

PRESTER, IRENE
On Wednesday, March 19, 1997, devoted mother of Queen E. Minor, Ernestine Foreman, Darlene L. Downing, Valiean A. Battles and Edward Priester, sister of Willie Richardson, of Saluda, South Carolina, sister-in-law of Lucille Harris of Ohio. She is also survived by thirty-five grandchildren, many great-grandchildren, a host of other relatives and friends. The late Mrs. Prester will lie in state at The Kingdom Hall of Jehovah's Witnesses, 1206 Doewood Lane, Beaver Heights, Md. Monday, March 24, 10 a.m. until 12 noon. Internment Harmony Memorial Park. Services by STEWART.

RAND, NEWELL S., JR., PGK, FDD
Members of St. Columcille Council #5317 are asked to assemble for Rosary on Monday, March 24, 2:30 p.m., Lee Funeral Home, Clinton.
Donald M. Horan, G.K.
Paul R. Hoffman, F.S.

RAND, NEWELL S., JR. Commander,
Maryland National Capitol Park Police
Prince George County Division.
Suddenly on Wednesday March 19, 1997 of Ft Washington, MD, the loving husband of Donna M. Rand, devoted father and protector of Newell D. and Deanna M., Christopher S. and Donna J. Rand. Doting grand dad of Ethan Davis and Taylor Rae Rand. He is also survived by his extended family THE MARYLAND NATIONAL CAPITOL PARK POLICE, a brother and a sister. Friends may call at the LEE FUNERAL HOME, Branch Avenue and Coventry Way, Clinton, MD on Monday from 2 p.m. to 4 p.m. and 6 p.m. to 8 p.m. Mass of Resurrection will be celebrated on Tuesday March 25 at 10 a.m. in St. Bernard's Roman Catholic Church, 5700 St. Bernard Drive, Riverdale, MD 20737. Committal Services will be held at Ft. Lincoln Cemetary. Interment will take place on Saturday March 29 at Edgecombe Memorial Park Cemetary, Tarboro, North Carolina. Memorial contributions may be made in his memory to Park Community Volunteer Academy Alumni Association (PCVAAA), 6700 Riverdale Rd, Riverdale, MD 20737.

RIDDLEBERGER, HARRISON HOLT
August 1919 - March 1997
Of Silver Spring, MD; husband of Margaret L. Riddleberger; father of Victoria Brooks Winter and Pamela Heath Sandler; brother of Lucy Burke and Stephen Riddleberger; grandfather of Amy Elizabeth Winter and Kristen Brooks Sandler. Services and interment private.

ROBEY, EARL COURTNEY
On Friday, March 21, 1997, of

DEATH NOTICES

STRICKLAND, CATHERINE P.
On Thursday, March 20, 1997, CATHERINE P. STRICKLAND of Washington, DC. Beloved wife of the late Lt. Col. Harold H. Strickland, USAF. She is survived by her nephew Daniel A. Murphy and her great niece Burgess M. McSwain, both of Chapel Hill, NC, her sister-in-law Ursula H. Pearson of Alexandria, VA. Friends may call at JOSEPH GAWLER'S SONS, Inc., 5130 Wisconsin Avenue at Harrison Street, NW on Tuesday from 6 to 8 p.m. Funeral Liturgy will be offered at the Church of the Epiphany, 2712 Dumbarton Street, NW Washington, DC on Wednesday, March 26th at 12:30 p.m. Graveside services will follow at 2 p.m. at the Arlington National Cemetery.

SUTHERLAND, DONALD NORMAN
On March 21, 1997 of Frederick, MD. DONALD NORMAN SUTHERLAND, beloved husband of F. Nita Williams Sutherland; father of Elizabeth, Geoffrey and Alan Sutherland and his wife Kate; brother of Alexander Sutherland. Also survived by three grandchildren, Dane, Kara and Kaitlyn Sutherland. Funeral services will be held on Monday, March 24 at 1 p.m. from the KEENEY & BASFORD FUNERAL HOME, 106 East Church Street, Frederick MD. Interment will be private. In lieu of flowers memorial contributions may be made to a charity of your choice.

SWANDIC, BERNARD J.
On Thursday, March 20, 1997 BERNARD J. SWANDIC of Derwood, MD. Husband of the late Nazaretta M. Swandic; father of James R. Swandic of Silver Spring, MD, Lawrence J. Swandic of Orofino, ID, Sandra L. Swandic of Chesapeake Beach, MD and Nancy A. Swandic of Derwood, MD; brother of John F. Swandick of Moutaintop, PA; grandfather of Alexander J. Swandic of Orofino, ID. A memorial mass will be offered at St. Francis of Assisi Catholic Church, 6701 Muncaster Mill Rd, Derwood, MD 20855 on Wednesday, March 26 at 1:30 p.m. In lieu of flowers memorial contributions maybe made to St. Francis of Assisi Catholic Church at the above address. Arrangements by DEVOL FUNERAL HOME Gaithersburg, MD

SWANDIC, BERNARD J.
Members of Montgomery Council are hereby notified of the death of H.L. Member, BERNARD J. SWANDIC. Memorial mass, St. Francis of Assisi Church, Derwood, MD. Wednesday, March 26, 1:30 p.m.
Joe Berdini, G.K.
Pat Cribbin, F.S.

THOMAS, CHARLES WALLACE (Age 68)
On Wednesday, March 19, 1997, at Potomac Hospital, of Triangle, VA, son of the late Lula Thomas; brother of Leanna Thomas Mathew. Also survived by a devoted companion, Hilda Howard, nieces, nephews, relatives and friends. Friends will be received from 7 to 9 p.m., Monday, March 24, 1997 at the Little Union Baptist Church, 17018 Mine Road, Dumfries, VA where service will be conducted 12 noon, Tuesday, March 25, 1997. Pastor Leonard Lacey, officiating. Interment Glen Haven Memory Gardens, Falmouth, VA. Arrangements by AMES FUNERAL HOME, Manassas, VA.

THOMAS, WILLIAM III (B.T.)
On March 18, 1997 of Capitol Heights, MD Loving son of Rev. William and Rosa Thomas. Beloved brother of Sharon Thomas; Grandson of Robert and Amelia Harrison and Ophelia Thomas. Also survived by an uncle, Tallie Thomas; two aunts, Bert Thomas and Shirley Romeo, a devoted niece, Kia Nicole Hutchison and many other relatives and friends. Visitation 4 p.m. to 8 p.m. Sunday, March 23, at J. B. Jenkins Funeral Home, 7474 Landover Rd. and services will be held 11 a.m. Monday at Antioch Baptist Church, 13205 Old Marlboro Pike, Upper Marlboro, MD 20772. Interment Harmony Memorial Park. In lieu of flowers contributions may be made to Antioch Baptist Church Scholarship Fund in memory of William Thomas III.

THOMPSON-WILLIAMS, FLORENCE E
On Wednesday, March 19, 1997, beloved wife of Charles Williams, Sr.; devoted mother of Francine Dease, Valerie McGhee, Charles Jr. and Maurice Williams. She is also survived by seven grandchildren; four sisters, two brothers, a host of other relatives and friends. Visitation on Tuesday, March 25, from 10 a.m. until time of funeral service at 11 a.m. at Greater Fellowship Missionary Baptist Church, 814 Alabama Avenue, SE. Pastor Carey E. Pointer, Jr., officiating. Interment Lincoln Memorial Cemetery. Arrangements by JOHNSON & JENKINS

THURMAN, MILDRED M. "MILLIE" (85)
On Wednesday, March 19, 1997 of Washington, DC at the Carroll Manor Nursing Home. Beloved wife of the late John T. Thurman; mother of Eric C. Clark; mother-in-law of Francine Cox, Theresa Clark, and Tracy Tucker; grandmother of Erica Clark, Bryant "TJ" Clark, Kimberly Clark, DeAna Cox, James Cox and a host of nieces, nephews, other relatives and friends. Visitation on Tuesday, March 25, 10 a.m. at Rock Creek Baptist Church, 4201 8th St. NW, where homegoing service will follow at 11 a.m., Rev. Jeffrey L. Mitchell, Pastor. Interment Maryland National Memorial Park, Laurel, MD. Arrangements entrusted to MODERN FUNERAL HOME

TRICE, ANNA M.
On Monday, March 17, 1997; mother of Cornelius, Katie and Eula Knolton; Arthur and Daisy Trice, Joann Rollings, Barbara Jones and Cecelia Payne, sister of Eula Jenkins, 14 grandchildren; three great-grandchildren; a host of other relatives and friends. Visitation Monday, March 24, 10 a.m. to time of service, 11 a.m., at The Mount Joy Baptist Church, 514 4th St., SE. Interment Washington National Cemetery. Arrangements by HORTON'S

TUSING, DOROTHY S. (DOTTIE)

Gore Touts Tax Relief Plan for College Tuition

By Mike Allen
Washington Post Staff Writer

The tax relief for families of college students that President Clinton touts as a GI Bill for the 21st century is being greeted skeptically by some parents in the Washington suburbs, who say it would provide only a little help with a huge headache.

Vice President Gore breezed into an Arlington high school last week to take part in a made-for-TV discussion of the president's plan. He listened to the college-tuition fears of one family and plugged the Clinton proposal, which is designed to make college as common an experience in the future as high school is today.

"As millions of students head for spring break, the rest of us should get to work giving America's students a real break—tax cuts to pay for college," Gore said.

In later interviews, several Virginia and Maryland parents said they'll take any help they can get but wonder how big a break this really would be. And some echoed the concerns about logistics that have been raised by economists and educators.

Marcia Malloy, of Arlington, who will have two daughters in college next year, said she would appreciate either the $1,500 tax credit or the $10,000 tax deduction that the administration is asking Congress to pass—but needs a lot more.

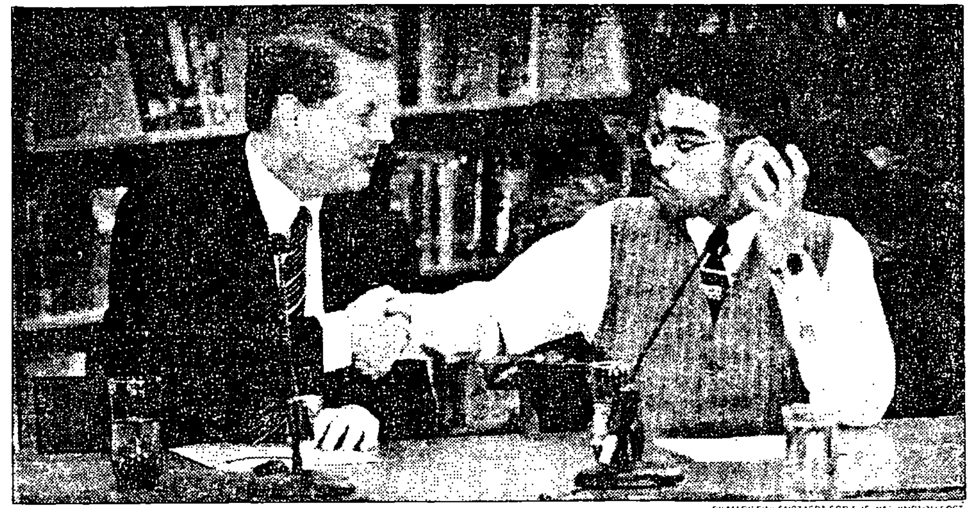
"We kind of look at sending a student through college as a giant puzzle," she told Gore. "My husband does wedding photography on the side. I teach art lessons. Our children are out working. Having this piece would also be another very helpful piece."

The Malloys have five daughters, ages 5 to 20, and have saved especially for what they call "the overlap years" when two are in college at once.

Christine Malloy, 17, is a senior at Washington-Lee High School and plans to attend college this fall to study business or art.

"It's a lot of pressure," she said. "We know how much our parents are saving, and we don't want it to be like that. It's really great to have this help."

Most benefits of the Clinton plan would go to families making $35,000 to $80,000 a year. Secretary of Education Richard W. Riley, who accompanied Gore, called them "the educationally poor"—too well-off for most grants but unable to afford tuition.



BY MARK FINKENSTAEDT FOR THE WASHINGTON POST

Vice President Gore shakes hands with senior David Hernandez at Washington-Lee High School in Arlington.

One option in the Clinton plan would enable a family to subtract as much as $1,500 from its tax bill to help pay for the first year of college. The family could take the tax credit again in the second year if the student earned at least a B-minus average. The tax credit, modeled on Georgia's Hope Scholarship, is designed to cover the cost of a typical community college.

As another option, a family could deduct tuition costs of as much as $10,000 a year from its taxable income for each student in college. This tax deduction gets progressively smaller as a family's income rises above $80,000 and is eliminated for families with incomes of more than $100,000. Eligible families would have to choose the tax credit or the tax deduction, not both.

Rich Crowley, the director of student services at Robinson Secondary School in Fairfax County, said he is very enthusiastic about the package.

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Gore described the package as a latter-day version of the GI Bill, which financed college for World War II veterans. "Generation after generation of Americans have relied on education, and especially college education, as their ladder to a better life," Gore said. "The [president's] Hope Act of 1997 provides that ladder for anyone who's willing to climb it."

A spokeswoman for the Department of Education said most response to the plan has been favorable, and the administration released a list of more than 250 college presidents who have endorsed the ideas.

But some Washington area families interviewed last week say they worry about potential flaws.

Tom Schick, of Rockville, has a son who graduated from the University of Michigan in December, a son who is a freshman at Michigan and a daughter who is a junior at Walter Johnson High School in Montgomery County.

"I can see colleges saying, 'Oh, goody! We can raise tuition' " as a result of the financial help for parents, Schick said.

Schick also seconded Republican lawmakers' objections that requiring a B-minus average for the second year of the tax credit could lead to grade inflation. "It's going to put a lot of pressure on people who are teaching freshmen not to give out C's," he said. "You're going to have hardship pleas from students: 'If I get one more C, I won't be eligible for the tax credit next year.' "

Lucie Campbell, of Potomac, likes the idea of giving every child a chance but pointed out that many families in the Washington suburbs earn too much to be eligible for most of the benefits. Echoing criticisms by Republican leaders, she also wonders how efficiently the government will coordinate all those tax and college records.

And the plan goes only so far, she says. Campbell just put a son through Duke University and has a daughter who is a freshman at Cornell University and a son who is a freshman at Winston Churchill High School in Montgomery County.

"It'd take a lot of tax credits to pay for that," she said.

Gore Touts Tax Relief Plan for College Tuition

By Mike Allen
Washington Post Staff Writer

BY MARK FINKENSTAEDT FOR THE WASHINGTON POST
Vice President Gore shakes hands with senior David Hernandez at Washington-Lee High School in Arlington.

The tax relief for families of college students that President Clinton touts as a GI Bill for the 21st century is being greeted skeptically by some parents in the Washington suburbs, who say it would provide only a little help with a huge headache.

Vice President Gore breezed into an Arlington high school last week to take part in a made-for-TV discussion of the president's plan. He listened to the college-tuition fears of one family and plugged the Clinton proposal, which is designed to make college as common an experience in the future as high school is today.

"As millions of students head for spring break, the rest of us should get to work giving America's students a real break—tax cuts to pay for college," Gore said.

In later interviews, several Virginia and Maryland parents said they'll take any help they can get but wonder how big a break this really would be. And some echoed the concerns about logistics that have been raised by economists and educators.

Marcia Malloy, of Arlington, who will have two daughters in college next year, said she would appreciate either the $1,500 tax credit or the $10,000 tax deduction that the administration is asking Congress to pass—but needs a lot more.

"We kind of look at sending a student through college as a giant puzzle," she told Gore. "My husband does wedding photography on the side. I teach art lessons. Our children are out working. Having this piece would also be another very helpful piece."

The Malloys have five daughters, ages 5 to 20, and have saved especially for what they call "the overlap years" when two are in college at once.

Christine Malloy, 17, is a senior at Washington-Lee High School and plans to attend college this fall to study business or art.

"It's a lot of pressure," she said. "We know how much our parents are saving, and we don't want it to be like that. It's really great to have this help."

Most benefits of the Clinton plan would go to families making $35,000 to $80,000 a year. Secretary of Education Richard W. Riley, who accompanied Gore, called them "the educationally poor"—too well-off for most grants but unable to afford tuition.

One option in the Clinton plan would enable a family to subtract as much as $1,500 from its tax bill to help pay for the first year of college. The family could take the tax credit again in the second year if the student earned at least a B-minus average. The tax credit, modeled on Georgia's Hope Scholarship, is designed to cover the cost of a typical community college.

As another option, a family could deduct tuition costs of as much as $10,000 a year from its taxable income for each student in college. This tax deduction gets progressively smaller as a family's income rises above $80,000 and is eliminated for families with incomes of more than $100,000. Eligible families would have to choose the tax credit or the tax deduction, not both.

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American Association of State Colleges and Universities

One Dupont Circle • Suite 700 • Washington, DC 20036-1192 • phone 202/293-7070 • fax 202/296-5819

April 7, 1997

COPY

The Honorable Mitch McConnell
United States Senate
Washington, D.C. 20510

Dear Senator McConnell:

This letter is in response to your letter of March 14, 1997, in which you pose a number of important questions regarding proposed education-related tax initiatives. I am enclosing a copy of my March 14, 1997 testimony before the Senate Committee on Labor and Human Resources for your additional information. The testimony provides a detailed presentation of our views regarding possible applications of the tax code in support of higher education, and includes our specific analysis of the Administration's proposed initiatives.

Allow me to address your questions in sequence.

I. While the President's proposals focus primarily on relieving tuition costs, do you find that your students would benefit more from tax reforms applicable to full college costs such as deductions for student loan interest or the exclusion of work-study from federal income tax?

We believe that a comprehensive tax strategy, one that should include both of the items you mention, would be the most appropriate alternative to pending proposals. Such a package would consist of elements included in S.1, plus a tuition assistance program similar to the Hope tax credit plan. The only element of S. 1 that we would propose altering is that the deductibility of student loan interest should not be subject to any time limitations. The cost associated with such a modification will be relatively limited, because the amount of interest payments after 60 months of repayment will most often be small. However, the proposal would become much simpler for taxpayers, lenders, and the Internal Revenue Service to administer.

The addition of a tuition assistance program similar in concept to Hope tax credits would go a long way toward assisting our citizens in gaining access to college. But we would urge modifications to the specific details of Hope tax credits that would correct some of its weaknesses. As we explain in detail in the attached testimony, a properly configured tax credit would be refundable, would not offset against other need-based federal grants, and would not be tied to any specific Grade Point Average.

II. You refer to the article authored by Messrs. Reischauer and Gladieux, and their critique of the Administration's proposal. You then pose three related questions:

a) Whether we share the views expressed in that article?

Yes, in general we tend to agree with much of the substance of the critique in question. There are, however, differences that I should clarify. First and foremost, we do believe that using the tax code is an appropriate means of federal assistance for college access. As suggested to the response to your first question, we also believe that it is possible to modify the proposed Hope initiative in ways that would remedy its questionable features, particularly in connection with targeting needy families. In addition, we are still attempting to determine the impact of these proposals, especially regarding allegations of tuition and grade inflation.

b) Whether we are concerned about educational quality in light of the "new relationship between the IRS and college professors"?

Yes, we are indeed concerned about linking eligibility for tax benefits to college grades. Such a linkage intrudes on academic autonomy, and, contrary to the presumed intention of promoting merit, would induce students to opt for less challenging work in order to preserve their eligibility for aid.

We are also gravely concerned about the new administrative relationships imposed on both schools and the IRS as a result of this linkage. While schools have proven willing to undertake enormous regulatory and compliance burdens for the sake of their students, the grade verification mandate will bring the federal government's auditors and program reviewers into the academic offices of institutions. We believe the most proper standardCone that would avoid the complexities of grade requirementsCis the Asatisfactory progress@ standard currently in use.

c) Would we act at cross-purposes for low-income families if we increase Pell grants but implement tax reforms that promote tuition increases?

Clearly, if the tax proposals do cause tuition levels to increase, the answer would be yes. As noted above, however, we are not convinced that this would be the case. Even more significantly, even if those who have expressed this concern prove to be right, inflationary consequences are not necessarily a feature of all tax proposals. We believe that the outright substitution of student loan deductibility for deductibility of tuition, and a Hope plan modified along the lines described above would not place the inflationary pressures on tuition that some have ascribed to the Administration's proposals.

III. a) What other tax incentives are available in current law?

Under current law, the tax code allows for exclusion of interest from qualified U.S. savings bonds for payment of qualified educational expenses. The savings bonds would qualify if they were acquired after December 31, 1989, by taxpayers over 24 years of age. The interest exclusion is currently phased out for taxpayers with modified adjusted gross income (AGI) between 49,450 and $64,450 in the case of single filers; and $74,200 and $104,200 in the case of joint filers.

In addition, under very limited circumstances, educational expenses would be tax deductible for taxpayers who itemize, and for whom miscellaneous itemized deductions exceed 2 percent of AGI. For educational expenses to be eligible, however, the education must maintain or improve the taxpayer's skills required by the taxpayer's job, by the employer, or by a law or regulation for the individual to retain his or her current employment.

Finally, Section 127 of the tax code provides for exclusion from income of up to $5,250 of employer-provided educational assistance. But this provision will expire in 1997, and is limited only to undergraduate education.

b) Are we aware of any state-sponsored programs?

The state role in this connection has been generally limited to state pre-paid tuition plans. The specific configurations of the various plans in different states differ enormously, and have not, to our knowledge, been catalogued comprehensively. S.1 does take an important step in the right direction on the federal government's side, i.e., that of exempting income derived by such plans from taxes.

I hope you will find these responses useful to your deliberations regarding possible uses of the tax code. We stand ready to work with you in taking the steps needed to empower all of citizens to participate in postsecondary education.

Sincerely,

James B. Appleberry
President

Riley Defends Tax Proposals Against Senate Volley

Senate lawmakers and Education Secretary Richard Riley agreed yesterday that access to higher education must be improved, but they differed over which path to take: tax breaks or more need-based grants.

Rifts over President Clinton's higher education tax incentives were clear Thursday as the Senate Labor and Human Resources Committee held its first Washington, D.C., hearing on reauthorizing the Higher Education Act (HEA).

HEA Reauthorization

"Although these tax issues fall outside the purview of this committee, their interaction with ongoing federal initiatives must be carefully gauged," said committee Chairman James Jeffords, R-Vt.

Not Enough For The Needy

Sen. Tim Hutchinson, R-Ark., came out swinging against Clinton's tax proposals. "My community college presidents feel very strongly that you provide an incentive for colleges to increase tuition and you do not help needy students," he said.

Clinton is proposing a $1,500 nonrefundable tax credit, called Hope Scholarships, and a $10,000 annual tax deduction for postsecondary education expenses; both would aid mostly middle-income families.

For low-income students, he is requesting a maximum Pell Grant of $3,000 for fiscal 1998, up from $2,700 this year. Pell Grant recipients would be ineligible for the Hope Scholarships.

No HEA Proposal

Riley laid out Clinton's plan for student aid on three fronts: next year's funding, HEA reauthorization, and Clinton's tax plans. While the president already has been lobbying for his tax cuts, Riley said the department may have an HEA proposal ready within a couple of weeks.

"Under HEA, we still have an unfinished agenda," he said. "We will identify priorities and suggest targeted program reforms rather than a wish list of new programs."

Riley did say the department's plan would continue both the Family Education Loan and Direct Student Loan programs. He also said ED is looking into combining the three main graduate fellowship programs into one.

In defending Clinton's tax proposals, Riley argued that they would improve college retention, help more graduate students finish their degrees and even reduce student loan borrowing by providing a reliable source of postsecondary education funding.

Riley said the $1,500 tax credits would provide $18.6 billion to students over the next five years, helping 4.2 million students in 1998. He added that families could save $17.6 billion over five years by taking advantage of the $10,000 tax deduction.

Sen. Michael Enzi, R-Wyo., worried about what he called the "entitlement" nature of ED's higher education proposals, because they would guarantee benefits to all who are eligible. "Entitled benefits lose value because you expect them and you don't have to work for them," he said, adding that "the tax credits would more than double mandatory expenditures."

The committee plans further HEA hearings on March 14 and March 20. The House Oversight and Investigations Subcommittee may hold hearings on ED's management of the Direct Student Loan program. —Rebecca S. Weiner

House To Move Quickly On Voc Rehab Changes

House Republicans are planning changes to the vocational rehabilitation law for disabled adults, just as the Clinton administration says the existing system is working well.

"State VR agencies need to be more responsive to consumer choices, and they need to be judged by real definable outcomes," Rep. Buck McKeon, chairman of the House Postsecondary Education, Training and Life-Long Learning Subcommittee, said during a hearing yesterday.

Judith Heumann, the Education Department's assistant secretary for special education and rehabilitative services, cited a jump in the proportion of participants finding work, and a

(more)

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House Committee Peppers Clinton Plans With Doubt

Both Republican and Democratic members of the House education committee yesterday voiced objections to key parts of President Clinton's education agenda.

The GOP hammered his requests for more federal spending on school construction and middle-income tax breaks for postsecondary education, while Democrats raised concerns that poor districts would be demoralized by new national tests and low-income students are being passed over by the tax plan.

Education Secretary Richard Riley defended the administration's proposals before a critical but not hostile House Education and the Workforce Committee.

Davis-Bacon Building Block

Republicans complained that Clinton's school construction initiative would costs states and localities more than the federal aid would be worth.

Although the president wants to spend $5 billion over four years to subsidize half the interest costs borne by states and localities, projects funded by the initiative would have to follow federal prevailing wage law, which mandate paying the local standard for building projects.

Riley steadfastly said that law, the Davis-Bacon Act, would apply.

But in an interview after the hearing, committee Chairman Bill Goodling, R-Pa., said that could doom the initiative. "We have to reform Davis-Bacon or else the construction proposal won't go very far," said Goodling, who has voiced doubts about the proposal before (ED, Feb. 7).

(more on p. 3)

In This Issue

Special Education Chiefs Document Setaside Benefits

State special education officials fighting to retain their portion of federal grants are armed with new data on how they are spending the money.

IDEA Reauthorization

At least 32 states already send more than 75 percent of their Individuals with Disabilities Education Act (IDEA) grants to local schools, the minimum the law sets, according to the National Association of State Directors of Special Education (NASDSE). The rest keep the full 25 percent allowable at the state level.

Among the 47 states surveyed in January and February, Southerners were the leaders in retaining little at the state level: North Carolina sends 95 percent to local districts, South Carolina, 94 percent; and Virginia, 92 percent.

Nationally, 82 percent of federal funding went

(more on p. 2)

Special Education Chiefs Document Setaside Benefits (Cont.)

to local schools in fiscal 1995, or $1.64 billion of the $2 billion state grants total, NASDSE found.

Under current law, states may use 5 percent of their IDEA grants for administration, and 20 percent for services to students, parents, and local school districts.

But House GOP lawmakers have introduced an IDEA bill, H.R. 5, that would cut the state setaside to 10 percent, and lift the local schools share to 90 percent. A Senate GOP bill, S. 216, would leave it intact. Both chambers considered the same plans last year (ED, April 25, 1996).

A forthcoming House GOP plan to amend the nation's vocational education law may mandate a similar revision, forcing states to send more money to local entities (ED, Feb. 26).

NASDSE's central argument is that states their portion of IDEA funding to good use.

Most of the money the 47 states retained in fiscal 1995—$248 million—went for "direct and support services," NASDSE says. That included statewide resource centers, local staff development and offsetting local placement costs.

"Any reduction in the setaside for direct and support activities would seriously disrupt the implementation" of IDEA, said a summary of NASDSE's survey.

More Demands Coming

NASDSE also contends that cutting into the 5 percent IDEA allocation for state administrative costs would be "devastating."

H.R. 5 and S. 216 would add new state responsibilities under IDEA that could drive up the costs. That includes a proposal for states to set goals for their special education programs and measure the progress, and to offer mediation to parents and schools fighting over services (ED, March 3).

Other Voices

On the other side of the setaside battle is the American Association of School Administrators (AASA) (ED, Feb. 24). In a December 1996 memo, AASA said the state and local division of federal cash should be cut to a "more equitable ratio, ideally a 1 percent, 99 percent split."

Bruce Hunter, AASA's government relations director, recently said a Senate Republican drive to increase special education funding by $10 billion over seven years would increase state funding by $2.5 billion, providing an unwarranted windfall.

House and Senate action on IDEA is on hold while a bipartisan group headed by the Senate majority leader's staff tries to craft a single bill that can pass both chambers quickly. The panel, which has been meeting in closed-door sessions over the past three weeks, is scheduled to meet again today.

A summary of the survey is free from Myrna Mandlawitz, Government Affairs Director, National Association of State Directors of Special Education, King St. Station I, 1800 Diagonal Rd., Suite 320, Alexandria, Va., 22314, (703)519-3800. —William J. Cahir

Resources

▪ "Curriculum Quality Standards for School-To-Work: A Guidebook" provides standards and indicators to evaluate school-to-work curriculum materials for content, instructional strategies and student assessment. The book is $9.50 from National Center for Research in Vocational Education, Materials Distribution Service, Western Illinois University, 46 Horrabin Hall, Macomb, Ill. 61455, (800)637-7652. Cite report MDS-955.

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House Panel Peppers Clinton Plans With Doubt (Cont. from p. 1)

ED is still drafting the legislation, but Riley said it would likely parcel out half of the construction funds to the largest 100 urban areas and the rest to states.

Opportunity To Learn

In discussing Clinton's plan for voluntary national tests, Democrats replayed the concerns debated during the formation of the Goals 2000 program that low-income students be ensured an opportunity to learn.

Democratic Reps. Patsy Mink of Hawaii and George Miller of California said they feared that low scores on tests in fourth-grade reading and eighth-grade math would not be accompanied by more federal aid for struggling urban school districts.

"It is pointless to print out school-by-school scores if we don't give schools the resources," said Mink. "It is demoralizing. These schools know the system does not give them the assistance they need, and by having standards and assessments without providing the tools [to improve] you just exacerbate the predicament."

But Riley said poor test scores would mobilize parents to pressure state and local governments to spend more money, which is where about 93 percent of education funding comes from in the first place.

C Is Good Enough

Legislators from both sides of the aisle opposed the administration's plans for postsecondary tax breaks.

Clinton's Hope Scholarship, a $1,500, nonrefundable tax credit for each of the first two years of postsecondary education, would require students to maintain a B average to maintain eligibility (ED, Feb. 26).

Lawmakers said that standard was too high, repeating concerns it would cause grade inflation. "If the federal government ties the money to a B, a B will mean nothing," said Rep. Lindsey Graham, R-S.C. "There is nothing wrong with making a C if you are trying hard."

Rep. Dale Kildee, D-Mich., said the benefit should be based on the student making satisfactory academic progress, a requirement already in place for other student aid programs. Riley said he was open to suggestions and countered that the administration wants to focus its spending on serious students. He added that Clinton's plan for a $10,000 tax deduction for college expenses would not have a grade requirement.

Who Wins?

Kildee, the ranking Democrat on the House's higher education subcommittee, complained Clinton's proposals left out low-income students, a sentiment echoed by Michigan Republican Joe Knollenberg.

"There are $35 billion in tax cuts for middle-income people, but less than $8 billion in aid for the lower rung of the income ladder," Kildee said. He added that students should be eligible for both the tax credit and Pell Grants, while Clinton's plan would offer them only one (ED, Jan. 23)

Riley pointed out that Clinton proposed increasing the maximum Pell Grant by $300, to $3,000, and expanding eligibility for it, as well as boosting the college Work-Study and cutting student loan-origination fees.

And, Riley said, the Hope Scholarship was designed as a middle-class tax cut for those squeezed by falling wages and rising tuition.

Today, the House Oversight and Investigations Subcommittee plans to look at wasteful ED programs. —Laureen Lazarovici

House Tax-Writing Panel Tackles Education Proposals

The chairman of the House's tax-writing panel yesterday criticized a provision in President Clinton's higher education tax proposals that could discontinue them after 2000.

To ensure Clinton's long-term federal budget would balance by the end of the century, his postsecondary education tax breaks are written as short-term plans.

Clinton has proposed a $1,500 nonrefundable tax credit, called Hope Scholarships, and a

(more)

House Tax-Writing Panel Tackles Education Proposals (Cont.)

$10,000 tax deduction for postsecondary education expenses (ED, Feb. 7). The Clinton plan would require Congress to vote in 2000 to continue the tax provisions.

House Ways and Means Committee Chairman Bill Archer of Texas complained that the draft legislation "requires affirmative action on behalf of Congress to reinstate it."

"There's no guarantee that Congress, in 2001, will affirmatively act," Archer told Donald Lubick, acting assistant secretary for tax policy at the Treasury Department.

"We believe the sun will rise," Lubick responded.

David Longanecker, the Education Department's assistant secretary for postsecondary education, also said he is confident Congress would continue the higher education tax programs because he expects them to be popular. "They'd have to vote against a tax benefit for 12 million people," he said in an interview.

Clinton's proposals fall under the jurisdiction of Archer's committee, rather than the traditional education policy committee.

Committee members also expressed concern about rising tuition and the consequences of implementing the tax provision, including grade inflation. And Democrats, as well as Republicans, also were concerned about how the provisions would disproportionately aid middle-income families. The same concerns were raised during a hearing yesterday before the House education committee.

The tax credit and deductions "do not help the lower-income students who are most in need of a federal boost to ensure they become educated members of our society," said Rep. Pete Stark, D-Calif. "Neither you or I can guarantee that increased spending through Pell Grants will survive the budget process."

Clinton has proposed increasing the maximum Pell Grant to $3,000, up from $2,700 this year. Other tax incentives in his plan include tax-free withdrawals from Individual Retirement Accounts (IRAs) for education expenses, an extension on tax-exempt, employer-paid tuition, and tax relief on forgiven student loans.

Senate leaders have introduced a package of education proposals, S. 1, that include interest deductions on student loans, dedicated education IRAs, tax-free earnings for Work-Study jobs and a permanent extension of tax benefits for employer-paid tuition (ED, Jan. 23).

The panel has no further hearings scheduled on the higher education tax proposals. House appropriators plan to meet next Wednesday to discuss funding for higher education programs, and the Senate Labor and Human Resources Committee plans two hearings on reauthorization of the Higher Education Act March 14 and March 20. —Rebecca S. Weiner

House GOP Charges Bad Faith In College-Cost Hearing Flap

A House Republican yesterday accused the chief higher education lobbying group of sabotaging a hearing on rising college costs.

The chairman of the House Budget Committee held a news conference, claiming the American Council on Education (ACE) had "intimidated a witness out of testifying ... despite a bipartisan invitation for her to appear."

Chairman John Kasich, R-Ohio, said ACE forced him to indefinitely postpone a hearing scheduled for yesterday, by protesting the appearance of a reporter who wrote a series for the *Philadelphia Inquirer* about escalating tuition.

But reporter Karen Heller denied in a telephone interview that her decision to withdraw had been inspired by a "highly critical" fax from ACE to the paper's ombudsman.

"I really started to have a gut reaction," Heller said, adding that she never intended to become the GOP's star witness. "I felt like I was beginning to make news, and reporters shouldn't do that."

David Merkowitz, ACE's director of public affairs, said he called the paper, but denied he had tried to intimidate Heller or her employer. He sought only to confirm that she would testify and asked if the paper allowed its writers to speak at hearings, he said.
—William J. Cahir

National Math Program Paves Way To Algebra Knowledge

A transitional curriculum that uses familiar concepts such as cooking and field trips has raised math scores and increased the number of minority students taking higher-order mathematics classes.

The Algebra Project, created by civil rights activist Robert Moses in 1982 primarily for African-American students, uses everyday experiences to make algebra less abstract.

Nationally, the project operates in 18 districts across 13 states: Alabama, California, Illinois, Indiana, Kentucky, Maryland, Massachusetts, Mississippi, South Carolina, North Carolina, Louisiana, Wisconsin and West Virginia.

The program uses field trips, group learning and writing to convey algebraic concepts.

Project teachers take a two-week intensive summer training course; afterward, they can rely on project trainers, who are either teachers within the school or network-wide trainers, to answer later questions.

While the program doesn't have comparable data on test scores across all its participating states, an evaluation by Program Evaluation and Research Group at Lesley College in Cambridge, Mass., showed gains in student performance.

In San Francisco, an analysis of 481 students at one middle school found improved performance on the California basic skills test when compared to students' past performance. A study of 567 Chicago eighth graders found they improved over their past performance. And in Massachusetts, Algebra Project students more often go on to take algebra and higher-level math classes, the evaluation says.

The Algebra Project, funded through a variety of federal and private sources, provides all instructional materials, but project officials won't give a cost range for schools that want to participate. It depends entirely on the size of the school and school staff to be trained.

For more information, contact Ben Moynihan, Administrative Coordinator, Algebra Project, 99 Bishop Richard Allen Drive, Cambridge, Mass. 02139, (617)491-0200.
—Regina Lightfoot-Clark

Students Take Scenic Route To Algebra

When sixth-graders at Forest Manor Middle School in Indianapolis think of cooking or visit historic places, algebra may come to mind.

The Algebra Project has taught them to see how a whole breaks down into parts and how recipes relate to algebraic concepts. "It takes kids from [only] using numbers to using numbers with direction," Terry Ogle, the school's principal, said in a recent interview.

Ogle started the Algebra Project in 1992 at the sixth- through eighth-grade school, which has an 80 percent minority enrollment. All sixth-graders take the course.

Students there often begin the course with a field trip to eight historic sites, many with historical significance to African-Americans.

Once students return, they are asked to draw a trip line placing the eight stops, their introduction to the relationship between parts and a whole. They also are asked whether a particular stop would be going into town or out of town, an introduction to integers.

In teams, students propose solutions to math problems, discussing their options. The exercise helps them develop language skills, learn to resolve conflict and become comfortable asking questions, Ogle said.

As a result of the program, Forest Manor students improved their scores on Indiana's statewide math assessment between 1994 and 1996, moving from scores averaging in the 36th percentile in 1994 to the 44th percentile in 1996.

For more information, contact Terry Ogle, Forest Manor Middle School, 4501 E. 32nd St., Indianapolis, Ind. 46218, (317)226-4363.
—Regina Lightfoot-Clark

School-To-Work Office To Step Up Oversight

The National School-To-Work Office will step up oversight of states' ongoing school-to-work systems and provide more federal support, as most of the agency's grantmaking duties come to a close, a policy official said this week.

Conference Report

The first priority will be "risk-management," as the federal government already has invested more than $1 billion at nearly 250 grant sites, said Maria Kniesler, special assistant for policy at the national office. The last 15 states are expected to be approved in July for the federal grants, which help school districts integrate classroom vocational learning with on-the-job training.

The new effort will include more financial management training for grantees and sub-grantees, audit review guides for state and local officials, and federal assessments, Kniesler said Monday at the annual National Association of Private Industry Councils' meeting in Washington, D.C.

The refocus comes as the office is cracking down on an Austin, Texas, program that the Labor Department says didn't keep records properly and misused federal funds *(see story, at right)*.

It also comes as Mathematica Policy Research of Princeton, N.J., is expected to release its first national evaluation of school-to-work.

"We're trying to get a sense of 'what is the impact of the investment of school-to-work, how is it making change, and how is it relating to other initiatives?'" Kniesler said.

The only new grants the office will award after this summer will be about 40 grants to urban or rural areas in September, and scattered grants to Indian territories.

Staying Power

The office also expects to increase its emphasis on public awareness, particularly by educating parents about school-to-work. Local school-to-work administrators have occasionally had a hard time selling the program to parents, who fear it may peg children for vocational jobs.

That fits in with another goal of the office: to publicize the programs for schools and local businesses, which will be expected to finance projects when the federal seed money dries up by fiscal 2000.

The office is trying to do that by linking it with other federal initiatives, such as one-stop career systems, and other education laws.

Helping Hand

About 92.5 percent of the office's $400 million this fiscal year will go toward school-to-work grants. The remaining 7.5 percent goes toward national activities, such as technical assistance, public outreach and measuring progress. —Matthew Dembicki

Austin School-To-Work Losing Grantee Status

The National School-To-Work Office this week gave a Texas program an ultimatum: Choose a federal grant recipient to manage the finances or receive funding only on a reimbursement basis.

In a March 4 letter, Education and Labor Department officials said they would allow the Austin program that has been under pressure since last year to improve its financial management to remain open and receive funding under its existing framework until March 14.

But they demanded an answer to the financing proposals within 24 hours. At press time yesterday, the executive director of the Capital Area Training Foundation (CATF) had not returned phone calls.

A technical assistance team that visited CATF late last month discovered its accounting system was "not fully operational" and that "a full-time financial manager remains to be hired," said the letter signed by ED and Labor officials. They wrote they had "no assurance" new management policies and procedures would be implemented.

The school-to-work office said that CATF's documentation for salaries, wages, benefits and travel did not follow federal guidelines, and that sometimes CATF violated federal rules outright, such as using federal money to pay more than $16,000 in bonuses (ED, Feb. 10). —William J. Cahir

How Clinton's Proposed Tax Breaks Would Affect College Students, 1998-99

Editor's note: The following charts show projected tax breaks based on family status, income and type of school. A deduction is not shown when the Hope Scholarship tax credit is larger, because families would have to choose. The tax credit would be unavailable after two years of college.

Dependent student[1]

Family with income of $20,000

	Community college		Public four-year			Private four-year		
	Year one	Year two	Year one	Year two	Year three, four	Year one	Year two	Year three, four
Average cost[2]	$6,500	$6,500	$10,800	$10,800	$10,800	$22,400	$22,400	$22,400
Tuition	1,500	1,500	3,300	3,300	3,300	14,100	14,100	14,100
Expected family contribution	0	0	0	0	0	0	0	0
Student aid								
Pell Grant	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Stafford Loan eligibility								
Subsidized	2,625	3,500	2,625	3,500	5,500	2,625	3,500	5,500
Unsubsidized	0	0	0	0	0	0	0	0
Parent loan eligibility[3]	875	0	5,175	4,300	2,300	16,775	15,900	13,900
Tax benefit								
Hope Scholarship tax credit	0	0	0	0	N/A	0	0	N/A
Tax deduction[4]	0	0	45	45	45	720	720	720

Family with income of $30,000

	Community college		Public four-year			Private four-year		
	Year one	Year two	Year one	Year two	Year three, four	Year one	Year two	Year three, four
Average cost[2]	6,500	6,500	10,800	10,800	10,800	22,400	22,400	22,400
Tuition	1,500	1,500	3,300	3,300	3,300	14,100	14,100	14,100
Expected family contribution	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150
Student aid								
Pell Grant	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850
Stafford Loan eligibility								
Subsidized	2,625	3,500	2,625	3,500	5,500	2,625	3,500	5,500
Unsubsidized	0	0	0	0	0	0	0	0
Parent loan eligibility[3]	2,205	1,150	6,325	5,450	3,450	17,925	17,050	15,050
Tax benefit								
Hope Scholarship tax credit	0	0	0	0	0	0	0	0
Tax deduction[4]	0	0	218	218	218	750	750	750

Family with income of $60,000

	Community college		Public four-year			Private four-year		
	Year one	Year two	Year one	Year two	Year three, four	Year one	Year two	Year three, four
Average cost[2]	6,500	6,500	10,800	10,800	10,800	22,400	22,400	22,400
Tuition	1,500	1,500	3,300	3,300	3,300	14,100	14,100	14,100
Expected family contribution	7,610	7,610	7,610	7,610	7,610	7,610	7,610	7,610
Student aid								
Pell Grant	0	0	0	0	0	0	0	0
Stafford Loan eligibility								
Subsidized	0	0	2,625	3,190	3,190	2,625	3,500	5,500
Unsubsidized	2,625	3,500	0	310	2,310	0	0	0
Parent loan eligibility[3]	3,875	3,000	8,175	7,610	7,610	19,775	18,900	16,900
Tax benefit								
Hope Scholarship tax credit	1,500	1,500	1,500	1,500	N/A	1,500	1,500	N/A
Tax deduction[4]	--	--	--		495	--	--	750

(more)

[1]Based on a family of three with one child in college.
[2]Based on estimates assuming 5 percent growth per year for public institutions and 6 percent for private institutions.
[3]Maximum amount of loan eligibility, not taking into account any other institutional, state or federal aid.
[4]Maximum deduction would be $5,000 in 1998 and increase to $10,000 in 1999 and beyond.

How Clinton's Proposed Tax Breaks Would Affect College Students, 1998-99 (Cont.)

	Independent student[1]							
	Income of $10,000							
	Community college		**Public four-year**			**Private four-year**		
	Year one	**Year two**	**Year one**	**Year two**	**Year three, four**	**Year one**	**Year two**	**Year three, four**
Average cost[2]	$6,500	$6,500	$10,800	$10,800	$10,800	$22,400	$22,400	$22,400
Tuition	1,500	1,500	3,300	3,300	3,300	14,100	14,100	14,100
Expected family contribution	0	0	0	0	0	0	0	0
Student aid								
Pell Grant	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Stafford Loan eligibility								
Subsidized	2,625	3,500	2,625	3,500	5,500	2,625	3,500	5,500
Unsubsidized	875	0	4,000	4,000	2,300	4,000	4,000	5,000
Tax benefit								
Hope Scholarship tax credit	0	0	0	0	0	0	0	0
Tax deduction[4]	0	0	45	45	45	458	458	458
	Income of $20,000							
	Community college		**Public four-year**			**Private four-year**		
	Year one	**Year two**	**Year one**	**Year two**	**Year three, four**	**Year one**	**Year two**	**Year three, four**
Average cost[2]	6,500	6,500	10,800	10,800	10,800	22,400	22,400	22,400
Tuition	1,500	1,500	3,300	3,300	3,300	14,100	14,100	14,100
Expected family contribution	3,535	3,535	3,535	3,535	3,535	3,535	3,535	3,535
Student aid								
Pell Grant	0	0	0	0	0	0	0	0
Stafford Loan eligibility[3]								
Subsidized	2,625	3,500	2,625	3,500	5,500	2,625	3,500	5,500
Unsubsidized	3,875	3,000	4,000	4,000	5,000	4,000	4,000	5,000
Tax benefit								
Hope Scholarship tax credit	1,500	1,500	1,500	1,500	N/A	1,500	1,500	N/A
Tax deduction[4]	--	--	--	--	495	--	--	720
	Income of $30,000							
	Community college		**Public four-year**			**Private four-year**		
	Year one	**Year two**	**Year one**	**Year two**	**Year three, four**	**Year one**	**Year two**	**Year three, four**
Average cost[2]	6,500	6,500	10,800	10,800	10,800	22,400	22,400	22,400
Tuition	1,500	1,500	3,300	3,300	3,300	14,100	14,100	14,100
Expected family contribution	7,850	7,850	7,850	7,850	7,850	7,850	7,850	7,850
Student aid								
Pell Grant	0	0	0	0	0	0	0	0
Stafford Loan eligibility[3]								
Subsidized	0	0	2,625	2,950	2,950	2,625	3,500	5,500
Unsubsidized	5,900	5,900	4,000	4,550	5,000	4,000	4,000	5,000
Tax benefit								
Hope Scholarship tax credit	1,500	1,500	1,500	1,500	N/A	1,500	1,500	N/A
Tax deduction[4]	--	--	--	--	495	--	--	750

[1] *Based on a single independent student without dependents.*
[2] *Based on estimates assuming 5 percent growth per year for public institutions and 6 percent per year for private institutions.*
[3] *Maximum amount of loan eligibility, not taking into account any other institutional, state or federal aid, such as Supplemental Educational Opportunity Grants, Work-Study or Perkins Loans.*
[4] *Maximum deduction would be $5,000 in 1998 and increased to $10,000 in 1999 and beyond.*

Source: Education Department.

$1500 tax credit

$5 - 10,000 → job training

HOPE Scholarships and Higher Education Tax Deduction

Distributional issues:

Net tuition (versus cost of attendance) savings bonds

Offset of Federal Grants credit
- Vets not

Refundability and Pell Grants holes ? gaps

Regressive nature of deduction

Concerns about effects:

Grade inflation

Tuition inflation (and related shifts)

step-down strategy...

Administrative issues:

Burdens on colleges

--B average n.s. -
--SS#, parents and student
--financial aid
--tuition & fees

Burdens on others

IRS

Other issues:

Privacy/IRS

- all apply for fin. aid...

Selected or all reporting

"Independent"-- tax versus student aid definitions

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HOPE Scholarships and Higher Education Tax Deduction

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"Independent"-- tax versus student aid definitions

S. A. Noe

03/04/97 05:56:34 PM

Record Type: Record

To: Robert M. Shireman/OMB/EOP

cc:
Subject: Lester's quick thought on tuition tax credit and distributional analysis

---------------------- Forwarded by S. A. Noe/OMB/EOP on 03/04/97 05:58 PM ---------------------------

Lester D. Cash
03/04/97 05:45:54 PM

Record Type: Record

To: S. A. Noe/OMB/EOP

cc:
Subject: tuition tax credit and distributional analysis

You asked me to think about how a distributional analysis of this proposal would look if Treasury provided one that was separate from the overall tax package. I believe the appearance of this would be somewhat counterintuitive -- and not useful -- for two reasons.

First, there is how Treasury ranks families. They do not adjust for family size. I.e., they rank 4-person families with 40,000 income as richer than a single person with 39,999 income. If they adjusted for family size, as CBO does, the single person would be twice as well off as the four person family. Because of their ranking approach, families with children - especially two parent families -- tend to show up well up the income scale. Elderly and single tax filers tend to show up lower on the Treasury scale.

The second counter-intuitive aspect has to do with the definition of "family economic income" Treasury uses in distributional tables. This includes fringe benefits, retirement build-up, and the rental value of owner-occupied housing. As a result, even though the tuition tax credit ends at $100,000 in AGI income for two-parent families, a Treasury distributional analysis would show substantial benefits to those above $100,000.

These two factors, combined with the policy of denying the credit to those receiving significant Pell grants, probably means that little of the credit would go to Treasury's bottom two quintiles (which is roughly $0 to $30,000). Most of the credit would probably go to Treasury's top two quintiles. I'm not quite sure how much would show up in the middle quintile, but I would guess it would be a modest percentage. A CBO analysis would show a much better story, but Treasury has strongly opposed analysis using CBO's family size approach in the past .

My name is Lawrence Gladieux. I am executive director for policy analysis of the College Board, a national association of 3,000 schools and colleges dedicated to advancing equity and excellence for all students. Along with promoting high standards for all, the College Board since the 1950s has been a leader in developing the principles and practice of need-based student financial assistance aimed at equalizing access to postsecondary education.

Two attached documents place my testimony in context:

- The first is a resolution issued by the Trustees of the College Board last month that "commends the Clinton Administration for its substantial support of education; reaffirms the College Board's historic commitment to need-based student financial aid; and urges that proposals for tuition tax credits or deductions not be allowed to substitute or reduce funding for need-based aid." The resolution expresses concern that, with pressures to balance the federal budget, the government will not be able to "afford the estimated revenue loss from the tuition tax proposals while maintaining--let alone expanding--current appropriation levels for need-based student aid programs." Consistent with the Trustee resolution, a recent survey of College Board member institutions indicated strong support for restoring the value of Pell Grants and other increases in need-based student aid; they also support tax incentives, but not at the expense of need-based aid.

- The second is an op-ed piece that I co-authored last fall with Robert Reischauer, former director of the Congressional Budget Office. From the standpoint of both tax and education policy, we questioned the wisdom of investing $40 billion in scarce federal resources in the tuition credit/deduction plan.

As both the resolution and the op-ed piece began, I want to begin my testimony: The priority that this Administration has assigned to education is unprecedented and the College Board applauds it. We are fortunate to have an education president who has argued consistently and passionately that the country needs to invest more in education and training to boost economic growth, expand opportunity, and reduce growing income disparities.

But the President's proposed tax breaks for college tuition would not be an effective way to achieve these worthy objectives. By and large they would benefit students and families in the upper income quartiles, where college enrollment rates are already very high and have been rising. Nine out of ten 18-24 year-olds from households in the top income quartile enroll in some form of postsecondary education or training, compared to a ratio of one out of two from the lowest income quartile. The plan may be one way to cut taxes, but it is not an effective strategy for lifting the country's net investment in education or closing gaps in opportunity. Most of the relief would go to students and families who are likely to find the resources and attend higher education regardless.

College tuition levels have been rising faster than inflation for the past 15 years, so the burden of paying for higher education has increased for most families. But with widening income disparities in the 1980s and 1990s, it has increased the most for those on the bottom rungs of the economic ladder. College costs are taking a larger and larger bite out of the lowest family incomes.

The proposed tax breaks will not help those most in need. Since the current version of the tax credit is non-refundable (in an earlier version it would have been refundable), students and families with no or minimal tax liability could not benefit. And under the Administration's plan, eligibility for the tax credit would be offset dollar-for-dollar by the amount of federal grant aid received by the student. This offset provision would effectively exclude more than 3.5 million students below the median family income (almost $40,000 in 1995) who receive Pell Grants.

Only if they get more than $1500

As part of its overall package for making college affordable, the Administration has proposed a much-needed $300 increase in the maximum Pell Grant, but this does not balance the scales compared to a $1,500 tax credit or a $10,000 deduction, and it only begins to restore the purchasing power of Pell Grants that has been lost in past two decades. Since 1979, the value of the maximum Pell has steadily dwindled relative to the cost of higher education, in 1995 covering less than 40 per cent of the average cost of attendance at a four-year public institution and only 15 percent of the average cost at a four-year private institution.

In addition to the offset for federal grants, tuition and fees as counted in the formulas would be reduced by the amount of *non-federal* grant aid. This would exclude or limit eligibility for the tax breaks in the case of many moderate- to middle-income students who receive various non-federal grant and scholarship assistance. State, institutional, and private grant programs extend assistance to students in the $30-60,000 range or higher. Thus many middle-income students who are the intended target of the Administration's proposal will not benefit.

I might add that even if the tax credit were to be made refundable, thus extending the benefit to some lower-income students, the timing of such a tax benefit reduces its practical value to families trying to make ends meet. A tuition bill paid in the fall might result in a year-end tax refund four or six months later; a second-semester tuition payment in January might produce tax relief 12-14 months later. Some taxpayers might plan ahead and adjust their payroll withholding, but most won't, and many can't afford to. The tax code, I suggest, is not an effective vehicle for helping people who are struggling to meet current tuition expenditures.

I also worry, as do many others in the higher education community, about unintended consequences of the President's proposal, including regulatory entanglement with the Internal Revenue Service. Involving the IRS in the delivery of such educational benefits, I believe, would be a mistake (IRS has consistently argued against such proposals through several administrations). It is not just the B-average and drug-free requirements (which are eligibility conditions for receipt of the tax credit though not the deduction). Colleges would more than likely be implicated in verifying tuition payments as well as receipt of federal and non-federal grant assistance which offset the tax benefits. In the end, I believe it would add multiple layers of complexity not only to the tax code but to the overall financing of students in higher education.

My overriding concern about the President's plan, however, comes down to issues of fundamental fairness, equity, and access. If the tuition tax breaks were to be enacted on anything like the scale proposed in the Administration's 1998 budget, they would establish by way of the tax code a major new entitlement for the middle- and especially upper-middle classes, with the potential of shifting federal resources over time away from the neediest students and families. The focus of

Why not make the same argument abt only tax cut??

federal higher education policy has long been to promote and equalize access, especially for those with the fewest resources, and this fundamental commitment should not be eroded. We applaud the Administration's proposed increase for Pell Grants—and the College Board will support it vigorously. But the overall package remains imbalanced.

Get them to

If the country really can afford something approaching $30-40 billion in additional resources to expand access to higher education over the next five years, surely it would be better invested in Pell and other grant, loan, and work-study programs. Existing aid programs are not just for the very poor. They help low- and, yes, middle-income students based on need, and they get the dollars to students when tuition bills are due, not months later in a tax refund.

Who Specifically Would Benefit from the Proposed Tuition Tax Relief?

So far, the debate on the President's proposals has proceeded largely without data-based projections of the potential distribution of benefits. The Administration has said that the plan would broadly benefit middle-income Americans. I and others have suggested that the biggest benefits would go to the upper-middle class. In or out of the Administration, there is little analysis to inform the debate.

In the education community, we are hampered by the difficulty of assembling all the data (and tax modeling expertise) required to produce estimates of our own. The eligibility formulas are complicated. I am attaching descriptions and examples of the formulas for the proposed tax credit (up to $1,500) and deduction (up to $10,000). The taxpayer could choose between the two for the first two years of postsecondary education, after which the deduction alone would be available. To project the potential benefits, data or proxy data have to be assembled on at least the following: income distribution of students and dependency status; enrollment distribution by year in college and part-time/full-time status; tax filer information; tuition and fees paid by students/parents; and grants received, federal and non-federal. Many of the variables are interactive, complicating the modeling and analysis.

Last week the Administration released "illustrative examples" of who would receive the tax benefits among students at several different income levels if they attend an average-cost community college, four-year public institution, or four-year private institution. I have attached a graphic representation of the Administration's estimates of benefits for dependent students in the first or second year of postsecondary education. By far the largest benefits—the full value of the $1,500 tax credit—go to the student with a $60,000 family income, while the benefit is half that for students at the $20,000 and $30,000 income levels if they attend a four-year private college and negligible if they attend a public or community college. If the Administration were to release estimates for income levels higher than $60,000, I believe the data would show much larger benefits as the full value of the $10,000 tax deduction comes into play.

Where are charts??

I should underscore that these projected benefits are for dependent students, those who are deemed to rely primarily on their parents or guardians for financial support. The Administration's estimates for independent students (now a majority of the postsecondary student population) show that the maximum tax credit of $1,500 would be received by students at the $20,000 and $30,000 levels, whichever type of institution they attend. The fact is, however, that one-third of independent students attending four-year institutions and one-fifth attending two-year public institutions have less than $10,000 in annual income, where the Administration's estimate shows zero benefits. Most of these students simply do not have sufficient income and thus tax liability to take advantage of the proposed credit.

But Pell ??

Again, the Administration has not released estimates for higher-income levels, where the benefits are likely to be the greatest, especially for dependent students attending relatively high-tuition colleges and receiving the benefit of the tax deduction. To illustrate, I have attached a projection of the average tax benefits by family income at a private four-year college charging tuition of more than $20,000. The greatest average tax benefit, more than $2700, would be received by families in the $70,000-80,000 range. As the bar graph illustrates, even in the $80,000-100,000 income range where eligibility is phased out under the Administration's proposal, the benefits would still be greater than they would in the $50,000 range and below.

I have mentioned the inter-activity of the variables in the formula. Even when more definitive estimates can be developed, the fact is that such new tax benefits will interact with financial aid policies at the campus (and possibly state) level in ways that no model can predict. For example, institutions that award substantial amounts of need-based aid from their own funds are likely to take the tax benefits into account, either prospectively or retrospectively, when they evaluate family ability to pay. Thus many students and families that might receive the proposed tuition tax relief could see the benefit offset by reduced eligibility for campus-awarded student aid.

Alternative, Focused Uses of the Tax Code

Having summarized my concerns about the Administration's proposals, let me say that I support judicious use of the tax code to help students and families in financing the costs of postsecondary education. The College Board Trustee resolution recommends alternatives that would "boost college attendance, encourage families to save for college, and help relieve student debt burdens." Accordingly, I suggest the committee consider selective tax provisions focusing on the front and back ends of the college financing continuum, that is:

- *College Savings*. We need to encourage more middle-income families to save for their children's education. Currently, within certain income limits, the tax code excludes from income the interest earned on Series EE Savings bonds if the bonds are used to pay for higher education. Pending proposals, including the President's plan and Republican bills, call for additional incentives for the same purpose, either through expanded use of IRAs or new investment accounts dedicated to postsecondary financing. Increased incentives for savings would be helpful.

- *Student debt burden relief*. A measure of tax relief for student borrowers in repayment would also be constructive. Debt burdens are rising precipitously for many students. Several bills before Congress call for "above the line" deductibility of interest on student loans, with benefits phased out at higher income levels.

I also urge permanent extension of Section 127 exempting employer-provided tuition benefits, for both graduate and undergraduate training, from an employee's gross income. This has been an on-again, off-again provision in the tax code. Section 127 is a modest incentive for private sector investment in continuing education of adults. It supports lifelong learning. Studies show that beneficiaries earn close to the national average for full-time, year-round employees.

Modest, focused adjustments to the tax code along these lines would not be an expensive drain on the Treasury or add great new complexity to the tax system, and would complement, not compete with existing need-based aid programs. I hope the committee will consider them. (Among pending bills in the House that include one or more of the above proposals are H.R. 53, "Higher Education Accumulation Program Act," by Rep. Eshoo; H.R. 82, "Family Affordable College Tuition Act," by Rep. Schumer; H.R. 127, "Employee Education Assistance Act," by Rep. Levin; and H.R. 553, "Education Affordability Act," by Rep. Price. In the Senate, S. 1, "The Safe and Affordable Schools Act," the Republican leadership's proposal, also includes elements of the above, as does S.12, " Education for the 21st Century Act," the Democratic leadership's proposal.)

Thank you, Mr. Chairman, for this opportunity to address these important issues of tax policy and financing higher education. I shall be glad to answer the committee's questions.

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Washington Office

Tuition Tax Proposals and Student Aid

Board of Trustees of the College Board
January 26, 1997

Whereas in March 1996 the Board of Trustees adopted a resolution (see attached) that urged the Congress and Administration to maximize support for need-based student assistance—especially grants, with the objective of increasing aid to the neediest students;

Whereas the Clinton administration has given high priority to education and has proposed to extend opportunity to all Americans for at least two years of postsecondary education through tax credits for tuition payments, and lessen the financial burden of postsecondary education for many families through itemized tax deductions for tuition payments;

Whereas the Administration and Congress have both endorsed a balanced budget by 2002, thus making it improbable that the government can afford the estimated revenue loss from the tuition tax proposals while maintaining—let alone expanding—current appropriation levels for need-based student aid programs;

Therefore, be it resolved that the Board of Trustees of the College Board:

- commends the Clinton administration for its substantial support of education;
- reaffirms the College Board's historic commitment to need-based student financial aid; and
- urges that proposals for tuition tax credits or deductions not be allowed to substitute or reduce support for need-based aid.

Further, the Board of Trustees calls upon the College Board staff to:

- analyze and disseminate information on the potential distribution of benefits of tuition tax proposals;
- explore and advance changes to the tax code that would bolster college attendance, encourage families to save for college (e.g., education IRAs), and help relieve student debt burdens (e.g., restoration of student loan interest deductibility); and
- also support increased appropriations for Pell Grants and other need-based aid to restore the purchasing power that these programs have lost over the past fifteen years.

Board of Trustees - March 28-29, 1996

Support for Need-Based Student Aid

Whereas the College Board champions educational excellence for all students through the ongoing collaboration of member schools, colleges, universities, educational systems, and organizations; and;

Whereas the Board of Trustees has established an equity agenda for the College Board with the goal that, by the end of the twentieth century, individuals from traditionally underrepresented groups have access to and complete postsecondary education at the same rate as traditional students; and

Whereas wide disparities in educational attainment persist in the US, and a young person from a family in the top income quartile is ten times more likely to have received a college degree by age 24 than another person whose family income falls in the bottom quartile; and

Whereas need-based financial assistance is critical as a factor in equalizing college opportunities and in providing an incentive for low-income families to prepare for postsecondary education; and

Whereas there is evidence that grant aid is more effective than loan assistance in boosting participation rates as well as helping low-income students stay in college and complete their degrees; and

Whereas today most federal aid is in the form of loans (75 percent) rather than grants (25 percent), compared to the reverse 20 years ago (75 percent grants, 25 percent loans); and

Whereas proposals for academic merit-based federal scholarships should not be allowed to substitute or reduce support for need-based student financial aid; and

Whereas need-based postsecondary financial aid is a vital investment in the our future economic security and competitiveness;

Therefore be it resolved:

That the College Board urge Congress and the Administration to maximize support for need-based student assistance, especially grant aid, throughout the FY 1997 federal budget deliberations, in the 1997-1998 reauthorization of the Higher Education Act, and beyond, with the objective of increasing the amount of aid available to the neediest students.

The College Board

Board of Trustees 1996/97

Lawrence E. Gladieux
And Robert D. Reischauer

Higher Tuition, More Grade Inflation

Tuition tax breaks would be bad fiscally and worse educationally.

More than any president since Lyndon Johnson, Bill Clinton has linked his presidency to strengthening and broadening American education. He has argued persuasively that the nation needs to increase its investment in education to spur economic growth, expand opportunity and reduce growing income disparities. He has certainly earned the right to try to make education work for him as an issue in his reelection campaign, and that's clearly what he plans to do.

Unfortunately, one way the president has chosen to pursue his goals for education is by competing with the GOP on tax cuts. The centerpiece of his education agenda—tax breaks for families paying college tuition—would be bad tax policy and worse education policy. While tuition tax relief may be wildly popular with voters and leave Republicans sputtering, it won't achieve the president's worthy objectives for education, won't help those most in need and will create more problems than it solves.

Under the president's plan, families could choose to deduct up to $10,000 in tuition from their taxable income or take a tax credit (a direct offset against federal income tax) of $1,500 for the first year of undergraduate education or training. The credit would be available for a second year if the student maintains a B average.

The vast majority of taxpayers who incur tuition expenses—joint filers with incomes up to $100,000 and single filers up to $70,000—would be eligible for these tax breaks. But before the nation invests the $43 billion that the administration says this plan will cost over the next six years, the public should demand that policy makers answer three questions:

■ Will tuition tax credits and deductions boost postsecondary enrollment? Not significantly. Most of the benefits would go to families of students who would have attended college anyway. For them, it will be a windfall. That won't lift the country's net investment in education or widen opportunities for higher education. For families who don't have quite enough to send their child to college, the tax relief may come too late to make a difference. While these families could adjust their payroll withholding, most won't. Thus any relief would be realized in year-end tax refunds, long after families needed the money to pay the tuition.

■ Will they help moderate- and low-income students who have the most difficulty meeting tuition costs? A tax deduction would be of no use to those without taxable income. On the other hand, the proposed $1,500 tax credit—because it would be "refundable"—would benefit even students and families that owe no taxes. But nearly 4 million low-income students would largely be excluded from the tax credit because they receive Pell Grants which, under the Clinton plan, would be subtracted from their tax-credit eligibility.

■ Will the plan lead to greater federal intrusion into higher education? The Internal Revenue Service would have to certify the amount of tuition students actually paid, the size of their Pell Grants and whether they maintained B averages. This could impose complex regulatory burdens on universities and further complicate the tax code. It's no wonder the Treasury Department has long resisted proposals for tuition tax breaks.

■ Will the program encourage still higher tuition levels and more grade inflation? While the tuition spiral may be moderating slightly, college price increases have averaged more than twice the rate of inflation during the 1990s. With the vast majority of students receiving tax relief, colleges might have less incentive to hold down their tuition increases. Grades, which have been rising almost as rapidly as tuition, might get an extra boost too if professors hesitate to deny their students the B needed to renew the tax credit.

■ If more than $40 billion in new resources really can be found to expand access to higher education, is this the best way to invest it? A far better alternative to tuition tax schemes is need-based student financial aid. The existing aid programs, imperfect as they may be, are a much more effective way to equalize educational opportunity and increase enrollment rates. More than $40 billion could go a long way toward restoring the purchasing power of Pell Grants and other proven programs, whose benefits inflation has eroded by as much as 30 percent during the past 15 years. Unlike tuition tax cuts, expanded need-based aid would not drag the IRS into the process of delivering educational benefits. Need-based aid also is less likely to increase inflationary pressure on college prices, because such aid goes to only a portion of the college-going population.

Economists have long argued that the tax code shouldn't be used if the same objective can be met through a direct-expenditure program. Tax incentives for college savings might make sense; parents seem to need more encouragement to put money away for their children's education. But tax relief for current tuition expenditures fails the test.

Maybe Clinton's tuition tax-relief plan, like the Republican across-the-board tax-cut proposals, can be chalked up to election-year pandering that will be forgotten after November. But oft-repeated campaign themes sometimes make it into the policy stream. That was the case in 1992, when candidate Clinton promised student-loan reform and community service that, as president, he turned into constructive initiatives. If reelected, Clinton again may stick with his campaign mantra. This time, it's tuition tax breaks. This time, he shouldn't.

Lawrence E. Gladieux is executive director for policy analysis of the College Board. Robert D. Reischauer is senior fellow in economic studies at the Brookings Institution and former director of the Congressional Budget Office.

The Washington Post
Wednesday, September 4, 1996

Introduction

Mr. Chairman, I am James Appleberry, the President of the American Association of State Colleges and Universities (AASCU). I appear before you today on behalf of AASCU and the National Association of State Universities and Land-Grant Colleges (NASULGC). Our two associations represent more than 630 campuses and systems of higher education throughout the nation and its territories. Annually, AASCU and NASULGC universities enroll more than six million students, and award two thirds of all baccalaureate and nearly 60 percent of all master's degrees conferred in the United States. Our members also award two thirds of all doctorates earned in the U.S. I am honored to have the endorsement of three important national associations, the Hispanic Association of Colleges and Universities (HACU), the National Association for Equal Opportunity in Higher Education (NAFEO), and United Negro College Fund (UNCF), for the views expressed here. I am also pleased to inform the Committee that the United States Student Association, the nation's largest and oldest student organization, joins us in this submission. I thank you for the opportunity to testify before the Committee.

Mr. Chairman, I appear before you as an educator and former university president, not as a tax policy expert. My testimony on the various tax proposals this Committee will be examining, therefore, will be strictly limited to the public policy consequences of proposed tax incentives for educational access and for public institutions of higher education. The broad range of tax relief proposals this Committee will evaluate in its deliberations under your leadership may all be justifiable in terms of providing tax relief to certain middle-income Americans. I hope my comments today provide you with additional information as to the *educational* impact of the proposed tax cuts, so that you may better judge the extent to which they merit enactment as sound education policy.

Before addressing any specific initiatives, it may be appropriate for me to set the context within which this Committee begins the important task of examining possible uses of the tax code in support of higher education. Higher education has always been, and continues to be, an indispensable ingredient of our national well-being. College attendance, even if not resulting in college graduation, has civic and economic benefits that have been well documented. Those with any college education are more likely to vote and more likely to engage in volunteer activities than those with only a high school diploma or less. Similarly, fully 66 percent of all personal income taxes collected are paid by those with some college education, and those with a baccalaureate degree or higher pay 43 percent of all federal personal income taxes while constituting only 23 percent of tax filers.

In our view, the mission of AASCU institutions is to fulfill our nation's democratic ideal of sustaining an enlightened and productive citizenry through the uniquely American attempt at educating not some, but all, of our citizens. Thomas Jefferson captured the essence of the American civic order by describing it as a republican regime under which the old aristocracies of privilege would be replaced by "a natural aristocracy of virtue." What he and other founders had in mind, to put it in more modern terms, was class mobility and the creation of a society in which the children of even the poorest families could realistically aspire to success and affluence if they worked hard. Education has historically been the means of upward mobility and the great equalizer in our society. The gradual broadening of access to higher education for ever greater numbers of our citizens reflects the extent to which we have succeeded in actualizing our ideal society.

Education Policy Context

The evolution of our nation's public higher education infrastructure represents the first historical step in our collective efforts to realize the lofty goals set forth by our founders. The creation of low-cost public colleges and universities, which the federal government assisted through the First Morrill Act, provided educational opportunities for millions of low- and middle-income Americans. The second historical step in the direction of broadening access to higher education was the G.I. bill, which opened the doors of college to millions of veterans, and to which much of America's post-war economic miracle can be attributed. The democratization of higher education in America produced results in less than one generation, and transformed our country into the world's leading and dominant economy. The third giant step in the direction of fulfilling our stated ideals was the creation of need-based aid programs subsumed under the Higher Education Act of 1965 (HEA). The need-based student aid programs contained under Title IV of the HEA have done much to ensure that a want of financial resources does not become an insurmountable roadblock to college education for academically talented, but needy Americans. In this gradualist definition of success, student aid has been wildly successful. It is difficult to say how many of the more than 3.5 million Pell grant recipients could still have attended college this year without aid, or how many of the more than 6 million student borrowers could have obtained sufficient resources to pay their educational expenses on their own. Our view is that without the existing student aid programs, most of our citizens would be unable to pay for their children (or their own) educational costs.

We have, through the combination of state and federal action, managed to take significant steps in the direction of the kind of society our founders envisioned. College participation rates have been generally increasing over the past decade. This is true for students from all income levels. The increase in the participation rate between 1979 and 1994 for the lowest income-quartile--those with annual income of $22,000 and below--was 13.6 percent, while the upper income quartile those with annual incomes of $67,000 and above--increased their rate by 20.5 percent. The bottom quartile's increase from its low participation rate below 40 percent in 1985 to almost 60 percent in 1994, though not as large as that of the upper quartile, is still the clearest evidence that need-based aid and low tuition are a powerful combination of policy tools. We can take pride in what we have managed to achieve thus far. That we may have failed to *fully* concretize the ideals of broad and open access to college does not make the efforts we have undertaken any less valiant. As with all ideals, the goals are there as beacons intended to guide our efforts. So long as we persevere, so long as we focus on what needs to be done, and so long as we take step after step in the right direction, we can be certain that the goal is not an illusive mirage, but a tangible possibility that we may some day actualize. Let me then examine where we have failed, for we can learn as much from our failures as we can from our successes.

The principle of low tuition as the best guarantee of equal opportunity is under severe stress in virtually every state. I hasten to add that tuition at public institutions continues to be the best bargain in our economy. Average tuition at AASCU institutions for state residents was $2,772 in academic year 1994-95. But the trend toward higher tuition costs at state institutions is disquieting indeed. The root cause of escalating public sector tuitions is the budgetary pressures faced by states, which have had to devote increasingly higher shares of their resources to Medicaid, prison construction and law enforcement. At the same time, federal need-based grant programs, which are subject to annual appropriations pressures, have steadily eroded in purchasing power over the past decade and a half, while student loans--the only entitlement student aid program--have filled the gap.

The net impact of state and federal actions manifests itself in two already palpable outcomes:

First, while the compelling value of college education has motivated Americans of all economic backgrounds to attempt to participate in higher education, the most needy families have financed the costs through increased borrowing. As a result, students from low- and middle-income families have continued to go to college at increasing rates, but they have also borne the brunt of the escalating burden of student indebtedness. If this trend continues, at some point in the future, the debt service on student loans will offset the economic gains of a college degree, and neutralize the class-mobility that education currently provides so effectively.

Second, we have created enormous anxiety about college affordability for our low- and middle-income citizens. This anxiety about ability to finance college education could have dire consequences in terms of actual participation. We may well be on the verge of losing the gains of the recent past, especially in the case of low-income students, who are, not surprisingly, most sensitive about cost. Even at this very moment, when the upward college participation trends give us hope, the college participation rate for children of families with annual incomes of $22,000 and below hovers at below 60 percent. This is in contrast to the nearly 90 percent participation rates for children of families with annual incomes of $67,000 and above. More ominously, the baccalaureate completion rates for the two groups has been calculated by one analyst to suffer a nearly ten-fold disparity.

Summary of Proposed Initiatives

It is in the backdrop of the mixed picture painted by these statistics that I should now turn to the various tax proposals this Committee may examine. The most prominent, and by far the largest, set of educational tax proposals put forth thus far comes from President Clinton, who has called for a series of new initiatives in support of higher education. The President deserves enormous credit not only for having identified the problem of access to higher education, but also for his leadership in providing a remedy of sufficient budgetary magnitude to give us cause for optimism that we could indeed fulfill our dream of equal educational opportunity for all Americans. We are most appreciative of the fact that the President has put forth a budget proposal that would, by 2002, provide more than double the amount of federal investments in student aid than was available in 1993. The President's overall higher education plan includes not only the new tax incentives that this Committee will review, but also contains significant increases to existing discretionary need-based student aid programs. In terms of magnitude, however, the tax proposals before this Committee constitute by far the larger portion of new federal resources that would be deployed in support of higher education. This is in itself another major contribution for which the President should be recognized. The vicissitudes of the annual appropriations process have in general worked against adequate student aid funding, and, therefore, against our nation's long-term economic well-being. The President's call for the use of the tax code to deliver some $36 billion in new resources over the next five years is a bold and decisive step in the direction of building a more comprehensive national strategy of greater human capital investment. I certainly believe that under your leadership, the Committee will also see fit to rise to the challenge of using its jurisdiction to help American families prepare themselves and their children for another century of American world leadership.

The President's proposals include the following new initiatives:

- **"Hope Scholarships"**-- This proposal, named after the state of Georgia's HOPE scholarship program, would create a new non-refundable tax credit of up to $1,500 for the first year of at least half-time postsecondary study in a degree or certificate program. The Hope tax credit would be phased out for single filers with annual incomes of between $50,000 to $70,000, and for joint filers with annual incomes of between $80,000 to $100,000. The tax credit would only cover "out-of-pocket" tuition and fees, i.e., tuition and fees minus any federal, state or institutional grant aid. Furthermore, students' tax credit would be reduced dollar-for-dollar by the amount of any other federal grant aid they receive. The Hope tax credit would be available for a second tax year, provided the student maintains a B- grade (defined as a 2.75 Grade Point Average on a scale of 4) and remains "drug-free."

- **Tuition Tax Deductibility**-- This initiative, a modified version of the original "Middle Class Bill of Rights" calls for "above-the-line" tax-deductibility of college tuition and fees, up to a maximum of $5,000 per tax return for the 1997 and 1998 tax years, and a maximum of $10,000 per tax return thereafter, with inflation indexation. The income phase-outs for tuition tax-deductibility would be the same as Hope tax credit phase-out levels. Tuition tax-deductibility, however, would be available for all students regardless of grades.

- **Loan Forgiveness Tax-exemption**-- This proposal would exclude from taxable income the amount of any loan forgiveness received from educational and charitable organizations in exchange for community service. It would also exclude from taxable income the loan forgiveness granted to borrowers who, after repaying their student loans through the income-contingent repayment option for 25 years, receive forgiveness of their outstanding balance.

- **Tax-Free Education Savings**-- The President proposes an expansion of eligibility for Individual Retirement Accounts (IRAs) to families with incomes of up to $100,000, and would allow penalty-free withdrawal of such IRAs for educational expenses. This will promote greater savings for college.

- **Employer-provided Educational Benefits**-- This proposal extends the current (Section 127 of the Internal Revenue Code) exclusion from income of employer-provided educational benefits through December 31, 2000, and re-instates the eligibility of graduate education for this exclusion.

Mr. Chairman, I would like to express my unqualified support for the last three items on the list enumerated above.

The exclusion from income of loan forgiveness is particularly appropriate in that it removes what is clearly an unintended impediment to public service. Modifying the tax code to encourage. rather than hinder, volunteerism and public service strikes us as an especially effective means of lessening the impact of high college debt on graduates' career choices.

The President's call for expanded use of IRAs is equally as effective in encouraging and empowering American families to save for their children's education, and could go a long way toward reducing the over-reliance on loans.

The extension and expansion of non-taxability of employer-provided educational assistance is another important means of improving the skills and productivity of our workforce, and I would encourage the Committee to examine this important provision not only for purposes of extending it, but with an eye to making it a permanent provision.

Expansion of IRAs and extension of Section 127 benefits are both included in S. 1 and S. 12, the two leadership bills introduced in the other body. This indicates broad bi-partisan support for these two particular approaches to using the tax code in support of higher education, and I hope this Committee will also find them worthy of its support.

Our Views on Proposed Tuition Tax Deductibility

In contrast to the these latter initiatives, the first two items on the list, i.e., Hope tax credits and tuition tax deductibility, require significant modifications before they can be justified in terms of educational policy. Indeed, tax deductibility of tuition is beset with so many problems that we propose that it be replaced with a different provision altogether. I re-iterate that this is not a judgment on our part as to whether certain middle- and upper-income taxpayers--specifically, those with children in college--deserve tax relief in the abstract. Rather, the question is whether these particular proposals can help us fulfill our goal of expanded access to higher education.

[illegible]ability of college tuition, when subj[illegible] [illegible] it may, on first glance, seem to pro[illegible] [illegible] three-fold:

- [illegible] progressive nature of our tax structure, tax deductions, even if they were [illegible] dollar amount, would generate individual [illegible] that are inversely [illegible] to income. In the case of the proposed deductibility of tuition, this means that taxpayers in the upper end of the eligible income scale, the marginal value of every dollar of deduction is 28 cents, in contrast to those closer to the lower end of [illegible], for whom it would be worth 15 cents, not to mention the very neediest [illegible] for whom it is worth literally nothing because they have no tax liability. This [illegible] feature is, of course, endemic to our progressive income tax system, and [illegible] found in all tax deductions, including some that AASCU supports. The [illegible] inherent to all tax deductions, however, is amplified in the case of tuition tax-deductibility because of its other features, as you will see below.

- The second contributing factor to our reservations about the tax deductibility of tuition [illegible] is that the proposal, as currently configured, would reduce the allowable deductible expenses in a dollar-for-dollar fashion by any grant aid received by students. [illegible] all grant dollars toward tuition first--instead of allocating them in [illegible] relative costs of tuition and fees versus other educational expenses--the proposal shifts substantial subsidies away from the recipients of need-based student aid, and [illegible] the regressive effects due to the structure of our marginal tax rates.

- Finally, the proposal offers the same theoretical opportunity to deduct [illegible] (of $5,000 and by 1999, $10,000) to all taxpayers. But, in reality, not all [illegible] would be able to avail themselves of the deduction equally. This is because our [illegible] citizens tend to be disproportionately concentrated in lower-cost [illegible].

[illegible] the interactive results of the three causes by a comparison [illegible] are among the most important points of access for [illegible] at these institutions is about $27,000 per year. A [illegible] annual income at these institutions would confront a total cost-of-attendance of about [illegible], of which about $2,700 would be for tuition and fees. Assuming an average Pell grant award of $1,400 (based on the President's proposed Pell grant maximum of $3,000), this student's family would receive a reduction of less than $200 in their taxes as a result of tuition tax-deductibility. Contrast this with a family with the characteristic $73,000 median annual [illegible] expensive universities. Such a family, because they could avail themselves of the maximum deductibility, and because they realize a gain of 28 cents per dollar of deduction, would receive tax benefits of $1,400 when the maximum allowable deduction is $5,000, and [illegible] the proposed maximum of $10,000 takes effect.

Mr. Chairman, the example I just provided should not, in any way, be construed as implying our opposition to the latter example's effects in terms of tax relief. Rather, our misgivings have to do with the disparity between the benefits the two families would receive. The targeting of the proposed tax benefits, as shown in this example, bears an inverse relationship to where federal dollars would produce the greatest net national gains in college attendance. Families in the upper-income quartile already participate in higher education at near-saturation rates. College participation rates for children from families at or below the national median family income (about $40,000) could, on the other hand, be dramatically increased through better targeting of this proposal at them. Two important changes could substantially improve this proposal:

- The formula for determination of allowable expenses should be changed from the proposed "tuition and fees minus grants" to "cost of attendance minus grants." Cost of attendance is defined by Congress in current law, HEA, Title IV, Part F (20 U.S.C. 1087qq).
- To offset the increased federal cost of broadening the definition of allowable expenses, the maximum deduction could be reduced.

These two changes, while still not providing new educational benefits to our lowest-income citizens, would better focus this proposal on moderate- and middle-income Americans.

An Alternative Policy Option

Alternatively, the Committee may wish to substitute tax deductibility of student loan interest payment for deductibility of tuition. Such a substitution would, in effect, treat loan financing of investments in higher education the way home mortgage loans are treated under current tax law. We believe the very same logic that led Congress to create deductibility of home mortgage interest instead of deductibility of purchase price of homes applies in the case of higher education. AASCU supports an "above-the-line" deduction of up to $2,500 of annual student loan interest payments with income-phase outs similar to the Administration's proposal. Our proposed substitution has several important advantages, and I should point out that slightly different versions of tax deductibility of student loan interest payments are included in both, S.1 and S. 12.

- Because our most affluent citizens do not need to borrow, deductibility of student loan interest automatically shifts its subsidies toward the children of low- and middle-income families who had to finance college through borrowing.
- The benefits of interest deductibility are spread out over time, and would mitigate some of the ill effects of the student indebtedness on our economy. The adverse effects of college debt on career choices would be reduced. In addition, the savings realized by heavily debt-ridden graduates would enable them to participate in our economy in all of the advantageous ways that previous generations of graduates have.

- Because of the delayed and incremental nature of student loan interest deductibility, it would certainly not have the potential inflationary consequences that some have attributed to tuition deductibility. In addition, because the federal government itself sets the interest rate for student loans, the deductibility of interest payments would not result in higher rates.

- While the deductibility of tuition would do very little for graduate education, the deductibility of student loan interest would immediately become the largest form of financial aid for financing graduate study. As you are aware, student loans are the only broad-based form of financial aid for graduate students. While the federal government has a variety of small categorical grant and fellowship programs for graduate students, there is no analogue to Pell grants for graduate school. Because graduate students, while they are in school, tend to have very low annual incomes, the deductibility of tuition would provide only marginal benefits for them. The deductibility of student loan interest, on the other hand, precisely because it is better timed to provide steady relief over time, can provide a powerful incentive for more of our citizens to engage in graduate and advanced studies.

- A larger number of our citizens would benefit from a properly configured student loan interest deductibility provision than would from tuition tax deductibility.

Our Views on Hope Tax Credits

Mr. Chairman, allow me to now turn to the Hope tax credit proposal, and share AASCU's views regarding that initiative with you and the Committee.

As I have already mentioned, in calling for higher education tax credits, the President has proposed a major new mechanism of delivering new federal resources in support of higher education. The President has identified a new means, i.e. the use of the tax code, to realize a worthy goal, broader access to college. AASCU members enthusiastically support not only the President's stated goals, but his proposal that tax credits would be a powerful means to that end.

At the same time, however, we share the concerns of our colleagues regarding the details of the proposed tax credits.

- AASCU views the decision to turn what was originally a refundable tax credit into a non-refundable one as a step in the wrong direction. This change specifically channels the benefits of Hope tax credits from Americans for whom it could do the most good in terms of access. The difference between refundability and non-refundability is that the dollar amount of a family's tax liability becomes the de facto cap on its eligibility for benefits. If our goal is to open the doors of college to more Americans, our national self-interest would argue for the inclusion of our neediest citizens.

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE SECRETARY

FAX TRANSMITTAL

TO: Bob Shireman

ORGANIZATION:

PHONE NUMBER:

FAX NUMBER: 395-4815

FROM:

PHONE NUMBER:

MESSAGE:
Please see the attached memo regarding AAKU

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Just 2 pages PAGE(S) TO FOLLOW

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- As is also the case with the proposed deductibility of tuition, the Hope tax credit would also be reduced in a dollar-for-dollar fashion by the amount of other federal grant aid received. Ironically, the effects of this "netting" of federal grants against Hope credits is even more drastic than would be the case for tax-deductibility. Netting against a deduction results in a loss of eligibility equal to the applicable marginal tax rate. Netting against a tax credit, on the other hand, results in a loss of eligibility equal to the amount netted. In the case of the example I used earlier, if the student were a freshman, the family's loss would equal $1,500, because the receipt of $1,500 of Pell would completely eliminate all eligibility for Hope tax credits. This family would therefore have no option but to take the deduction, which, as we saw, generates less than $200 in benefits. The student from the family with the $73,000 annual income would be eligible for the full Hope tax credit of $1,500. Such a student's family would fare better with the Hope scholarship while deductibility is capped at $5,000, but could do better still once the proposed maximum of $10,000 is reached.

- The use of the B average is troubling because it further magnifies the overall regressivity of the proposal, and because it would promote outcomes other than what it is apparently intended to promote. First, students from at-risk backgrounds tend not to be as academically well-prepared as those from upper-income backgrounds. This is also generally true of first-generation college students and students who were raised in non-traditional families. Second, needier students, fearing loss of Hope eligibility, would be more likely to avoid more difficult courses in favor of less challenging work, intended solely to ensure a second year of Hope eligibility. Much better results would ensue if the current federal eligibility standard of "satisfactory academic progress" were substituted for the proposed grade requirement.

These concerns can be addressed by the Committee in a manner that would fully realize our common goal of greater educational opportunity for all Americans. A refundable Hope tax credit, without the federal grants offset contained in the proposed version, would be giant step in the right direction. Mr. Chairman, we stand ready to work with you and the Committee in any way we can to assist you with the historic task before you.

Timothy A. Rosado
03/12/97 05:49:32 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:
Subject: Labor/HHS, post-sec appropriations hearing

I attended today's Labor/HHS post-sec appropriations hearing. David Longanecker testified (also at the table was Tom Skelly, Maureen McLaughlin, Bob Davidson, Claudio Prieto, and Betty Hicks). Members of Congress in attendance at times were Porter, Stokes, Obey, Lowey, Dan Miller, Jay Dickey, Roger Wicker, and Northup(?).

Porter

Porter's opening statement labeled the Administration's higher education policy over the years as "inconsistent" and lacking a coherent strategy to accomplish an ends. Evidence he cited to support this view included the Administration's inconsistent, year-to-year budget requests on Title III, the Institute for International Public Policy, the Bethune-Cookman College appropriation, Byrd fellowships, Javits fellowships, Perkins loans, and SSIG. Also cited the Administration's changing position the Direct Loan vs. the Guaranteed Loan programs.

Longanecker's response was one of acknowledgment that the Administration's position had changed on these items over the years, and was due primarily to the Administration's recognition, and attempt to deal with and respond to, the changes in Congress (a lame response even though it is the truth). For example, when the Congress changed, ED realized it was going to have keep the Guaranteed loan program and make sure both work well.

Porter also raised the issue of higher education costs, and whether the Administration's proposals would increase tuition. Longanecker responded that a combination of leadership and political pressures, in addition to a diversified federal aid structure, would discourage tuition increases caused by HOPE and the Pell expansion.

Obey

Obey defended the Administration's overall policies. And, he stated that he would want to do more, such as levying a 1% tax on corporations with earnings of $10 million to help expand Pell even more than the Administration. To help control tuition inflation, he stated that he would be willing to support legislation that would drop colleges and universities from federal aid programs if their tuition increased by more than 120% of the three-year average of all schools (but include waiver powers for the Secretary).

Miller

Miller brought up the issue of higher education costs, and asked Longanecker to respond to the Time Magazine article on the subject (he wanted to know if HOPE was Dick Morris' idea). Nothing significant was asked of Longanecker.

Wicker

Wicker also talked about higher education costs and tuition inflation. The only significant questions he asked were about how the we could control tuition costs, and how the "drug testing" provisions of HOPE would be implemented.

Northup

Northup asked what the Administration's position was on providing relief to students with loan debt (such as the interest deduction). Longanecker responded that income-contingent student loan repayment exists. She generally wasn't satisfied with that. She also asked about how our policies would help school-to-work transition persons. Longanecker responded that our policies are designed to encourage all high school graduates to seek a post-secondary experience (she didn't like that it did not help kids who do not want to go to college). Finally, Northup expressed concern about grade inflation, and that HOPE encourages schools to move in this direction.

Stokes

Stokes was interested in the following: the role of community colleges in welfare reform, TRIO performance, and the state of our teaching corps (in terms of our teacher need, especially minority teachers). Longanecker indicated that their reauthorization bill would include an initiative in this area.

Bonilla

Bonilla wanted Longanecker to respond to information Bonilla had which indicated fraud and abuse of the income-contingent loan program. Evidently, some guy is selling a booklet to people which explains how to avoid paying a student loan through the loan consolidation and income-contingent programs. Longanecker said he was aware of this guy's booklet and was looking into it.

Bonilla also wanted to know how many work-study students were cut as a result of the increase of the minimum wage. He said it adversely affected a college in his district.

Dickey

All Dickey wanted was some basic information on HBCUs and the Title III(b) program. He did not bring ask Longanecker about the situation at the Pine Bluff HBCU.

Porter (con't)

In closing, Porter asked a few other questions:

* If the President wanted to limit Direct lending admin to $532,000 (instead of $750,000) why not put this in the appropriations language? Skelly responded that it will be in authorizing language.

* For the record, he asked a number of questions related to the work-study program and the number of students that would be affected by different scenarios (such as all schools using the institutional waiver provision).

* He asked what the implication for Pell would be if the Presidential Honors Scholarship money was put in the program. Longanecker responded that the Pell max could increase $35-$40, and add 10 to 15,000 students.

THAT'S ALL FOLKS

Message Sent To:

Robert M. Shireman/OMB/EOP
Patricia A. Smith/OMB/EOP
S. A. Noe/OMB/EOP
Leslie S. Mustain/OMB/EOP
Kathryn B. Stack/OMB/EOP

SAN DIEGO UNION-TRIBUNE FEB 04 1997 //.

Fine print in proposed college tax break

Plan's complexity and privacy issues pose challenges

By R.A. Zaldivar
KNIGHT-RIDDER NEWS SERVICE

WASHINGTON — President Clinton's proposed college-tuition tax breaks may sound like a great deal for middle-income families, but the fine print could cause a few headaches.

Clinton will highlight his higher-education agenda in his State of the Union message tonight, and in the budget proposal due later this week. His goal: "making two years of college education as universal as a high school diploma." Republicans in Congress are receptive, since an educated work force, is critical to economic growth.

President Clinton

When Clinton steps up to a microphone, he can make his plan sound simple: a $1,500-a-year "Hope Scholarship" tax benefit for the first two years of college; up to $10,000 a year in tuition tax deductions for lifelong learning; penalty-free IRA withdrawals for education; and an expansion of Pell Grants for low-income students.

But the plan has many moving parts. It also involves a major new role for the Internal Revenue Service in higher education, at a time when the agency is struggling to meet the demands of modernization.

How these moving parts will mesh with each other, with an already complicated financial aid system, and an even more intricate tax system, is a source of concern for supporters and critics of the plan alike.

For starters, many taxpayers don't know the difference between a tax credit and a tax deduction — much less which would be better for them in a given circumstance. (A tax credit is subtracted directly from taxes owed, while a tax deduction is subtracted from income before it's taxed.)

In Clinton's plan, families must pick either a credit or a deduction for the first two years of college tuition. Making the wrong choice could cost them hundreds of dollars.

For example, a family earning $60,000 with a $3,000 tuition bill would save $1,500 with the credit and $840 with the deduction.

The $1,500 tax credit — which at first sounds smaller than a $10,000 deduction — would actually be better for the majority of families.

"The workings of it are hard to understand," said Julie Schorr, student government president at Miami-Dade Community College's Kendall campus. "I think people should be able to receive information about the choices, explicitly laid out according to which would benefit you more."

Though college trade associations support the president's plan, their officials are also concerned about its many wrinkles.

"Student aid is a complicated business," said Terry Hartle, a lobbyist for the American Council on Education. "What's being added to the mix is that we're going over to the tax side of the equation. We all know that when the IRS gets involved, it's never as simple as one would wish."

Here are several possible complications to keep in mind:

■ Lag Time

Tax refunds would not come until the spring after tuition payments are made. A family having a hard time scraping up tuition money would not get any up-front help. David Pierce, president of the American Association of Community Colleges, sees a market for "bridge loans" to tide students over until the tax refund comes. But loans involve fees and interest costs.

■ IRS as Grade Monitor

To get a second year of the $1,500 Hope Scholarship tax credit, students must maintain a B-minus average. Sounds reasonable, but how is the IRS going to know? Grades are confidential, and colleges or families would have to supply the information. It would mean an extension of the IRS into an area it normally doesn't get involved in. What's more, students would have to vouch to the tax authorities that they're drug-free.

■ Four-year Bias?

Though Clinton has put a lot of emphasis on guaranteeing a community-college education for all, most of the benefit of his six-year, $36 billion tax-cut package would probably go to students in four-year colleges. Economist Norton Grubb of the University of California at Berkeley said benefits for community-college students are likely to be smaller because many study part-time and pay less in tuition.

■ Uneven Benefits

Under the president's plan, families making up to $80,000 would be able to claim a tax benefit of up to $10,000 a year for tuition. (The benefit would be available throughout a person's lifetime.) But the size of the benefit is weighted toward upper-income people. For example, a family making $60,000 and paying $3,000 in tuition would get a tax break of $840, while a family making $35,000 and paying the same amount in tuition would get only $450. The reason: tax deductions are worth more to people in higher income brackets.

John Buckley 225-4021 Marge Stark

$20 - 30

- #s of children
- stacked after family care credit...

-earnings of the students?

- dependent over $17.50

$100 / week = $5,000 / year

All tax rate of 50

$1500

- $1500 tuition school...

earn 7000/year

- VS. tax liability
- why not: get a $1500 All - of prior yr...
- stack after the other credits...

ALSO - stack after

Testimony of Donald C. Lubick, Acting Assistant Secretary for Tax Policy, U.S. Department of the Treasury (accompanied by David Longanecker)

Donald Lubick's written testimony outlined all of the Administration's tax provisions of the FY 98 budget. Due to time restrictions, he briefly discussed the entire proposal and gave short summaries of the higher education provisions.

Rep. Archer contended that the tax credits and deductions in the proposal would expire at the end of 2000 unless there was an affirmative vote to extend them. Lubick said that the statutory language, which was required by CBO, stated that these provisions would sunset only if economic projections are not met. Archer said that the language was clear and unequivocal, and he refuted Lubick's claim that CBO mandated the statutory language. Archer ended by asking Lubick why he was ducking the question.

There were several questions about HOPE Scholarships, including: how the IRS would verify eligibility; if additional funds would be appropriated to the IRS for the verification process; and how much this process would cost institutions. Lubick responded that any cost-benefit analysis of the process would favor the institution, and Longanecker followed by saying that we will do everything we can to control costs.

Lubick was also asked and whether community colleges would feel pressure to raise their tuition to $1500. In response, Lubick pointed out that the G.I. Bill did not drive up tuition, and he also cited a NAICU study that shows tuition may actually decrease with HOPE. Longanecker said that, while the natural laws of economics would support the argument for an increase, market and other forces will still be at work to contain tuition.

Some additional questions:

Rep. Stark (D-CA):	Will these tax proposals create any new jobs?
Mr. Lubick:	These subsidies will help people get and keep jobs.
Rep. Stark (D-CA):	The President's tax proposals will help those who would go to college anyway. How will his plan encourage savings?
Mr. Lubick:	By phasing-out the credit and the deduction at incomes over $100,000.
Mr. Rangel (D-NY):	Will anyone at the White House monitor all of these pieces?
Mr. Longanecker:	The President (laughter). Gene Sperling was "the kingpin."
Rep. Ensign (R-NV):	Which problem is worse, K-12 or higher education? If students are not prepared for college after 12 years of school, shouldn't we focus on K-12?
Mr. Longanecker:	You must view the President's education package as a whole.

S. A. Noe

02/24/97 11:26:42 AM

Record Type: Record

To: Robert M. Shireman/OMB/EOP

cc:

Subject: Pell numbers

You asked whether we're now questioning the statement about 891,000 students (independent students with no children) receiving an average increase of over $800.

The statement is still correct, technically speaking, but those who understand what an "average" means would realize that it does not convey very useful information. When we were making the WH press document last month, we did not have the distribution of award GAIN among independent students. The average statement was the best we could come up with. But we now know more aobut the distribution of award gain. What we know now is that:

Of the 891,000 independent student recipients (with no children), about 32 percent gain nothing; 44 percent gain more than $1,000; and 24 percent gain somewhere between $1 and $1,000.

Given the information we have now, we can say that:

- Under the President's proposal, 391,000 independent students with no children would receive an increase of more than $1,000; or
- 508,000 independent students with no children would receive an increase of more than $500.

In addition to this independent student stuff, remember also that we can throw out this statistics:

- About 92 percent of the President's increase in Pell would go to families and indepedent students with incomes of $30,000 or less.

Are these people who already get a grant. I.e., are they all in addition to the 218,000 who are new recipients under the ind. student change?

That figure includes both new and "old" students. Of 391,000 students, 230,000 are students who already get a grants; and 161,000 are NEW recipients who would receive more than $1,000 for the first time – Prior to 1998, these people didn't get any.)

Of 218,000 new independent recipients, 161,000 would receive more than $1000; and 57,000 would receive $1000 or less.

National Association
of Independent
Colleges and Universities

news release

Embargo for Release: Monday, March 3, 1997
Contact: Tim McDonough or Monette Goodrich, (202) 785-8866

Two NAICU Studies Help Shed New Light on Factors Affecting Tuition at Private Colleges and Universities

Findings Show Federal Student Aid Does Not Lead to Tuition Increases

WASHINGTON, March 3 -- The National Association of Independent Colleges and Universities (NAICU) today released two studies that shed new light on the way campus budget decisions are made, the factors affecting tuition growth, and the impact of federal and institutionally provided student financial aid.

The combined results of the studies demonstrate emphatically that federal student aid does not contribute to tuition increases at private colleges and universities. Instead, other factors, such as education-related costs and institutionally provided student aid, are the major determinants of tuition. The reports also show that private institutions have been able to maintain access for students from low- and moderate-income families largely due to student aid provided from the institutions' own resources.

"This is some of the most compelling evidence to date on the subject of college cost and the impact of student aid," said Frank Balz, NAICU vice president for research and policy analysis. "The econometric analysis examines publicly available databases -- and the separate studies corroborate one another. I think this material will be very useful to help policymakers and the public understand the financial decisions being made at private colleges and universities."

The first report, "A Commitment to Affordability: A Survey of Budget Priorities at Independent Colleges and Universities," was released in summary form (the final report will be completed later this spring). The survey of more than 400 private colleges and universities looks specifically at campus revenues and expenditures, and other factors associated with tuition and fees during academic years 1994-95 through 1996-97.

Growth in Tuition and Fees

- The top three factors accounting for tuition and fee growth at independent colleges and universities during the last three years were technological improvements on campus (mentioned by 85 percent of survey respondents),

naicu 1025 Connecticut Avenue, N.W. • Suite 700 • Washington, D.C. 20036-5405 • 202/785-8866 • FAX: 202/835-0003

institutionally provided student financial aid (80 percent), and faculty salaries and benefits (79 percent). Other factors cited as having either a "great" or "moderate effect" included the decrease in the amount of federal student financial aid (66 percent).

- Although respondents did not say that they necessarily took any of these specific actions, the factors most frequently mentioned as likely to have only a "slight" or "no effect" on tuition increases included: growth in the status or popularity of the institution (mentioned by 71 percent of respondents), and tuition charges at "peer" institutions (60 percent).

Growth in Campus Expenditures

- When asked what expenditures had increased faster than the rate of inflation during the last three years, respondents most often mentioned institutionally provided student financial aid and academic computer equipment (both cited by 70 percent of respondents), and administrative computing equipment (59 percent).

Controlling Expenditures

- Independent colleges and universities have taken a wide variety of actions to control expenditures during the last three years. The actions taken that were most often reported as having a "great" or "moderate effect" were implementing institution-wide budget cuts (45 percent of respondents), increasing the operating efficiency of the physical plant (42 percent), restructuring institutional debt and deferring maintenance of campus facilities (both 39 percent), eliminating administrative positions (37 percent), and not filling open faculty positions (35 percent).

Increasing Revenues

- The actions taken to increase revenue at independent colleges and universities that were most frequently mentioned as having a "great" or "moderate effect" were: increasing full-time enrollment (65 percent of respondents), increasing efforts to obtain voluntary contributions (59 percent), improving cash management practices and investment earnings (57 percent), and reducing student attrition (50 percent).

The second report, "Ten Facts about Tuition at Independent Colleges and Universities," results from an extensive statistical analysis of data from federal and campus sources conducted for NAICU by the Human Capital Research Corporation of Chicago. Its focus was to examine the elements that contribute most significantly to tuition and fees at independent colleges and universities.

Among the facts backed up by statistical analysis in the NAICU report:

Instead of causing increases in tuition, federal grant aid to students *actually helps to slow* the rate of tuition growth at independent colleges and universities.

- Federal grant aid to students shows a significant and moderating effect on increases in tuition and fees in independent higher education. Data analyses demonstrate emphatically that increases in federal student grant aid actually lower the rate of tuition growth. But as the availability of federal student grant aid has decreased, the rate of tuition growth has increased.

The majority of undergraduates at independent colleges and universities do not pay full tuition because of grant and scholarship assistance.

- Nearly all (97 percent) full-time, full-year undergraduates with family incomes of less than $15,000 receive some form of grant assistance to attend an independent institution, as do 95 percent of students with family incomes between $15,000-$30,000, and 86 percent of students from families earning between $30,000-$45,000.

Actual out-of-pocket tuition expenses have changed at a rate substantially slower than the rate of growth for published tuition levels.

- Although published tuition has increased faster than the rate of inflation, net tuition (after grant and scholarship aid) has increased at a much slower rate than the published tuition. In fact, between 1993 and 1996, average annual increases in net tuition were just one quarter of the increase in the published average tuition.

The difference in out-of-pocket expenses for public and independent colleges and universities is less than you might think.

- After taking into account the grant aid that students attending four-year public and independent institutions receive, the average price difference between the sectors declines from about $9,400 to approximately $5,600. More significantly, the price difference (when only grant aid is considered) diminishes sharply as family resources decline. On average, a student whose family income is less than $30,000 will receive sufficient institutional grant assistance to reduce the price difference between public and private institutions to about $3,200.

The cost of educating students is the largest determinant of tuition growth at independent colleges and universities.

- Educational costs (such as faculty salaries and academic computing equipment) are the single largest factor associated with tuition growth at independent colleges and universities. By itself, this category accounts for 36 percent of the increase in tuition and fees.

Copies of the NAICU reports can be obtained free of charge by calling (202) 785-8866.

NAICU is the national organization representing private colleges and universities on public policy issues with the legislative, executive, and regulatory branches of the federal government. Founded in 1976, the association has nearly 900 members nationwide, including liberal arts colleges, two-year colleges, major urban research universities, historically black institutions, women's colleges, church-related colleges, and schools of law, medicine, engineering, and business.

######

NAICU: Tuition Hikes Not Tied To Federal Aid (Cont.)

than the availability of federal student aid. When there is more federal student aid available, institutions do not have to spend as much generating their own financial aid.

Of 425 private colleges and universities surveyed, 85 percent said technological upgrades accounted for some of the growth in tuition and fees over the past three years. Institutional student aid drove up costs for 80 percent of those surveyed; faculty salaries and benefits drove tuition at 79 percent of the schools.

NAICU's studies come as Congress prepares to reauthorize federal student aid programs and is looking at rising college costs. President Clinton has also targeted student aid as a priority this year, proposing an increase in the maximum Pell Grant and postsecondary education tax incentives.

Faster Than Inflation

Congressional lawmakers have criticized colleges and universities for raising tuition much faster than inflation for 15 years.

A General Accounting Office report released last summer found that tuition at public four-year institutions has increased 234 percent since 1980 (ED, Aug. 20, 1996).

Tuition and fees at public four-year institutions averaged \$2,860 in 1995, up from \$1,285 in 1986, according to the College Board. At private four-year institutions, the costs averaged \$12,432 in 1995, up from \$6,581 in 1986.

Controlling Costs

Seventy percent of the institutions surveyed said that institutional aid costs have grown faster than inflation on their campuses.

Many institutions are deferring building maintenance, making campus-wide budget cuts and not filling vacated faculty and administrative positions, Balz said.

"I think one of the myths about higher education is that the schools aren't thinking or doing anything to keep down expenditures," he said.

The studies also noted that private colleges are trying to increase full-time enrollment, prevent student attrition and increase alumni and corporate contributions to increase revenue.

The House Budget Committee is planning a hearing on college costs Wednesday.

"A Commitment to Affordability: A Survey of Budget Priorities at Independent Colleges and Universities" and "Ten Facts About Tuition at Independent Colleges and universities" are free from National Association of Independent Colleges and Universities, 1025 Connecticut Ave. NW, Suite 700, Washington, D.C. 20036, (202)785-8866. —Rebecca S. Weiner

ED Outlines Impact Of Clinton Tax Incentives

A detailed inspection of President Clinton's proposed tax breaks for college students clearly shows how they would aid middle-income families over low-income ones.

The department dissected how much assistance families would get from Clinton's proposed \$3,000 maximum Pell Grant; a \$1,500 nonrefundable tax credit, or Hope Scholarship; a \$10,000 tax deduction; and student loans *(see charts, pp. 7-8)*.

Families making \$20,000 or less with one student in a four-year public institution would receive \$45 from the \$10,000 tax deduction. A family making \$30,000 would recoup \$218, and a family making \$60,000 would save \$495.

Education Secretary Richard Riley released the chart at a Senate hearing last week on the reauthorization of the Higher Education Act (ED, Feb. 28). —Rebecca S. Weiner

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How Clinton's Proposed Tax Breaks Would Affect College Students, 1998-99 (Cont.)

Independent student[1]

Income of $10,000

	Community college: Year one	Community college: Year two	Public four-year: Year one	Public four-year: Year two	Public four-year: Year three, four	Private four-year: Year one	Private four-year: Year two	Private four-year: Year three, four
Average cost[2]	$6,500	$6,500	$10,800	$10,800	$10,800	$22,400	$22,400	$22,400
Tuition	1,500	1,500	3,300	3,300	3,300	14,100	14,100	14,100
Expected family contribution	0	0	0	0	0	0	0	0
Student aid								
Pell Grant	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Stafford Loan eligibility								
Subsidized	2,625	3,500	2,625	3,500	5,500	2,625	3,500	5,500
Unsubsidized	875	0	4,000	4,000	2,300	4,000	4,000	5,000
Tax benefit								
Hope Scholarship tax credit	0	0	0	0	0	0	0	0
Tax deduction[4]	0	0	45	45	45	458	458	458

Income of $20,000

	Community college: Year one	Community college: Year two	Public four-year: Year one	Public four-year: Year two	Public four-year: Year three, four	Private four-year: Year one	Private four-year: Year two	Private four-year: Year three, four
Average cost[2]	6,500	6,500	10,800	10,800	10,800	22,400	22,400	22,400
Tuition	1,500	1,500	3,300	3,300	3,300	14,100	14,100	14,100
Expected family contribution	3,535	3,535	3,535	3,535	3,535	3,535	3,535	3,535
Student aid								
Pell Grant	0	0	0	0	0	0	0	0
Stafford Loan eligibility[3]								
Subsidized	2,625	3,500	2,625	3,500	5,500	2,625	3,500	5,500
Unsubsidized	3,875	3,000	4,000	4,000	5,000	4,000	4,000	5,000
Tax benefit								
Hope Scholarship tax credit	1,500	1,500	1,500	1,500	N/A	1,500	1,500	N/A
Tax deduction[4]	--	--	--	--	495	--	--	720

Income of $30,000

	Community college: Year one	Community college: Year two	Public four-year: Year one	Public four-year: Year two	Public four-year: Year three, four	Private four-year: Year one	Private four-year: Year two	Private four-year: Year three, four
Average cost[2]	6,500	6,500	10,800	10,800	10,800	22,400	22,400	22,400
Tuition	1,500	1,500	3,300	3,300	3,300	14,100	14,100	14,100
Expected family contribution	7,850	7,850	7,850	7,850	7,850	7,850	7,850	7,850
Student aid								
Pell Grant	0	0	0	0	0	0	0	0
Stafford Loan eligibility[3]								
Subsidized	0	0	2,625	2,950	2,950	2,625	3,500	5,500
Unsubsidized	5,900	5,900	4,000	4,550	5,000	4,000	4,000	5,000
Tax benefit								
Hope Scholarship tax credit	1,500	1,500	1,500	1,500	N/A	1,500	1,500	N/A
Tax deduction[4]	--	--	--	--	495	--	--	750

[1] *Based on a single independent student without dependents.*
[2] *Based on estimates assuming 5 percent growth per year for public institutions and 6 percent per year for private institutions.*
[3] *Maximum amount of loan eligibility, not taking into account any other institutional, state or federal aid, such as Supplemental Educational Opportunity Grants, Work-Study or Perkins Loans.*
[4] *Maximum deduction would be $5,000 in 1998 and increased to $10,000 in 1999 and beyond.*

Source: Education Department.

How Clinton's Proposed Tax Breaks Would Affect College Students, 1998-99

Editor's note: The following charts show projected tax breaks based on family status, income and type of school. A deduction is not shown when the Hope Scholarship tax credit is larger, because families would have to choose. The tax credit would be unavailable after two years of college.

	Dependent student[1]							
	Family with income of $20,000							
	Community college		**Public four-year**			**Private four-year**		
	Year one	**Year two**	**Year one**	**Year two**	**Year three, four**	**Year one**	**Year two**	**Year three, four**
Average cost[2]	$6,500	$6,500	$10,800	$10,800	$10,800	$22,400	$22,400	$22,400
Tuition	1,500	1,500	3,300	3,300	3,300	14,100	14,100	14,100
Expected family contribution	0	0	0	0	0	0	0	0
Student aid								
Pell Grant	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Stafford Loan eligibility								
Subsidized	2,625	3,500	2,625	3,500	5,500	2,625	3,500	5,500
Unsubsidized	0	0	0	0	0	0	0	0
Parent loan eligibility[3]	875	0	5,175	4,300	2,300	16,775	15,900	13,900
Tax benefit								
Hope Scholarship tax credit	0	0	0	0	N/A	0	0	N/A
Tax deduction[4]	0	0	45	45	45	720	720	720
	Family with income of $30,000							
	Community college		**Public four-year**			**Private four-year**		
	Year one	**Year two**	**Year one**	**Year two**	**Year three, four**	**Year one**	**Year two**	**Year three, four**
Average cost[2]	6,500	6,500	10,800	10,800	10,800	22,400	22,400	22,400
Tuition	1,500	1,500	3,300	3,300	3,300	14,100	14,100	14,100
Expected family contribution	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150
Student aid								
Pell Grant	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850
Stafford Loan eligibility								
Subsidized	2,625	3,500	2,625	3,500	5,500	2,625	3,500	5,500
Unsubsidized	0	0	0	0	0	0	0	0
Parent loan eligibility[3]	2,205	1,150	6,325	5,450	3,450	17,925	17,050	15,050
Tax benefit								
Hope Scholarship tax credit	0	0	0	0	0	0	0	0
Tax deduction[4]	0	0	218	218	218	750	750	750
	Family with income of $60,000							
	Community college		**Public four-year**			**Private four-year**		
	Year one	**Year two**	**Year one**	**Year two**	**Year three, four**	**Year one**	**Year two**	**Year three, four**
Average cost[2]	6,500	6,500	10,800	10,800	10,800	22,400	22,400	22,400
Tuition	1,500	1,500	3,300	3,300	3,300	14,100	14,100	14,100
Expected family contribution	7,610	7,610	7,610	7,610	7,610	7,610	7,610	7,610
Student aid								
Pell Grant	0	0	0	0	0	0	0	0
Stafford Loan eligibility								
Subsidized	0	0	2,625	3,190	3,190	2,625	3,500	5,500
Unsubsidized	2,625	3,500	0	310	2,310	0	0	0
Parent loan eligibility[3]	3,875	3,000	8,175	7,610	7,610	19,775	18,900	16,900
Tax benefit								
Hope Scholarship tax credit	1,500	1,500	1,500	1,500	N/A	1,500	1,500	N/A
Tax deduction[4]	--	--	--		495	--	--	750

Mild
MN

(more)

[1]*Based on a family of three with one child in college.*
[2]*Based on estimates assuming 5 percent growth per year for public institutions and 6 percent for private institutions.*
[3]*Maximum amount of loan eligibility, not taking into account any other institutional, state or federal aid.*
[4]*Maximum deduction would be $5,000 in 1998 and increase to $10,000 in 1999 and beyond.*

ACE Backs Clinton's Higher Education Plan

President Clinton this week picked up support for his student aid proposals from the nation's primary higher education lobby.

"Your endorsement today will be a historic element in making sure that this will be a part of the ultimate budget plan," Clinton told American Council on Education (ACE) members at the group's annual conference in Washington, D.C. on Monday.

Conference Report

ACE's backing carries political clout because it represents the country's higher education associations and 1,700 colleges and universities. The American Association of Community Colleges (AACC), which represents 1,113 schools, this week endorsed parts of the plan, such as increasing the Pell Grant maximum to $3,000.

Reservations Linger

Although ACE's governing board unanimously endorsed Clinton's plan, the group, along with AACC, has some questions about how the tax proposals would work. ACE is also concerned about the necessity of requiring a "B" average to earn a $1,500 nonrefundable tax credit.

"Our concern is how it will work for all students," said ACE President Stanley Ikenberry. Ikenberry added that the requirement for a "B" average could lead to grade inflation and a substantial administrative burden, which GOP lawmakers also have cited (ED, Feb. 6).

Clinton's budget proposal includes not only the tax credit, but also offering a $10,000 tax deduction for postsecondary expenses and extending tax breaks for employer-paid tuition.

Lenders and guarantors oppose provisions to reduce loan subsidies to banks and would return guarantors' federally funded reserve funds back to the government (ED, Feb. 7).

Bipartisan Mood

At least part of the president's plan has a receptive audience in Congress *(see story, p. 6)*. Senate Majority Leader Trent Lott, R-Miss., told ACE he is willing to work with Clinton on some of the tax provisions.

"Instead of drop-kicking the president's [budget] proposal across the street, we said it was a start, a teeny one," Lott said.

Lott added that he'd like to move the Senate Republican education bill, S.1, this year. It would let borrowers deduct $2,500 annually in interest paid on student loans, and make earnings from Work-Study jobs tax exempt.

The Senate Labor and Human Resources Committee will hear from Education Secretary Richard Riley tomorrow. —Rebecca S. Weiner

Tax-Based Education Policy Aids Middle-Income Families

A new report backs up charges that President Clinton's proposed education tax incentives would do more to subsidize college costs for middle-income families than improve access for low-income students.

One problem is that lost federal revenue from the tax cuts could drain funding for need-based aid programs, such as Pell Grants, says the report released yesterday by The Education Resources Institute and the Institute for Higher Education Policy.

Lost tax revenues likely would "be made up [through] cuts in discretionary spending, placing student aid funding in an even more precarious position" than now, the report says.

Another problem, it says, is that middle- and upper-income persons are more familiar with the tax code, and more likely to take advantage of available breaks: In 1995, taxpayers making less than $30,000 a year filed 53 percent of all returns, but only 9 percent of all itemized returns, the groups say in their report.

Clinton has proposed allowing $10,000 in deductions for postsecondary education expenses, and wants a $1,500 tax credit (ED, Jan 28).

The report documents divergent college participation rates. In 1994, the rate for the poorest high school graduates was 58 percent, compared to 88 percent for those whose families were in the top quarter of the income scale.

"Taxing Matters: College Aid, Tax Policy and Equal Opportunity" is free from Education Resources Institute, 330 Stuart St., Suite 500, Boston, Mass. 02116-5237, (800)255-375, ext. 4762. —Rebecca S. Weiner

go-ahead for craft with a of slightly less than one ages unambiguously in the he spy zone.

the rules let American s photograph anything ce and sell the fresh im- the open market. But the ent retains the right to their cameras in time of ernational tensions, a plan shutter control.

leral Government also has to screen and limit the companies' foreign cus- fations likely to be denied the imagery include Iraq, ba and North Korea. But perts say front companies ibly evade export prohibi- hey have repeatedly done ..., chemical, biological and technologies.

ly the change of Federal poli- iding some of the Pentagon's experienced contractors. For e, the Eastman Kodak Com- a key maker of cameras for ment espionage, is hard at or the commercial spy compa- well.

e vanguard of the new indus- Earthwatch. With about 200 yees, it is building two satel- th three-meter resolution, and th one-meter resolution. The to soar aloft from Siberia in r May, atop a Russian rocket. porate partners include Ball ace and Technologies Group, by the Ball Corporation, and i Ltd. of Japan.

hwatch draws on the innova- f the Pentagon's anti-missile m, which has spent more than lion to find ways to spot and rising rockets and warheads pace.

giant of the fledgling field is Imaging Inc., based in Thorn- lo. The private company is by the Lockheed Martin Cor- n, which makes many of the y's spy satellites, and E-Sys- nc., a unit of the Raytheon ny that provides many of ommunication links.

e Imaging is building two sat- with one-meter resolution, the which is scheduled to blast d on an American rocket in ber from California.

president of Space Imaging is K. Harris, who from 1994 to irected the National Recon-

And foreign governments with the wherewithal are scrambling to enter the commercial fray. The Indian Government last year began selling five-meter imagery, currently the best that is timely. By 1999, it hopes to have a new satellite that will yield 2.5-meter imagery.

"The genie is out of the bottle," said Christopher Simpson, an expert on space reconnaissance at American University in Washington. In March, he plans to hold a conference on how news and nongovernmental organizations can use the imagery.

Dr. Wheelon, who was the C.I.A.'s deputy director for science and technology in the 1960's, said the new trend threatened to lessen the value of the diplomatic currency of military spy photos, which the United States shares with such allies as Australia, Canada, Israel and Britain.

And, he said, Governmental shutter control over the new cameras would most likely prove awkward or futile because Washington would be unlikely to always know ahead of time when censorship might be in the best interests of the United States.

So too, civil libertarians foresee knotty problems. They say that courts weighing aerial-photography cases have steadily eroded privacy protections and that the new technologies threaten to further the trend.

But many experts say the new surveillance age, though laden with problems, is probably good over all because it plays to American strengths and against totalitarian governments.

"We fought the cold war to prove that open-information societies are better than closed ones," said Joanne Gabrynowicz, a lawyer in space policy studies at the University of North Dakota in Grand Forks. "We can't stop now."

Clinton Fills Political Post

WASHINGTON, Feb. 9 (AP) — President Clinton on Friday selected an Arkansas loyalist, Craig Smith, to be the White House political director.

Mr. Smith, 38, was the first employee in Mr. Clinton's 1992 Presidential campaign, later serving in the White House personnel department and as political director of the 1996 campaign.

years.

But economists say there are two factors that could make such a program backfire.

The first is that subsidies, whether for medical care, housing or education, typically lead to higher prices and higher income for the sellers of a product. In economic theory, at any given price, people are willing to buy a certain amount of a product. If the price rises, people will tend to buy less. But if they have more income, they tend to want more. In this case, theory suggests, colleges would be able to raise tuition somewhat and not lose buyers because the buyers would have somewhat more money.

In the college market, however, a small number of top colleges already charge premium prices, with tuitions of $20,000 or more, and could probably raise prices further and still have 5 or 10 applicants for every seat. Other colleges with empty seats have been cutting tuition to try to attract more students. And many public colleges, some selective, some not, have tried to keep tuition low to encourage access.

"How prices are set and what forces tuitions up is very elusive," said Lawrence E. Gladieux, executive director for policy analysis at the College Board. But, he said, even if colleges do not raise tuitions, they may be able to share in some of the Federal windfall by reducing the financial aid they provide. He noted that financial aid at many high-cost colleges was based on the parents' income. And if families are better off after the tax breaks, financial aid may be reduced somewhat.

A second factor that could lead to higher tuition is that if the program succeeds in helping more students — particularly low-income students — go to college, colleges that are already filled to capacity would have to expand to absorb the new students. They will have to build new classrooms, dormitories and gymnasiums, add computers and hire new faculty members and will need money to pay for them.

"The picture President Clinton paints is immensely popular and appealing," said Gordon C. Winston, chairman of the economics department at Williams College and co-director of the Williams Project on the Economics of Higher Education. "But the thing I keep coming back to and fretting about is that tuition pays only a small part of the cost of col-

dent policy for the college," Mr. Longanecker said.

And even though families would be able to take a tax deduction for tuition for any year of college, that is not a dollar-for-dollar subsidy the way a tax credit is. The Government effectively picks up part of the tuition bill, rather than all of it. For a family in the 28-percent tax bracket, the Government would effectively

An obstacle is seen in a proposal to make college more affordable.

pay 28 cents of every dollar, up to the limit. "So an increase in tuition is still painful," Mr. Longanecker said.

He added that Administration officials would be "using the bully pulpit" to reinforce the notion that the financial aid is meant to help people, not colleges. "If some governors or state legislators try to capture this money to reduce their state obligations, it is not going to be very popular," he said.

Officials at some public universities, which account for more than 80 percent of American college students, said last week that they would work to try to hold tuition down.

"We are ideologically locked into keeping fees low," said Paul A. Elsner, chancellor of the Maricopa Community Colleges in Arizona.

And Judith S. Eaton, chancellor of the Minnesota State Colleges and Universities, added: "None of us likes to raise tuition. Is there a margin of ease if we know student aid will cover? Yes. But I don't believe that we as an entity sit around and say, 'Let's raise tuition, because it's covered.' That is not the mind set."

But in many states, college officials have been losing the battle to hold tuition down as state legislatures seek to cut spending.

Complicating the picture is the fact that colleges are seeing their enrollments rise for other reasons. One is demographics, said Frank Levy, a professor of urban studies at the Massachusetts Institute of Technology and co-author of "Teaching the New Basic Skills."

Mr. Levy said the number of college-age students had begun to rise again after many years of decline and would continue to rise for a while. Also, he said, more people are attending college because they see it as necessary for good jobs.

Frank Newman, president of the Education Commission of the States, a Denver-based nonprofit group that advises state officials on education policy, said that one way out was to look for less costly approaches to education, like classes over the Internet. He points to the decision by 10 Western states last year to set up a virtual university and efforts in other states, like California and Florida, to develop such colleges.

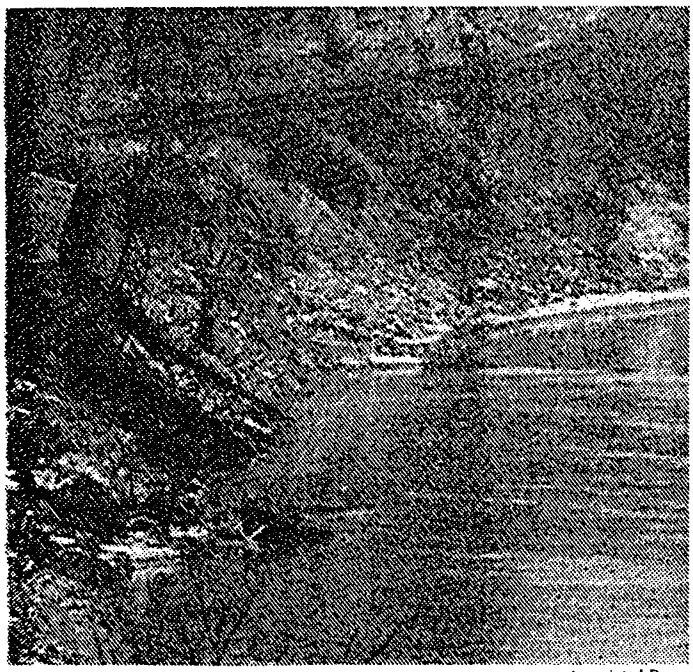
Mr. Newman, like many educators who want to broaden access to higher education, applauded the President's move to make education a priority.

"People talk about the Republicans' pulling Clinton closer to them," he said. "On education, he's pulled the Republicans over to him. He has turned this issue from a question of where to slash this further to where to put money in. That is a huge change."

Associated Press

rection in Rifle Association Fails

nt members of the National Rifle Association during an acrimonious meeting of the group's o make it easier to remove the current leaders. Wayne LaPierre, left, executive vice president, listened during debate yesterday, while Marion Hammer, president, led the session.



Associated Press

:ar Jefferson City, Mo., on Saturday, spilling 3,000 tons of coal
:ak took passengers on buses from St. Louis and Kansas City.

Is Starting This Spring

ıl officials say
ıefits outweigh
ks of private
age satellites.

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In early 1993, it granted a
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vas the most dramatic step,
go-ahead for craft with a
of slightly less than one
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he spy zone.
the rules let American
s photograph anything
ce and sell the fresh im-
the open market. But the
ent retains the right to
their cameras in time of
ernational tensions, a plan
shutter control.
leral Government also has
to screen and limit the
companies' foreign cus-
lations likely to be denied
the imagery include Iraq,
ba and North Korea. But
perts say front companies
ibly evade export prohibi-
hey have repeatedly done
... chemical, biological and
technologies.
y the change of Federal poli-
ding some of the Pentagon's
xperienced contractors. For
e, the Eastman Kodak Com-
key maker of cameras for
ment espionage, is hard at
r the commercial spy compa-
well.
e vanguard of the new indus-
Earthwatch. With about 200
ees, it is building two satel-
th three-meter resolution, and
th one-meter resolution. The
to soar aloft from Siberia in
r May, atop a Russian rocket.
porate partners include Ball
ace and Technologies Group,
by the Ball Corporation, and
Ltd of Japan.

naissance Office, the secretive Federal group that builds and runs the Government's spy satellites.

"I'm confident we're on a path to being quite successful," he said in an interview.

Other companies pursuing the work include the Boeing Company, Motorola Inc. and the Orbital Sciences Corporation, a company in Dulles, Va., that wants to have a one-meter satellite aloft by 1999.

The initiatives have sparked rival efforts beyond American business. For instance, NASA is preparing to send up two reconnaissance satellites — Lewis, with five-meter resolution, and Clark, with three-meter resolution. NASA plans to share the imagery with American students.

And foreign governments with the wherewithal are scrambling to enter the commercial fray. The Indian Government last year began selling five-meter imagery, currently the best that is timely. By 1999, it hopes to have a new satellite that will yield 2.5-meter imagery.

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Clinton Tax Break Plan Is Called a Tuition Prod

Economists Cite Effect of Greater Demand

By KAREN W. ARENSON

President Clinton's goal in the budget he proposed last week for higher education is to make college more affordable.

But economists say that if the plan of tuition tax breaks for the middle class and more and bigger Pell grants for needy students is carried out, colleges are likely to raise tuition. At least some of the money, they say, would end up in college treasuries rather than family pocketbooks.

"The economics certainly suggest tuition increases," said David W. Breneman, an economist and dean of the Curry School of Education at the University of Virginia. "The only question is whether there are sufficiently high public-relations and political pressures to act as brakes."

The cost of attending college has spiraled upward faster than inflation for years, stretching the resources of many families and putting college beyond the reach of some. It is that pressure that President Clinton hoped to deal with in his education program.

Mr. Clinton would offer families with annual incomes of up to $100,000 the right to a tax credit of up to $1,500 a year, slightly more than the average tuition at community colleges nationally, for each of the first two years of college, provided the student maintains a B average.

Alternatively, families with incomes of up to $100,000 would be allowed to take a tax deduction of up to $5,000 a year at first and up to $10,000 after 1997 for post-secondary education or job training.

The tax credit and deduction are expected to cost $36 billion over five years.

But economists say there are two factors that could make such a program backfire.

The first is that subsidies, whether for medical care, housing or education, typically lead to higher prices and higher income for the sellers of a product. In economic theory, at any given price, people are willing to buy a certain amount of a product. If the price rises, people will tend to buy less. But if they have more income, they tend to want more. In this case, theory suggests, colleges would be able to raise tuition somewhat and not lose buyers because the buyers would have somewhat more money.

In the college market, however, a small number of top colleges already charge premium prices, with tuitions of $20,000 or more, and could probably raise prices further and still have 5 or 10 applicants for every seat. Other colleges with empty seats have been cutting tuition to try to attract more students. And many public colleges, some selective, some not, have tried to keep tuition low to encourage access.

"How prices are set and what forces tuitions up is very elusive," said Lawrence E. Gladieux, executive director for policy analysis at the College Board. But, he said, even if colleges do not raise tuitions, they may be able to share in some of the Federal windfall by reducing the financial aid they provide. He noted that financial aid at many high-cost colleges was based on the parents' income. And if families are better off after the tax breaks, financial aid

lege."

The Department of Education said it did not have estimates of how many more students might attend college under the President's program. But more students in college would mean that many colleges already at full capacity would need to turn to taxpayers — and to higher tuitions — to raise additional money. The other choice, Professor Winston said, is a reduction in quality.

"For every dollar added to student tuition resources, somebody is going to have to add more money," he said. By his calculations, tuition covers only 11 percent of the cost of public higher education, which includes not only operating costs but also capital expenditures and interest on loans.

"Tuitions will go up sharply and everyone will scream about the rapacious institutions," he predicted.

The Department of Education acknowledges these pressures.

"Any time you put together a program that gives substantial benefits to people, you have to be concerned about whether you'll affect the market in a perverse way," said David A. Longanecker, an Assistant Secretary of Education. But he said the Clinton Administration was banking on "strong economic and political reasons why that won't happen."

On the economic side, he said, the program is structured so it is not a simple across-the-board subsidy. The tax credit for up to $1,500 a year in tuition payments applies only for the first two years of college. So if a college raised tuition, students in the third and four years would have to pay more but would not have the dollar-for-dollar tax credit to ease the pain. "Economic theory would not suggest that that would be prudent policy for the college," Mr. Longanecker said.

And even though families would be able to take a tax deduction for tuition for any year of college, that is not a dollar-for-dollar subsidy the way a tax credit is. The Government effectively picks up part of the tuition bill, rather than all of it. For a family in the 28-percent tax bracket, the Government would effectively

An obstacle is seen in a proposal to make college more affordable.

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Officials at some public universities, which account for more than 80 percent of American college students, said last week that they would work to try to hold tuition down.

"We are ideologically locked into

EDUCATION TAX MEETING
FEBRUARY 20, 1997

AGENDA

I. Distributional Issues — Pres had policy issue ?

II. Statutory Language

III. Education Investment Accounts

IV. Op-Eds

V. State by States

Robert M. Shireman

02/18/97 09:16:52 AM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:

Subject: Sperling conference call

Gene pulled together a conference call Monday afternoon with Mike Cohen, Eli Attie (W.H. communications), me (OMB), and from ED: Mike Smith, Frank Holleman, Susan Frost, Leslie Thornton, Maureen McLaughlin.

He noted that the Administration is not yet in negotiations with the Hill, so it is important, in the interim, to continue to promote the priority issues to make them "untouchable" when it comes time to negotiate. He noted a few opportunities that are coming up soon:

--this Friday, area college presidents will announce their commitment of work-study students for a D.C. reading tutor program (Leslie, get details and keep Kathy and Aromie in the loop);

--Monday (Feb. 24) POTUS will speak to ACE;

--March 3 "Direct Loans 2000" conference. Secy Riley, Sperling speaking, perhaps others.

A long discussion of various issues resulted in the following to-do list:

1. Susan Frost will do a draft of a letter that could be used to get hundreds of college presidents to endorse the basic concepts of the Administration's higher education policy.

2. NEC/DPC will call a Treasury-Education-OMB meeting on Thursday to address:
--Statutory language on regulatory authority in HOPE;
--Distributional analyses of the tax items (NOTE: Gene strongly OPPOSES releasing any);
--Proposals for design changes (as a result of distribution discussion);
--State-by-State data

3. Gene will work on getting the VP or FL to the direct loan conference.

4. Gene and Bruce will talk to Hilley about the question of the timing of the introduction of education bills on the Hill.

5. Everyone will share ideas or the ACE speech; Frost and Holleman will explore the idea of an endorsement of the Administration's package.

6. Mike Cohen will lead an effort to sort out the current status of the college presidents' commitments to America Reads tutors.

7. Leslie will explore possible op-eds.

Message Sent To:

Kenneth S. Apfel/OMB/EOP
Barry White/OMB/EOP
Larry R. Matlack/OMB/EOP
Patricia A. Smith/OMB/EOP
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S. A. Noe/OMB/EOP
Pamela B. VanWie/OMB/EOP

Biddy & Hillary Sheldon

over

- 'enrollment'

(1) - Pell grant - what it might cover later

cap on #'s of students

→ Approp

BA doesn't drive intake.

⇒ MAKE SURE PEOPLE KNOW about the tax credit

(2). GPA - prefer high school approach.

"coursework for this arts, instead of hurdle after a year"

- Approach is about yea 1st & 2nd yr

• SAP to continue or

* Buckley Amdt - school's certification.

- How are college grades of people who have low grades in H.S.?

AMERICAN COUNCIL ON EDUCATION
DIVISION OF GOVERNMENTAL RELATIONS
One Dupont Circle, Suite 835, Washington, DC 20036
Office: 202.939-9355 Fax: 202.833-4762

FAX TRANSMITTAL FORM

To: Bob Shireman

Fax Number: 395-4875

Date: 2-18-97

Number of pages (including cover) :

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- ☐ SHELDON E. STEINBACH, Vice President & General Counsel
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Message:
- ☐ For SIGN ON by:________________
- ☐ Please Respond by:________________
- ☐ URGENT
- ☐ Per Our Conversation
- ☐ Per Your Request
- ☐ Please Review & Comment
- ☐ For Your Information

1/30/97

From: Nancy Coolidge (2/14/97)
To: john.hamilton@ucop.edu
CC: Nancy Coolidge
BCC:
Priority: Normal
Date sent: 2/14/97 12:59 AM

\>>
\>>Some additional problems:
\>>-What if the student went to another school during the taxable year, or
\>>they studied abroad, or they have taken courses concurrently at another
\>>institution?
\>>
\>>-Schools could also be audited if they made mistakes.
\>>
\>>
\>>
\>>II. How to Communicate with Congress:
\>>
\>>To write a Senator:
\>>
\>>The Honorable (full name)
\>>United States Senate
\>>Washington, DC 20510
\>>
\>>Dear Senator (last name)
\>>
\>>
\>>To write a Representative:
\>>
\>>The Honorable (full name)
\>>United States House of Representatives
\>>Washington, DC 20515
\>>
\>>Dear Congressman or Congresswoman (last name)
\>>
\>>When writing the Chair of a Committee, address them as Mr. Chairman or
\>>Madam Chairwoman.
\>>
\>>For more information, please check out the AACRAO government relations
\>>web site, click on "Grassroots Lobbying."
\>>
\>>
\>>
\>>III. Talking Points:
\>>
\>>-Explain who you are and that you are a constituent. Express your
\>>gratitude for the opportunity to address your concerns.
\>>
\>>-Explain why you are writing. You are concerned that education tax
\>>credits, including President Clinton's Hope Scholarships could cause a
\>>massive burden on institutions.
\>>
\>>-Explain that these education tax credits should work like other tax
\>>credits. The taxpayer is responsible for providing information to the
\>>IRS. Schools should not be mandated to fill out forms on their behalf.
\>>
\>>-Explain the burden that would be imposed on you. For example, schools do
\>>not keep grade information based on a tax year, which the tax credits
\>>would require. Explain that schools would not only have to fill out forms
\>>but analyze student records to provide the IRS with information that
\>>schools do not have currently available.
\>>
\>>-State that the costs imposed on institutions could undermine the purpose

- more -

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BCC:
Priority: Normal Date sent: 2/14/97 12:59 AM

>>of tax credits (to help students afford college). Schools could actually
>>be audited for unintentionally providing inaccurate information.
>>
>>-Conclude by thanking the member for their time and consideration. Ask if
>>the member or their staff could meet with you and others in the District
>>Office about the issue (if this is something you would like to do).
>>
>>
>>IV. Other tips:
>>
>>-Please try to use as many means as possible to communicate with the
>>members of Congress. Call, fax , and e-mail them. Get others at your
>>school, your family, friends, and anyone else you can think of that are
>>constituents of the member, to contact the member's office.
>>
>>
>>V. The members
>>
>>House Ways and Means Committee:
>>
>>Republicans:
>>
>>Bill Archer (Chairman), Texas 7th District: phone: (202) 225-2571
>>fax (202) 225-4381.
>>
>>Philip M. Crane, Illinois 8th District: phone: (202) 225-3711 fax:
>>(202) 225-7830
>>
>>William M. Thomas, Calif. 21st District: phone: (202) 225-2915 fax:
>>(202) 225-8798
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>>E. Clay Shaw Jr., Florida 22nd District: phone: (202) 225-3026 fax:
>>(202) 225-8398
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>>Nancy L Johnson, Conn. 6th District: phone: (202) 225-4476 fax: (202)
>>225-4488
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>>Jim Bunning, KY 4th District: e-mail: bunning4@hr.house.gov phone:
>>(202) 225-3465 fax: (202) 225-0003
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>>Amory Houghton Jr., NY 31st District: e-mail: houghton@hr.house.gov
>>phone: (202) 225-3161 fax: (202) 225-5574
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>>Wally Herger, Calif. 2nd District: phone: (202) 225-3076 fax: (202)
>>225-1609
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>>Jim McCrery, La. 4th District: e-mail: mccrery@hr.house.gov phone:
>>(202) 225-2777 fax: (202) 225-8039
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>>David Camp, Mich 4th District: e-mail: davecamp@hr.house.gov phone:
>>(202) 225-3561 fax: (202) 225-9679
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>>Jim Ramstad, Minn 3rd District: e-mail: mn03@hr.house.gov phone: (202)
>>225-2871 fax: (202) 225-6351
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>>Jim Nussle, Iowa 2nd District: e-mail: nussleia@hr.house.gov phone:
>>(202) 225-2911 fax: (202) 225-9129

- more -

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>>
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>>Michael A Collins, Ga. 3rd District: e-mail: rep3mac@hr.house.gov
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>>Rob Portman, Ohio 2nd District: e-mail: portmail@hr.house.gov phone:
>>(202) 225-3164 fax: (202) 225-1992
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>>Phil English, Pa. 21st District: phone: (202) 225-5406 fax: (202)
>>225-1081
>>
>>John Ensign, Nev. 1st District: e-mail: ensign@hr.house.gov phone:
>>(202) 225-5965 fax: (202) 225-0000
>>
>>Jon Christensen, Neb 2nd District: phone: (202) 225 4155 fax: (202)
>>225-3032
>>
>>Wes Watkins, Okla 3rd District: phone: (202) 225-4565 fax: (202)
>>225-9029
>>
>>J.D. Hayworth, Ariz 6th District: e-mail: az06@hr.house.gov phone:
>>(202) 225-2190 fax: (202) 225-8819
>>
>>Gerald C. Weller, Illinois 11th District: e-mail: jweller@hr.house.gov
>>phone: (202) 225-3635 fax: (202) 225-4447
>>
>>Kenny Hulshof, Missouri 9th District: phone: (202) 225-2956 fax: (202)
>>225-7834
>>
>>
>>Democrats:
>>
>>Charles B. Rangel, NY 15th District: e-mail: rangel@hr.house.gov
>>phone: 9202) 225-4365 fax: (202) 225-0816
>>
>>Fortney H. Stark, Calif. 13th District: e-mail: petemail@hr.house.gov
>>phone: (202) 225-5065 fax: (202) 226-3805
>>
>>Robert T. Matsui, Calif. 5th District: e-mail: ca05@hr.house.gov
>>phone: (202) 225-7163 fax: (202) 225 0566
>>
>>Barbara B. Kennelly, Conn. 1st District: phone: (202) 225-2265 fax:
>>(202) 225-1031
>>
>>William J. Coyne, Pa. 14th District: phone: (202) 225-2301 fax: (202)
>>225-1844
>>
>>Sander M. Levin, Mich. 12th District: e-mail: slevin@hr.house.gov
>>phone: (202) 225-4961 fax: (202) 226-1033
>>
>>Benjamin Cardin, Md. 3rd District: e-mail: cardin@hr.house.gov phone:
>>(202) 225-4016 fax: (202) 225-9219

- more -

From: Nancy Coolidge (2/14/97)
To: john.hamilton@ucop.edu
CC: Nancy Coolidge
BCC:
Priority: Normal

Date sent: 2/14/97 12:59 AM

>>
>>James A. McDermott, Wash 7th District: phone: (202) 225-3106 fax: (206)
>>553-7175
>>
>>Gerald D. Kleczka, Wis. 4th District: e-mail: jerry4wi@hr.house.gov
>>phone: (202) 225-4572 fax: (202) 225-8135
>>
>>John R. Lewis, Ga. 5th District: phone: (202) 225-3801 fax: (202)
>>225-0351
>>
>>Richard E. Neal, Mass 2nd District: e-mail: wtranghe@hr.house.gov
>>phone: (202) 225 5601 fax: (202) 225-8112
>>
>>Michael R. McNulty, NY 21st District: e-mail: mmcnulty@hr.house.gov
>>phone: (202) 225-5076 fax: (202) 225-5077
>>
>>William J. Jefferson, La. 2nd District: phone: (202) 225-6636 fax:
>>(202) 225-1988
>>
>>John S. Tanner, Tenn 8th District: e-mail: john.tanner@mail.house.gov
>>phone: (202) 225 4714 fax: (202) 225-1765
>>
>>Xavier Becerra, Calif. 30th District: phone: (202) 225-6235 fax: (202)
>>225-2202
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>>Karen L. Thurman, Fla. 5th District: e-mail: kthurman@hr.house.gov
>>phone: (202) 225-5744 fax: (202) 225-3973
>>
>>
>>Senate Finance Committee:
>>
>>Republicans:
>>
>>William V. Roth, Jr. (Chairman), Delaware: phone: (202) 224-2441 fax:
>>(202) 228-0354
>>
>>John H. Chafee, Rhode Island: e-mail: senator_chafee@chafee.senate.gov
>>phone: (202) 224-2921 fax: (202) 228-2853
>>
>>Charles E. Grassley, Iowa: e-mail: chuck_grassley@grassley.senate.gov
>>phone: (202) 224-3744 fax: (202) 224-6020
>>
>>Orrin G. Hatch, Utah: e-mail: senator_hatch@hatch.senate.gov phone:
>>(202) 224-5251 fax: (202) 224-6331
>>
>>Alfonse M. D'Amato, NY: e-mail: senator_al@damato.senate.gov phone:
>>(202) 224-6542 fax: (202) 224-5871
>>
>>Frank H. Murkowski, Alaska: e-mail: email@murkowski.senate.gov phone:
>>(202) 224-6665 fax: (202) 224-5301
>>
>>Don Nickles, Oklahoma: e-mail: senator@nickles.senate.gov phone: (202)
>>224-5754 fax: (202) 224-6008
>>
>>Phil Gramm, Texas: phone: (202) 224-2934 fax: (202) 228-2856
>>
>>Trent Lott, Mississippi: phone: (202) 224-6253 fax: (202) 224-2262

- more -

From: Nancy Coolidge (2/14/97)
To: john.hamilton@ucop.edu
CC: Nancy Coolidge
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Priority: Normal
Date sent: 2/14/97 12:59 AM

>>
>>James Jeffords, Vermont: e-mail: vermont@jeffords.senate.gov phone:
>>(202) 224-5141
>>
>>Connie Mack, Florida: e-mail: chairman_mack@jec.senate.gov or
>>connie@mack.senate.gov phone: (202) 224-5274 fax: (202) 224-8022
>>
>>
>>Democrats:
>>
>>Daniel Patrick Moynihan, New York: e-mail: senator@dpm.senate.gov
>>phone: (202) 224-4451 fax: (202) 228-0406
>>
>>Max Baucus, Montana: e-mail: max@baucus.senate.gov phone: (202)
>>224-2651 fax: (202) 224-1974
>>
>>John D. Rockefeller IV, West Virginia: e-mail:
>>senator@rockefeller.senate.gov phone: (202) 224-6472 fax: (202)
>>224-7665
>>
>>John B. Breaux, Louisiana: e-mail: senator@breaux.senate.gov phone:
>>(202) 224-4623 fax: (202) 224-4268
>>
>>Kent Conrad, North Dakota: e mail: senator@conrad.senate.gov phone:
>>(202) 224-2043 fax: (202) 224-7776
>>
>>Bob Graham, Florida: e-mail: bob_graham@graham.senate.gov phone: (202)
>>224-3041 fax: (202) 224-2237
>>
>>Carol Moseley-Braun, Illinois: e-mail: senator@moseley-braun.senate.gov
>>phone: (202) 224-2854 fax: (202) 224-2626
>>
>>Richard Bryan, Nevada: e-mail: senator@bryan.senate.gov phone: (202)
>>224-6244 fax: (202) 224-1867
>>
>>Bob Kerrey, Nebraska: e-mail: bob@kerrey.senate.gov phone: (202)
>>224-6551 fax: (202) 224-7645
>>
>>
>>Thank you for all of your interest on this matter. We sincerely
>>appreciate the valuable feedback that we have received from our members.
>>
>>It you need more information, please contact us.
>>
>>Daren Bakst
>>Government Relations Representative
>>e-mail: bakstd@aacrao.nche.edu
>>phone: (202) 293-9161
>>fax: (202) 872-8857
>>
>>
>>Teresa Antonucci
>>Government Relations Assistant/Intern
>>phone: (202) 293-9161
>>fax: (202) 872-8857
>>*************************end of appended message********************

- more -

From: Nancy Coolidge (2/14/97)
To: john.hamilton@ucop.edu
CC: Nancy Coolidge
BCC:
Priority: Normal
Date sent: 2/14/97 12:59 AM

>>
>>To make it easier for you to contact important members, we have listed the
>>Senators and Representatives important to this issue and have given you
>>their e-mail addresses (if they have one), phone numbers, and fax numbers.
>>Members of Congress only want their own constituents to e-mail them. For
>>those who need to get formal approval from their institution to contact
>>Congress, please feel free to forward them this Call to Action or any
>>other AACRAO material that would be helpful.
>>
>>We have also included some talking points to give you some guidance. Form
>>letters are not effective tools of lobbying. Please try to follow the
>>talking points as closely as possible.
>>
>>There are no other organizations we are aware of that are devoting
>>themselves to this cause. As some of our members have explained, there
>>are some serious flaws in the merits of such a proposal. The higher
>>education community, however, has actually been hesitant to take a
>>position on tax credits because of the conflicts that exist. Money would
>>probably be better spent on low income individuals who really need the
>>money, such as through a large increase in Pell Grants, but this is not
>>very likely. Passing up a large commitment to education, that would only
>>exist through tax credits, would probably be unwise even if there are some
>>flaws. AACRAO does not want to take any position on the merits either, we
>>simply want to explain that tax credits can work as intended without
>>causing a massive administrative burden on schools.
>>
>>We feel that is it imperative to communicate our concerns as soon as
>>possible. We do not want the IRS to convince Congress that schools should
>>be a broker between the taxpayer and the IRS. They are already trying to
>>do this. AACRAO members need to counter their arguments and show that
>>there are alternatives. Once the legislation is passed, if it is passed,
>>it will be too late. An association representing financial institutions
>>told me that their members have to fill out forms on behalf of taxpayers.
>>They said we better fight this now or else we will be facing a massive
>>burden. The tax regulations and tax burden get more complicated each
>>year.
>>
>>We need you to communicate to Congress. The only way we can get our
>>message out is through your efforts. Congressional members listen to
>>their constituents. You can definitely make a difference.
>>
>>
>>I. What could be required of institutions from the many tax credit and
>>deduction proposals:
>>
>>Tell the IRS whether a student received a B average for the past tax
>>year (calendar year).
>>
>>Determine the student's qualified education expenses and then subtract
>>scholarship money and other benefits.
>>
>>Determine if the courses taken improve the student's job skills.
>>
>>Determine if the courses are in furtherance of a degree.
>>Determine if the student was full or part time during the tax year
>>
>>Determine if the student was convicted of a drug offense

- more -

From: Nancy Coolidge (2/14/97)
To: john.hamilton@ucop.edu
CC: Nancy Coolidge
BCC:
Priority: Normal

Date sent: 2/14/97 12:59 AM

Mail*Link® SMTP | Registrars Are Calling Congress

Received: by ace.nche.edu with ADMIN;14 Feb 1997 00:55:20 -0400
Received: from ppp.ucop.edu (akaaka.ucop.edu [128.48.140.43])
by ernie.ucop.edu (8.8.4/8.8.4) with SMTP
id VAA18522; Thu, 13 Feb 1997 21:57:07 -0800
Date: Thu, 13 Feb 1997 21:57:07 -0800
Message-Id: <2.2.16.19970213231425.243fc30a@popserv.ucop.edu>
X-Sender: ncoolidg@popserv.ucop.edu
X-Mailer: Windows Eudora Pro Version 2.2 (16)
Mime-Version: 1.0
Content-Type: text/plain; charset="us-ascii"
To: john.hamilton@ucop.edu
From: Nancy Coolidge <Nancy.Coolidge@ucop.edu>
Subject: Registrars Are Calling Congress
Cc: Nancy.Coolidge@ucop.edu (Nancy Coolidge)

In case this hasn't previously come to your attention, I thought that you'd want to know that AACRAO members are being exhorted to contact their congressmen to voice concern about the administrative problems that would almost certainly ensue if the current proposals for the HOPE Scholarship and certain tax code revisions stand. I don't know what sort of consultation goes on within the nation's campuses, but we will try to work with the UC registrars. Any counsel that you can offer regarding planned modifications to the proposals that would respond to their concerns would be most welcome.

love, n.

Forwarding:
>>A copy of the original E-mail message is appended below this line.
>>**
>>
>>*************************CALL TO ACTION*********************************
>>
>>AACRAO has been concerned about the administrative issues surrounding
>>President Clinton's Hope Scholarships and the many other education tax
>>credit and deduction proposals. Our biggest concern was that registrars
>>and possibly others at colleges and universities would have to fill out
>>tax forms and send them in to the IRS.
>>
>>Our concerns were justified! The Secretary of Education and the Secretary
>>of the Treasury wrote in a letter to Representative Archer, the Chair of
>>the House Ways and Means Committee: "The 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."
>>
>>We need our members to contact their Senators and House Representatives as
>>soon as possible. We will be meeting with people in Congressional offices
>>late next week. This is the first phase of what we hope will be a
>>successful effort to prevent a massive unfunded mandate imposed on
>>schools. The potential burden could make the Student Right to Know Act
>>look like a minor inconvenience.

- more -

2/20/07

C. Maple - tax policy are Treasury / IRS.

Consultations
Table four - [illegible]
- [illegible] [illegible]

2 H's
- A.pkg -

Cohen: 'Prez Directive' - but IRS needs to maintain indep. ... [illegible]

Spoke: This is exceptional.

- MOA ... [illegible] & [illegible]

TODAY - legis. [illegible] ...
① Senate
② [illegible] in senate

EO [illegible]
③ Directive
② MOA
① [illegible] from 2 sects
④ ~~letter - [illegible]~~
⑤ ~~Prez speech - [illegible]~~
④ Prez speech ... speech by Prez - regardless
⑥

Cohen

- C. [illegible] considering campaign for an MOA

Prez. can announce simplification...

Distributional Analyses

$30-55,000 - med

Gene: will be used against us... they're saying we're giving $$ to those already in college, not the poor.

Our best defense is rely, not dist'l analysis.

State heavy:
- is more regressive than he thought
- we now underwards the offset.

notes
Potential beneficiaries - eligibles, not just predicted use.

1) Ken - convene group to look @ options.
- get data, case studies.
look for patterns...

2) State-by-State - undeployed counts.
# of people

MEZ asked abt

– walk steady gradually...

– for good position – as needed...

Bob F.Y.I. Tim

Associated Press

…led from Wyoming to Illinois derailed near Jefferson City, Mo., on Saturday, spilling 3,000 tons of coal … the cause had not been determined. Amtrak took passengers on buses from St. Louis and Kansas City.

…f Spy Satellites Is Starting This Spring

…ithout somebody knowing …

…y spying from orbit began … when the United States … the world's first reconnais… …tellite. Over the decades, …w countries have had the …d skill to achieve their own … from the high ground of …

…otographs were fuzzy at … grew increasingly sharp, …y could reveal objects at …mall as a football. …sual power of spy craft is …xpressed as the length, in …f the smallest feature that …an see when photo process…ished to the limit. For a …hat can show a football, the … is about one foot, or one-meter. …early 1970's, the National …cs and Space Administra…hed a civil satellite known …at, the first to near the surveillance realm. With a … of about 100 meters, or 36 …ameras were able to show smaller than wheat fields, … and general land forma…

…dsats evolved to show im…atures as small as 30 me… feet. But the Defense De… blocked further progress … to national security …

Federal officials say the benefits outweigh the risks of private espionage satellites.

good enough to see planes, tanks and troop movements.

The Bush Administration responded by easing American regulatory barriers. In early 1993, it granted a license for a commercial craft with three-meter resolution.

The Clinton Administration's 1994 decision was the most dramatic step, giving the go-ahead for craft with a resolution of slightly less than one meter, images unambiguously in the heart of the spy zone.

Today, the rules let American companies photograph anything from space and sell the fresh imagery on the open market. But the Government retains the right to switch off their cameras in time of war or international tensions, a plan known as shutter control.

The Federal Government also has the right to screen and limit the American companies' foreign customers. Nations likely to be denied access to the imagery include Iraq, … and North Korea …

naissance Office, the secretive Federal group that builds and runs the Government's spy satellites.

"I'm confident we're on a path to being quite successful," he said in an interview.

Other companies pursuing the work include the Boeing Company, Motorola Inc. and the Orbital Sciences Corporation, a company in Dulles, Va., that wants to have a one-meter satellite aloft by 1999.

The initiatives have sparked rival efforts beyond American business. For instance, NASA is preparing to send up two reconnaissance satellites — Lewis, with five-meter resolution, and Clark, with three-meter resolution. NASA plans to share the imagery with American students.

And foreign governments with the wherewithal are scrambling to enter the commercial fray. The Indian Government last year began selling five-meter imagery, currently the best that is timely. By 1999, it hopes to have a new satellite that will yield 2.5-meter imagery.

"The genie is out of the bottle," said Christopher Simpson, an expert on space reconnaissance at American University in Washington. In March, he plans to hold a conference on how news and nongovernmental organizations can use the imagery.

Dr. Wheelon, who was the C.I.A.'s deputy director for science and tech…

Clinton Tax Break Plan Is Called a Tuition Prod

Economists Cite Effect of Greater Demand

By KAREN W. ARENSON

President Clinton's goal in the budget he proposed last week for higher education is to make college more affordable.

But economists say that if the plan of tuition tax breaks for the middle class and more and bigger Pell grants for needy students is carried out, colleges are likely to raise tuition. At least some of the money, they say, would end up in college treasuries rather than family pocketbooks.

"The economics certainly suggest tuition increases," said David W. Breneman, an economist and dean of the Curry School of Education at the University of Virginia. "The only question is whether there are sufficiently high public-relations and political pressures to act as brakes."

The cost of attending college has spiraled upward faster than inflation for years, stretching the resources of many families and putting college beyond the reach of some. It is that pressure that President Clinton hoped to deal with in his education program.

Mr. Clinton would offer families with annual incomes of up to $100,000 the right to a tax credit of up to $1,500 a year, slightly more than the average tuition at community colleges nationally, for each of the first two years of college, provided the student maintains a B average.

Alternatively, families with incomes of up to $100,000 would be allowed to take a tax deduction of up to $5,000 a year at first and up to $10,000 after 1997 for post-secondary education or job training.

The tax credit and deduction are expected to cost $36 billion over five years.

But economists say there are two factors that could make such a program backfire.

The first is that subsidies, whether for medical care, housing or education, typically lead to higher prices and higher income for the sellers of a product. In economic theory, at any given price, people are willing to buy a certain amount of a product. If the price rises, people will tend to buy less. But if they have more income, they tend to want more. In this case, theory suggests, colleges would be able to raise tuition somewhat and not lose buyers because the buyers would have somewhat more money.

In the college market, however, …

…lege."

The Department of Education said it did not have estimates of how many more students might attend college under the President's program. But more students in college would mean that many colleges already at full capacity would need to turn to taxpayers — and to higher tuitions — to raise additional money. The other choice, Professor Winston said, is a reduction in quality.

"For every dollar added to student tuition resources, somebody is going to have to add more money," he said. By his calculations, tuition covers only 11 percent of the cost of public higher education, which includes not only operating costs but also capital expenditures and interest on loans.

"Tuitions will go up sharply and everyone will scream about the rapacious institutions," he predicted.

The Department of Education acknowledges these pressures.

"Any time you put together a program that gives substantial benefits to people, you have to be concerned about whether you'll affect the market in a perverse way," said David A. Longanecker, an Assistant Secretary of Education. But he said the Clinton Administration was banking on "strong economic and political reasons why that won't happen."

On the economic side, he said, the program is structured so it is not a simple across-the-board subsidy. The tax credit for up to $1,500 a year in tuition payments applies only for the first two years of college. So if a college raised tuition, students in the third and four years would have to pay more but would not have the dollar-for-dollar tax credit to ease the pain. "Economic theory would not suggest that that would be prudent policy for the college," Mr. Longanecker said.

And even though families would be able to take a tax deduction for tuition for any year of college, that is not a dollar-for-dollar subsidy the way a tax credit is. The Government effectively picks up part of the tuition bill, rather than all of it. For a family in the 28-percent tax bracket, the Government would effectively

An obstacle is seen in a proposal to

...with its civilian ...lites, which had a resolu- ...meters, about 3 feet, and ...urban planning and the ...ance of large military tar- ...warships.

...Moscow began selling pho- ...resolution of five meters. ...ery, from spy operations, ...d geographically and bad- ...ate. But it prompted fears ...gton of foreign rivals. ...the Russians raised the ...ginning to sell old imagery ...olution of two meters —

...Assault, ...ivil Suit

...reed to give them 25 per- ...net proceeds from book ...eals — but I doubt there ...after this much time."

...ement resolves a drama ...about 10 P.M. on April 22, ...someone strangled Mrs. ...e garage of the Raileys' ...s home. At the time, Mr. ...the spiritual head of Dal- ...United Methodist Church, ...argest Methodist congre- ...he nation.

...fter the attack, Mr. Rai- ...commit suicide, writing a ...he was under the influ- ...emons." A few months ...nfessed to having an af- ...cy Papillon, the daughter ...Methodist clergyman. He ...om the ministry under ...d permitted an Arkansas ...adopt the Raileys' two ...es 5 and 2, who were the ...ses to the crime.

...987, Mr. Railey and Ms. ...ved to California.

...e Dallas police consid- ...iley their only suspect in ...n his wife, they said they ...ve enough evidence to ...es against him.

...rs. Railey's family sued ...l court. When Mr. Railey ...pond, on advice of his ...unsel, the family was ...$18 million judgment.

...r. Railey sued his wife ...in California, but the di- ...never granted. Three ...Mr. Railey was charged ...ted murder, based on ...ble DNA tests.

...NA evidence did not con- ...y in a trial that many ...l was fraught with pros- ...takes. In May 1993, a ...Mr. Railey was acquit- ...for bankruptcy. A bank- ...e ruled that since the ...nt against him had been ...he suit of Mrs. Railey's ...l have to be retried.

...Korea. But private experts say front companies will probably evade export prohibitions, as they have repeatedly done for atomic, chemical, biological and missile technologies.

Today the change of Federal policy is aiding some of the Pentagon's most experienced contractors. For instance, the Eastman Kodak Company, a key maker of cameras for Government espionage, is hard at work for the commercial spy companies as well.

In the vanguard of the new industry is Earthwatch. With about 200 employees, it is building two satellites with three-meter resolution, and two with one-meter resolution. The first is to soar aloft from Siberia in April or May, atop a Russian rocket. Its corporate partners include Ball Aerospace and Technologies Group, owned by the Ball Corporation, and Hitachi Ltd. of Japan.

Earthwatch draws on the innovations of the Pentagon's anti-missile program, which has spent more than $30 billion to find ways to spot and destroy rising rockets and warheads from space.

The giant of the fledgling field is Space Imaging Inc., based in Thornton, Colo. The private company is owned by the Lockheed Martin Corporation, which makes many of the military's spy satellites, and E-Systems Inc., a unit of the Raytheon Company that provides many of their communication links.

Space Imaging is building two satellites with one-meter resolution, the first of which is scheduled to blast skyward on an American rocket in December from California.

The president of Space Imaging is Jeffrey K. Harris, who from 1994 to 1996 directed the National Recon-...

...nology in the 1960's, said the new trend threatened to lessen the value of the diplomatic currency of military spy photos, which the United States shares with such allies as Australia, Canada, Israel and Britain.

And, he said, Governmental shutter control over the new cameras would most likely prove awkward or futile because Washington would be unlikely to always know ahead of time when censorship might be in the best interests of the United States.

So too, civil libertarians foresee knotty problems. They say that courts weighing aerial-photography cases have steadily eroded privacy protections and that the new technologies threaten to further the trend.

But many experts say the new surveillance age, though laden with problems, is probably good over all because it plays to American strengths and against totalitarian governments.

"We fought the cold war to prove that open-information societies are better than closed ones," said Joanne Gabrynowicz, a lawyer in space policy studies at the University of North Dakota in Grand Forks. "We can't stop now."

Clinton Fills Political Post

WASHINGTON, Feb. 9 (AP) — President Clinton on Friday selected an Arkansas loyalist, Craig Smith, to be the White House political director.

Mr. Smith, 38, was the first employee in Mr. Clinton's 1992 Presidential campaign, later serving in the White House personnel department and as political director of the 1996 campaign.

...and ...buyers because the buyers would have somewhat more money.

In the college market, however, a small number of top colleges already charge premium prices, with tuitions of $20,000 or more, and could probably raise prices further and still have 5 or 10 applicants for every seat. Other colleges with empty seats have been cutting tuition to try to attract more students. And many public colleges, some selective, some not, have tried to keep tuition low to encourage access.

"How prices are set and what forces tuitions up is very elusive," said Lawrence E. Gladieux, executive director for policy analysis at the College Board. But, he said, even if colleges do not raise tuitions, they may be able to share in some of the Federal windfall by reducing the financial aid they provide. He noted that financial aid at many high-cost colleges was based on the parents' income. And if families are better off after the tax breaks, financial aid may be reduced somewhat.

A second factor that could lead to higher tuition is that if the program succeeds in helping more students — particularly low-income students — go to college, colleges that are already filled to capacity would have to expand to absorb the new students. They will have to build new classrooms, dormitories and gymnasiums, add computers and hire new faculty members and will need money to pay for them.

"The picture President Clinton paints is immensely popular and appealing," said Gordon C. Winston, chairman of the economics department at Williams College and co-director of the Williams Project on the Economics of Higher Education. "But the thing I keep coming back to and fretting about is that tuition pays only a small part of the cost of col-...

An obstacle is seen in a proposal to make college more affordable.

pay 28 cents of every dollar, up to the limit. "So an increase in tuition is still painful," Mr. Longanecker said.

He added that Administration officials would be "using the bully pulpit" to reinforce the notion that the financial aid is meant to help people, not colleges. "If some governors or state legislators try to capture this money to reduce their state obligations, it is not going to be very popular," he said.

Officials at some public universities, which account for more than 80 percent of American college students, said last week that they would work to try to hold tuition down.

"We are ideologically locked into keeping fees low," said Paul A. Elsner, chancellor of the Maricopa Community Colleges in Arizona.

And Judith S. Eaton, chancellor of the Minnesota State Colleges and Universities, added: "None of us likes to raise tuition. Is there a margin of ease if we know student aid will cover? Yes. But I don't believe that we as an entity sit around and say, 'Let's raise tuition, because it's covered.' That is not the mind set."

But in many states, college officials have been losing the battle to hold tuition down as state legislatures seek to cut spending.

Complicating the picture is the fact that colleges are seeing their enrollments rise for other reasons. One is demographics, said Frank Levy, a professor of urban studies at the Massachusetts Institute of Technology and co-author of "Teaching the New Basic Skills."

Mr. Levy said the number of college-age students had begun to rise again after many years of decline and would continue to rise for a while. Also, he said, more people are attending college because they see it as necessary for good jobs.

Frank Newman, president of the Education Commission of the States, a Denver-based nonprofit group that advises state officials on education policy, said that one way out was to look for less costly approaches to education, like classes over the Internet. He points to the decision by 10 Western states last year to set up a virtual university and efforts in other states, like California and Florida, to develop such colleges.

Mr. Newman, like many educators who want to broaden access to higher education, applauded the President's move to make education a priority.

"People talk about the Republicans' pulling Clinton closer to them," he said. "On education, he's pulled the Republicans over to him. He has turned this issue from a question of where to slash this further to where...

Associated Press

Insurrection in Rifle Association Fails

Dissident members of the National Rifle Association ... Wayne LaPierre, left, executive vice president, lis-...

Once you have that, learning the letter keyboard is a snap. Piano is the perfect way to build strong, coordinated fingers, plus there's the added benefit of learning and loving music.

Studies about the so-called Mozart effect (higher IQ scores) and information computer keyboard, they'll make good data processors. If children study the piano keyboard, not only will their fingers perform better on the computer, what they write will be better, too.

KATHLEEN NERGER
Centreville

do not pursue military ties with Iran.

JACOB WALKIN
Arlington

The writer, a retired Foreign Service officer, served in the U.S. Embassy in Belgrade from 1956 to 1958.

Smart Student Aid for the 21st Century

The Post's Feb. 3 front-page news story "Education Aid at What Cost? Clinton's $50 Billion Plan Has Skeptics Even on Campus" and its editorial of the same day ["The Student Aid Proposal"] suffer from an information gap—a gap between the comments of some policy analysts and the real-world experiences of students and families.

Frankly, I was perplexed by the editorial's criticism of the president's Hope Scholarship and a related tax deduction that "the main effect would be to reduce the cost for people already likely to attend" college. America's middle-income and working families need help in meeting college costs. Students who live on campus face average annual costs of $9,649 at a four-year public university and $20,361 at a four-year private college. Millions of American families have no choice but to borrow (heavily, in too many cases) to pay such costs.

The news story noted a study that found the percentage of students from families with incomes of $22,000 to $67,000 who earn a bachelor's degree has held steady at around 20 percent since 1980. America's economy will continue to prosper in this information age only if more of these middle-class students can afford to go to college. That's what the Hope Scholarship will do.

The Post's reporters noted that "college enrollment in Georgia is surging" as a result of the scholarship program that inspired the president's Hope Scholarship, and that "the [Georgia] program is attracting more lower-income students to seek an education after high school." We anticipate an enrollment boost from the national program as well. This makes the Hope Scholarship a strong component in the president's array of student-aid proposals—including larger Pell Grants, cheaper student loans and more work-study positions—that will enable more students to go to college.

The president's student-aid package will go a long way toward easing the growth in student borrowing. Since the inception of the unsubsidized federal student loan program in the 1992-93 school year, the number of loans issued annually has nearly doubled, and it now tops 7 million. The average student borrower graduates from college with $13,000 in debt—a burden that can leave an individual financially hamstrung when he or she enters the work force. We need to lessen the reliance on loans.

For most of the industrial age, we used the tax code to encourage business to invest in plant and equipment. For the information age, we should provide tax incentives that encourage our people to invest in themselves by getting a college education. The Hope Scholarship and the tuition tax deduction—when teamed with the president's other student-aid proposals—are smart tax policies for the 21st century.

RICHARD W. RILEY
Secretary of Education
Washington

An Architect's Legacy

I read Benjamin Forgey's Cityscape article "Reclaiming a Center of Jewish Life" [Style, Feb 1.] with great interest and enjoyment. The reopening of the D.C. Jewish Community Center in its original building after a 30-year absence is an exciting event, but my particular attention was focused on the recognition Mr. Forgey gave to the architect, B. Stanley Simmons, my grandfather.

Among Mr. Simmons's living descendants are one son, B. Stanley Jr., 11 grandchildren and countless great- and great-great-grandchildren. We all appreciate this opportunity to call attention to the man about whom the Evening Star said on Dec. 16, 1902:

"An architect who has added to the beauty and growth of this city . . . Mr. Simmons is capable and enterprising; these qualities, added to an energetic spirit have brought him deserved success."

There is one correction to the article: B. Stanley Simmons was not a New York architect; he was born in Charles County, Md., coming to Washington when he was 10 years old. He graduated from Boston Institute of Technology (now MIT) and returned to the District, where he lived and practiced architecture until his death in 1931 at age 60.

Among his best-known works are: the National Metropolitan Bank (15th and G streets NW, 1905), the Elks Club (919 H St. NW, 1906), which unfortunately no longer stands. He designed the Fairfax Hotel (now the Ritz-Carlton) at 21st Street and Massachusetts Avenue NW (1921), and the Barr Building, the first high-rise office building on Farragut Square (1929).

He also designed many distinguished larger apartment buildings, including the Embassy at Mount Pleasant and Argonne streets NW, the Belvedere at 13th Street and Massachusetts Avenue NW and the Wyoming on Columbia Road NW (also a registered landmark).

After so many years have passed since our grandfather practiced his profession, it is inspiring to us, his family, to know that there are lasting memorials to his memory.

JANE SIMMONS JOHNSON
Montgomery Village

Letters must be exclusive to The Post, must be signed and must include the writer's home address and home and business telephone numbers. Because of space limitations, those published are subject to abridgment. Although we are unable to acknowledge those letters we cannot publish, we appreciate the interest and value the views of those who take the time to send us their comments. Letters intended for publication should be addressed to Letters to the Editor.

The Washington Post

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PHILIP L. GRAHAM, 1915-1963

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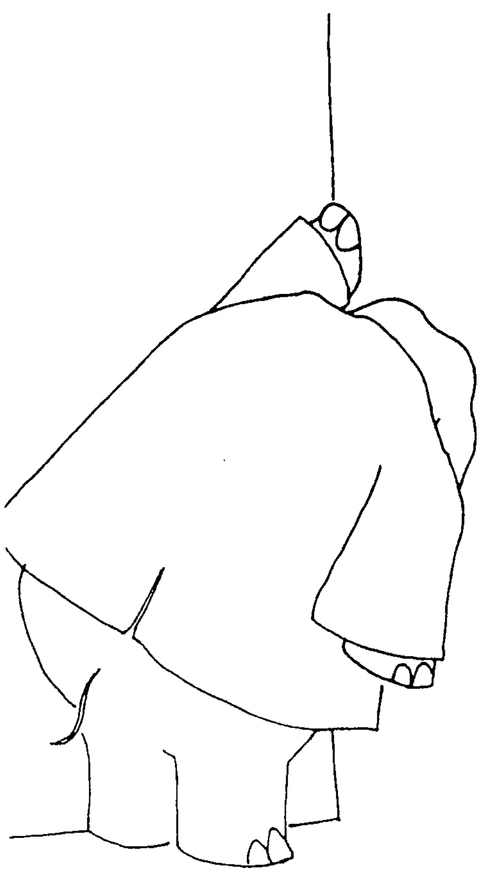
Advocates of some campaign finance bills are considering a way to incorporate the "free time bank" into their proposals. Taylor will hold a conference on the subject in Washington next month. But he and Hundt both concede this is not a panacea.

Important policy and administrative issues would remain: Could independent groups buy time for "education" or "independent expenditure" campaigns? Who would divvy up the "time bank" among the thousands of Democratic and Republican candidates in each election? If the national parties controlled the time, how would dissident or maverick Democrats and Republicans fare? And how would minor parties be protected in the allocation of time?

These are all important questions. But this proposal offers a way to reduce the costs of campaigns drastically by eliminating or greatly slashing the expense of television advertising. It deserves to be part of the coming debate.



BY T. GIBSON

Robert J. Samuelson

The Hypocrisy Scholarship

The federal government could improve education in an instant at almost no additional cost. It need only require students wanting federal college aid—already $37 billion in loans and grants annually—to pass a test showing that they are ready for college. Even a modestly rigorous exam would cause students to work harder. Those who passed would be better prepared. Those who didn't would receive a clear message: Students must earn college aid through achievement. It's not an automatic entitlement.

I have made this proposal before and know from experience that its chances of being taken seriously are low. But I repeat it to underline the superficiality of President Clinton's "crusade" to elevate education. His plan is classic Clinton: It's full of glorious goals (every student should read at eight, two years of college should be as common as high school); the details are confusing (there are partial subsidies for school construction and vague "standards" for public schools); and many proposals, if enacted, would worsen what Clinton promises to improve.

Let's be clear. Public schools are mainly a local and state affair. Federal aid has never exceeded 10 percent of total spending and, at $18 billion in 1994, is recently about 7 percent. Clinton's plan would mostly add bureaucracy. The small amounts of new funds proposed for public schools would impose new federal requirements. And it's unclear how the "standards" suggested for reading and math in the fourth and eighth grades would improve schools, because low test scores would carry no penalty.

Where the federal government matters is higher education, because it provides so much student aid. Indeed, most of the new money in Clinton's plan (two-thirds of the $70 billion cost between 1998 and 2002) would raise subsidies for college students in the form of new tax breaks (the "Hope Scholarship" tax credit and a $10,000 tuition tax deduction) or larger Pell grants. Clinton's aim here is mostly political. It is to relieve the anxieties of middle-class families that they can't afford college. Clinton justifies the new aid as offsetting higher tuition and providing the added education required by a high-tech economy.

Not so. If the tax breaks pass, the benefits will be fleeting because—in the main—colleges will offset them by raising tuition. Even the American Council on Education, the trade group for colleges, lends credence to that. "College prices have continued to rise because the market has been able to bear the increases," it says in an analysis of tuitions. "Most institutions have been able to raise tuitions and still have full classrooms."

Got It Wrong

nteresting and distressing thing nt op-eds by Haley Barbour and elt ["Some Parting Advice," Jan. ey Barbour," Jan. 26] was, with t, their unoriginality. From my ing, black Republican viewpoint, Roosevelt have said nothing new ection of the Republican Party, both get it wrong.

s as the crux of his piece the view needs to communicate its message nen and minorities." In my almost political activism in conservative rcles, I can't tell you how many eard this stated. It's a soothing cially after an election loss—that sad fact: At least in the case of e GOP doesn't seem to care.

big advocate of interest-group I have never seen an overt pro- racting blacks into the Republican 'd suspect a perusal of the Republi- Committee's ledger books would ending on minority outreach.

nore than just money. Republican didates rarely come to the black o preach their message. During the race, I remember Robert Dole turn- request to speak to the NAACP, of "trickery" on the part of the ers. I have talked with some produc- Entertainment Television, a major , who say it's close to impossible to lican politicians for their shows.

? does not help itself by touting an essage on issues such as affirmative cks don't like quotas either—but their rights protected. Republicans, al, have yet to communicate what pen, in a perfect GOP world sans action, to enforcement of other civil s.

e said so far is nothing new, but it is s answer to the same old excuses the had for years. It's frustrating, as a iblican, to see the party so unwilling o its heritage as the party of Lincoln. frustrating were the abortion-centric s of Selwa Roosevelt's piece. Though ortion is one of the greatest moral we must face in our time, the issue is not one that motivated a large number of people to vote for Bill Clinton.

It's typical of older generations, especially those that came of age in the '60s, to think abortion is the main issue that drives politics for women. The gender gap in the last election, though, was so pronounced not because of abortion but because of Clinton's mantra, "Medicare, Medicaid, education and the environment." Care of the elderly, the poor, children and the land resonates with all Americans, and Clinton got a large chunk of them to vote for him. The GOP was AWOL on message. Republicans had no sensible alternatives to the policies—or lack thereof—that Clinton was pushing.

Abortion was mentioned less by Republicans than in any recent election in memory. When it was, the federal gag rule, RU-486, fetal tissue research and other issues that Roosevelt cited as reasons women are fleeing the GOP were not talked about. Partial-birth abortion, a procedure that should not exist in a civilized society, was an issue, but not enough of one, and surprisingly Roosevelt doesn't even bring it up in her piece.

The GOP should live up to its words about minorities and women, and Roosevelt and a few others should not fixate so much on abortion—an issue that should be muddled through politically, not dictated from on high by self-proclaimed holy men or party leaders.

I have some advice of my own. Both parties are locked into interest-group politics because interest groups rule Washington. What were seen by James Madison as interlocking alliances for the good have infected the body politic.

My generation sees the short-sightedness and the deeply rooted problems this country faces. Entitlements, the national debt, regulation and high taxes are the legacy of too-big government. This legacy will adversely affect our future and our families if some tough choices are not made.

Republicans must show some bravery on truly reducing government and its burden on the American people. I doubt the Democrats are willing or able to make such choices, so that leaves the Republicans. For me and others of my generation, if the Republicans don't step up to the plate, this article will be "parting advice."

The writer is a Washington journalist and former congressional aide.

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But the issue of gun ownership is only one manifestation of what women recoil from in the Republican Party. Others include the party's perceived, knee-jerk rejection to anything that smacks of government "redistribution" of wealth or of assistance to the needy, and the suspicion that there is a crotchety or even greedy misanthropy at the heart of government downsizing rather than the principles of freedom and self-reliance.

Last, there is the understandable resentment of religious zealotry in politics, and of the tendency of religious groups, especially fundamentalist ones, to impose their particular, sometimes chauvinistic doctrines on our pluralistic society.

Not until Republicans, in light of their august

So they have. Between 1980 and 1995, the consumer price index rose 85 percent. In the same period, tuitions for public colleges rose 218 percent at two-year schools and 254 per cent at four-year colleges. At private colleges, the increases were 192 percent for two-year schools and 238 percent for four-year schools. Meanwhile, the proportion of high school graduates going to college rose from 50 percent in 1980 to 62 percent in 1995. Over the same period, the amount of annual federal aid increased from $25 billion to $37 billion in inflation-adjusted dollars.

Nor are more college graduates needed to fill today's jobs or tomorrow's. Indeed, many college students now are ill-prepared and leave. In 1995, 29 percent of freshmen took some remedial course: 41 percent at public two-year colleges; 26 percent at private two-year colleges; 22 percent at four-year public colleges; and 13 percent at private four-year colleges. After five years, only 37 percent of new students at two-year colleges have a degree. At four-year colleges, that's 54 percent.

The latest evidence that college graduates aren't in short supply comes in a book, "Teaching the New Basic Skills" by economists Frank Levy of the Massachusetts Institute of Technology and Richard Murnane of Harvard. It's true, they write, that the wages of college graduates rose relative to those of high school graduates in the 1980s. Superficially, this suggests a scarcity of people with college-level skills. The reason this is not true, they argue, is that some college graduates are hired for jobs requiring only ninth-grade math and reading skills.

"Doing math at a ninth-grade level means the ability to manipulate fractions and decimals and to interpret line graphs and bar graphs," they write. "It requires only a bare minimum of algebra." But companies no longer automatically trust a high school diploma to signify "this level of mathematical skill" because "many recent high school graduates don't have it."

This means that the central educational task today is to do better with present high school students and college students (many of whom flunk out). Sending more people to college won't accomplish that. Just the opposite: Making it easier to go to college will erode students' reason to do well in high school; and once in college, dropout rates will rise. "They [students] end up with a debt [from student loans], a bad credit rating and no degree," says Lawrence Gladieux, head of analysis for the College Board. "It's not responsible public policy." What would be responsible is a qualifying test for federal college aid.

If students work harder, they will do better. The most reliable authorities on this—students themselves—say that. In a new survey of high school students by the Public Agenda Foundation, two-thirds say they could work harder and would do better. "You can just glide through," one said. "They practically hand you a diploma." A test—embodying what we ought to expect from a high school graduate—would check this complacency. It wouldn't touch the best students (who already work hard) or the worst. It wouldn't directly affect elementary schools. But it would motivate most high school students who aspire to college; about half of full-time college students get federal aid.

The infatuation with educational "standards" is deceptive. Standards matter only if they have consequences for students, teachers and schools. Otherwise, standards are lofty goals

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Last, there is the understandable resentment of religious zealotry in politics, and of the tendency of religious groups, especially fundamentalist ones, to impose their particular, sometimes chauvinistic doctrines on our pluralistic society.

Not until Republicans, in light of their august origins, sincerely reconsider what it means to espouse a "principled" approach to politics will the party shake the image of being a bit too socially Darwinistic, miserly or misogynistic to close the gender gap that now beleaguers it.

G. M. Corrigan is a Virginia writer.

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The infatuation with educational "standards" is deceptive. Standards matter only if they have consequences for students, teachers and schools. Otherwise, standards are lofty goals that can be missed or ignored with impunity. Bill Clinton is all for "standards," and he criticizes "social promotion" in public schools. But he pointedly declines to impose an effective standard or end social promotion at the one place—the door to college—where he might. Students will intuitively grasp the hypocrisy. Will anyone else?

Barry
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Larry

Department Of The Treasury

Office of Tax Legislative Counsel
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

February 6, 1997

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From: **Catherine E. Livingston**

Tel: 202/622-1343 Fax: 202/622-9260

Notes: Final Green Book

HOPE SCHOLARSHIP TUITION TAX CREDIT AND EDUCATION AND JOB TRAINING TAX DEDUCTION

Current Law

Taxpayers generally may not deduct the expenses of higher education and training. There are, however, special circumstances in which deductions for higher education expenses are allowed, or in which the payment of higher education expenses by others is excluded from income.

Higher education expenses may be deductible, but only if the taxpayer itemizes deductions, and only to the extent that the expenses, along with other miscellaneous itemized deductions, exceed two percent of adjusted gross income (AGI). A deduction for educational purposes is allowed only if the education maintains or improves a skill required in the individual's employment or other trade or business, or is required by the individual's employer, or by law or regulation for the individual to retain his or her current job.

The interest from qualified U.S. savings bonds is excluded from a taxpayer's gross income to the extent the proceeds of the bonds are used to pay qualified educational expenses. To be qualified, the savings bonds must be purchased after December 31, 1989, by a person who has attained the age of 24. The interest exclusion is phased out for taxpayers with AGI over certain amounts. For 1996, the exclusion was phased out for taxpayers with modified AGI between $49,450 and $64,450 ($74,200 and $104,200 for joint returns). Qualified educational expenses consist of tuition and fees for enrollment of the taxpayer, the taxpayer's spouse, or the taxpayer's dependent at a public or non-profit institution of higher education, including two-year colleges and vocational schools.

Reasons for Change

Well-educated workers are essential to an economy experiencing technological change and facing global competition. The Administration believes that reducing the after-tax cost of education for individuals and families through tax credits and deductions will encourage investment in education and training while lowering tax burdens for middle-income taxpayers.

The expenses of higher education place a significant burden on many middle-class families. Grants and subsidized loans are available to students from low- and moderate-income families; high-income families can afford the cost of higher education. The combination of Federal grants and a tax credit reduces the after-tax cost of higher education, creating a Federal guarantee of a specified amount of assistance for higher education expenses by reducing the after-tax cost of higher education. This guarantee will help make 14 years of education the norm in America.

Proposal

As described in detail below, taxpayers would be able to claim a non-refundable tax credit or a tax deduction for qualified higher education expenses incurred for themselves, their spouses or their dependents during their first two years of postsecondary education in a degree or certificate program. If the requirements for both the credit and the deduction were met with respect to a particular student's expenses, the taxpayer would be free to choose either the credit or the deduction for those expenses. The deduction, but not the credit, would be available for qualified higher education expenses incurred after the first two years of postsecondary education or at any time for courses that enable the taxpayer, the taxpayer's spouse or dependent to acquire or improve job skills.

HOPE Scholarship Tuition Credit

A taxpayer would be allowed a non-refundable credit against Federal income tax for qualified higher education expenses paid during the taxable year for the education of the taxpayer, the taxpayer's spouse, or the taxpayer's dependents. The credit would be available with respect to an individual student for two taxable years, provided the student has not completed the first two years of postsecondary education.

A credit for qualified higher education expenses would be available in the taxable year the expenses are paid, subject to the requirement that the education commence or continue during that year or during the first three months of the next year, and provided the student is enrolled during the year (or in the first three months of the next year) at least half-time in a degree or certificate program. Qualified higher education expenses paid with the proceeds of a loan generally would be eligible for the credit (rather than repayment of the loan itself). The credit would be recaptured where a student or the taxpayer received a refund (or reimbursement through insurance) of tuition and fees for which a credit had been claimed in a prior year.

With respect to an individual student, a taxpayer is limited to a tuition tax credit of the lesser of the taxpayer's qualified higher education expenses and the maximum credit amount. The maximum credit for a taxable year would be $1500, reduced by any Federal educational grants, such as Pell Grants, awarded for that year (or for education beginning in the first three months of the next year, if credits are claimed based on payments for that education). Beginning in 1998, the maximum credit amount would be indexed for inflation, rounded down to the closest multiple of $50.

The maximum credit amount would be phased out ratably for taxpayers with modified AGI between $50,000 and $70,000 ($80,000 and $100,000 for joint returns). Modified AGI would include taxable Social Security benefits and amounts otherwise excluded with respect to income earned abroad (or income from Puerto Rico or U.S. possessions), and would be determined before the deduction for education expenses contained in this proposal. Beginning in 2001, the income phase-out ranges would be indexed for inflation, rounded down to the closest multiple of $5000.*

Qualified higher education expenses would be defined as tuition and fees charged by an institution of higher education that are directly related to an eligible student's course of study (e.g., registration fees, laboratory fees, and extra charges for particular courses). Charges and expenses associated with meals, lodging, student activities, athletics, health care, transportation, books and similar personal, living or family expenses would not be included. The expenses of education involving sports, games or hobbies would not be qualified higher education expenses unless this education is required as part of a degree program.

Qualified higher education expenses generally would include only out-of-pocket tuition and fees. Qualified higher education expenses would not include expenses covered by educational assistance that is not required to be included in the gross income of either the student or the taxpayer claiming the credit. Thus, total tuition and required fees would be reduced by scholarship or fellowship grants excludable from gross income under section 117 of the Internal Revenue Code (scholarships and fellowships that pay for tuition, required fees, books and equipment) and any educational assistance received as veterans' benefits. However, assistance with expenses other than tuition, required fees and books, such as expenses associated with meals, lodging, student activities, athletics, health care and transportation, could be received without a reduction of creditable higher education expenses. In addition, qualified higher education expenses would be reduced by the interest from qualified U.S. savings bonds that is excluded from a taxpayer's gross income for the taxable year. However, no reduction would be required for a gift, bequest, devise, or inheritance within the meaning of section 102(a).

An eligible student would be one who is enrolled or accepted for enrollment during the taxable year in a degree, certificate, or other program (including a program of study abroad approved for credit by the institution at which such student is enrolled) leading to a recognized educational credential at an eligible institution. The student must pursue a course of study on at least a half-time basis. In addition, for a student's qualified higher education expenses to be eligible for the credit, the student must not have been convicted of a Federal or state felony consisting of the possession or distribution of certain drugs, and generally cannot be a nonresident alien. Furthermore, a taxpayer would not be entitled to a credit for a student in a second taxable year unless the student obtained a qualifying grade point average for all previous postsecondary education. Generally, this would be an average of at least 2.75 on a 4-point scale, or a substantially similar measure of achievement. This provision would allow institutions that do not use a 4-point grading scale to retain their own system while still

* This description of the proposal reflects a modification of the indexing date contained in the OMB analytical materials relating to this proposal.

allowing their students to qualify for the credit: these institutions will determine what measure under the system they use reasonably approximates a B- GPA.

An "institution of higher education" is defined by reference to section 481 of the Higher Education Act. Such institutions generally would be accredited postsecondary educational 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 to participate in Department of Education student aid programs.

This proposed credit would not affect deductions claimed under any other section of the Code, except that if a student's qualified higher education expenses for a taxable year are deducted under another section of the Code (including the proposed deduction for education expenses) no credit would be available. If a taxpayer is eligible to claim either the credit or the deduction for qualified higher education expenses with regard to a single student, the taxpayer may choose between the credit and the deduction, but may not claim both. In addition, a taxpayer may 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. If a parent claims a student as a dependent, any education expenses paid by the student would be treated as paid by the parent for purposes of this proposal.

The Secretary of the Treasury and the Secretary of Education, operating in close consultation, will have authority to issue regulations to implement the provisions. The Secretary of the Treasury generally would be authorized to issue regulations to implement this section of the Internal Revenue Code. For example, the Secretary of the Treasury would have authority to issue regulations providing appropriate rules for recordkeeping and information reporting. These regulations would address the information reports institutions of higher education would file to assist students and the IRS in determining whether a student meets the eligibility requirements for the credit and calculating the amount of the credit that is potentially available. However, certain terms would be defined by reference to the Higher Education Act of 1965. The Secretary of Education would have the authority to issue regulations under those provisions as well as authority to define other education terms as necessary. The Secretary of the Treasury and the Secretary of Education would coordinate their work in developing their respective regulations.

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

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 would also be an eligible student for purposes of the deduction. Qualified higher education expenses would also be defined in the same way for the deduction proposal as they are for the tuition credit proposal, that is, tuition and required fees that are directly related to an eligible student's course of study.

"Institution of higher education" is defined the same way for purposes of this proposal as it is in the tuition credit proposal.

Qualified higher education expenses would be deductible in the taxable year the expenses are paid, subject to the requirement that the education commences or continues during that year or during the first three months of the next year. Deductible educational expenses paid with the proceeds of a loan generally would be deductible (rather than repayment of the loan itself). Normal tax benefit rules would apply to refunds (and reimbursements through insurance) of previously deducted tuition and fees, making such refunds includable in income in the year received.

In 1997 and 1998 the maximum deduction for a taxpayer would be $5,000. In 1999 and thereafter, this maximum would increase to $10,000. The deduction would be phased out ratably over an income range in the same way as the credit. The maximum deduction would not vary with the number of students in a family.

This proposal would not affect deductions claimed under any other section of the Code, except that any amount deducted under another section of the Code could not also be deducted under this provision. In addition, a taxpayer who claimed a deduction for a student's qualified higher education expenses for a particular taxable year could not also claim a tuition tax credit for any of the student's qualified higher education expenses for the year. A student would not be eligible to claim a deduction under this provision if that student is claimed as a dependent for tax purposes by another taxpayer. If a parent claims a student as a dependent, any education expenses paid by the student will be treated as paid by the parent for purposes of this proposal.

The proposal would grant the Secretary of the Treasury authority to issue regulations under this section, including rules requiring record keeping and information reporting.

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

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.

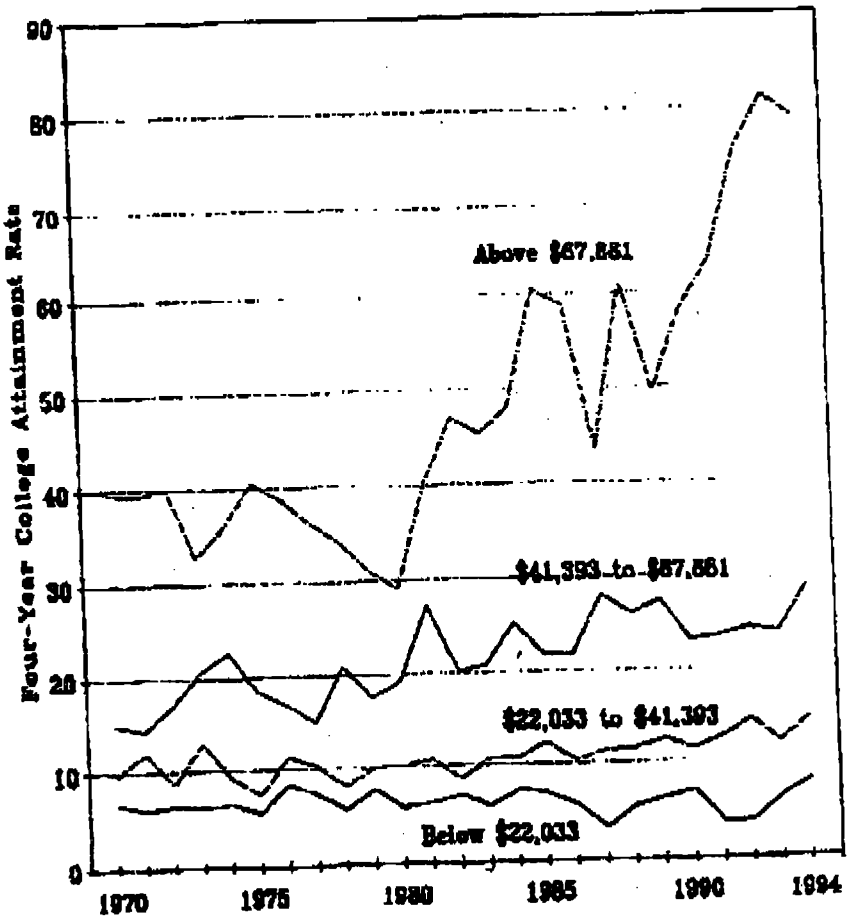
Our update with 1994 data confirms our previous conclusions. The disparities in educational attainment for young adults are:

- *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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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.

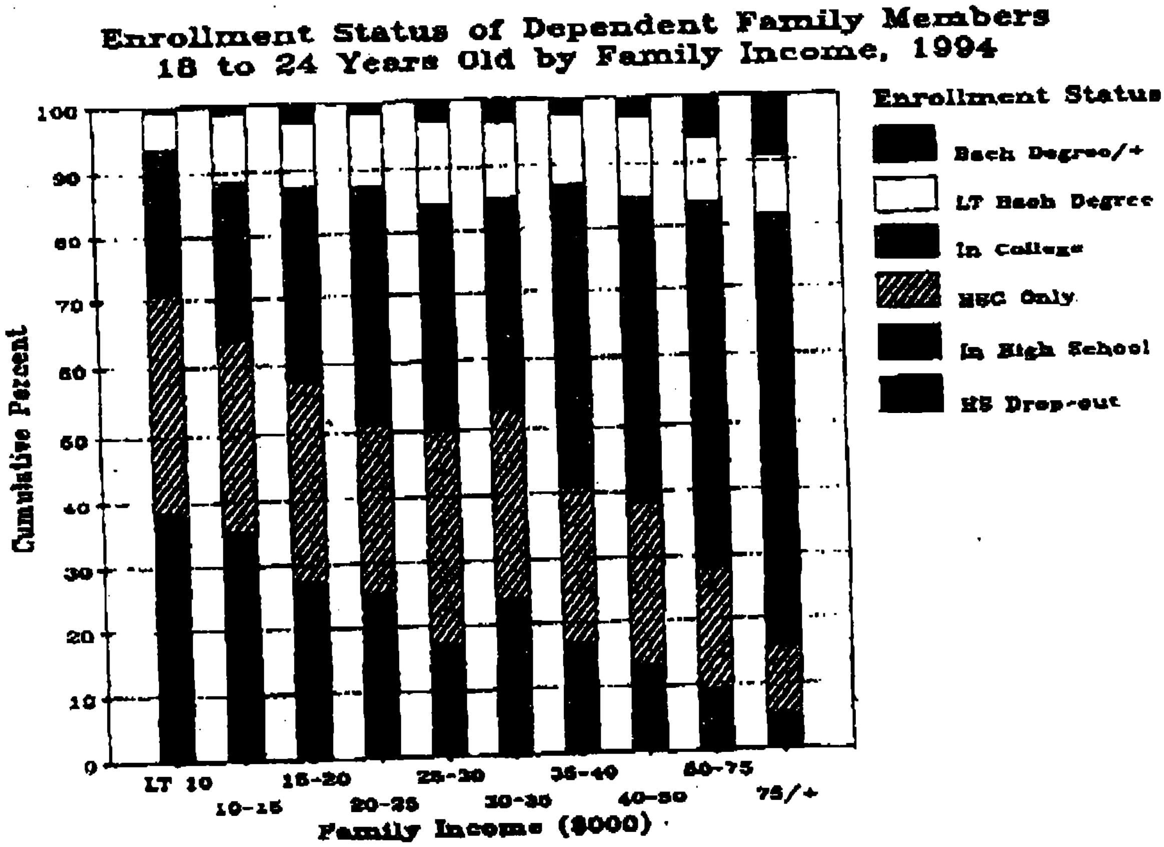
College participation, as collected and reported by the Census Bureau, consists of 18 to 24 year olds currently enrolled in college, plus those not currently in college who have completed less than a bachelor's degree, plus those not currently in college who have completed a bachelor's degree or more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

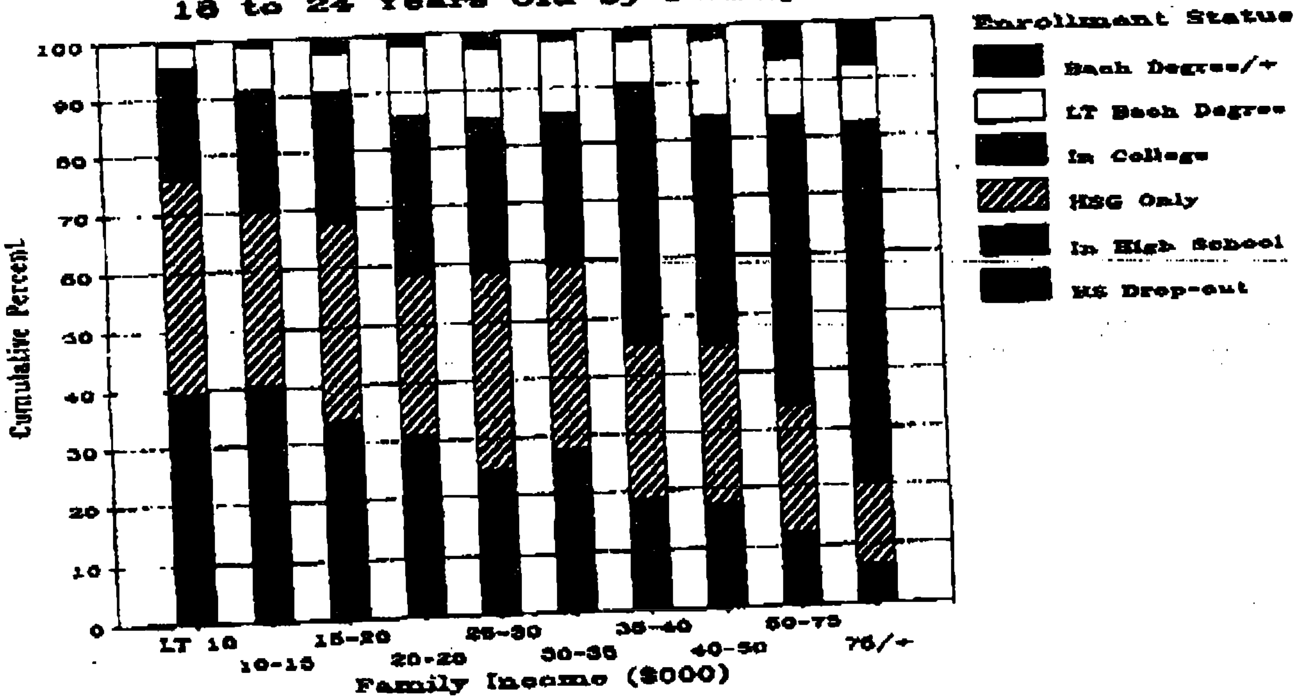
Q1:	$0 to $22,033
Q2:	$22,033 to $41,393
Q3:	$41,393 to $67,881
Q4:	greater than $67,881

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.

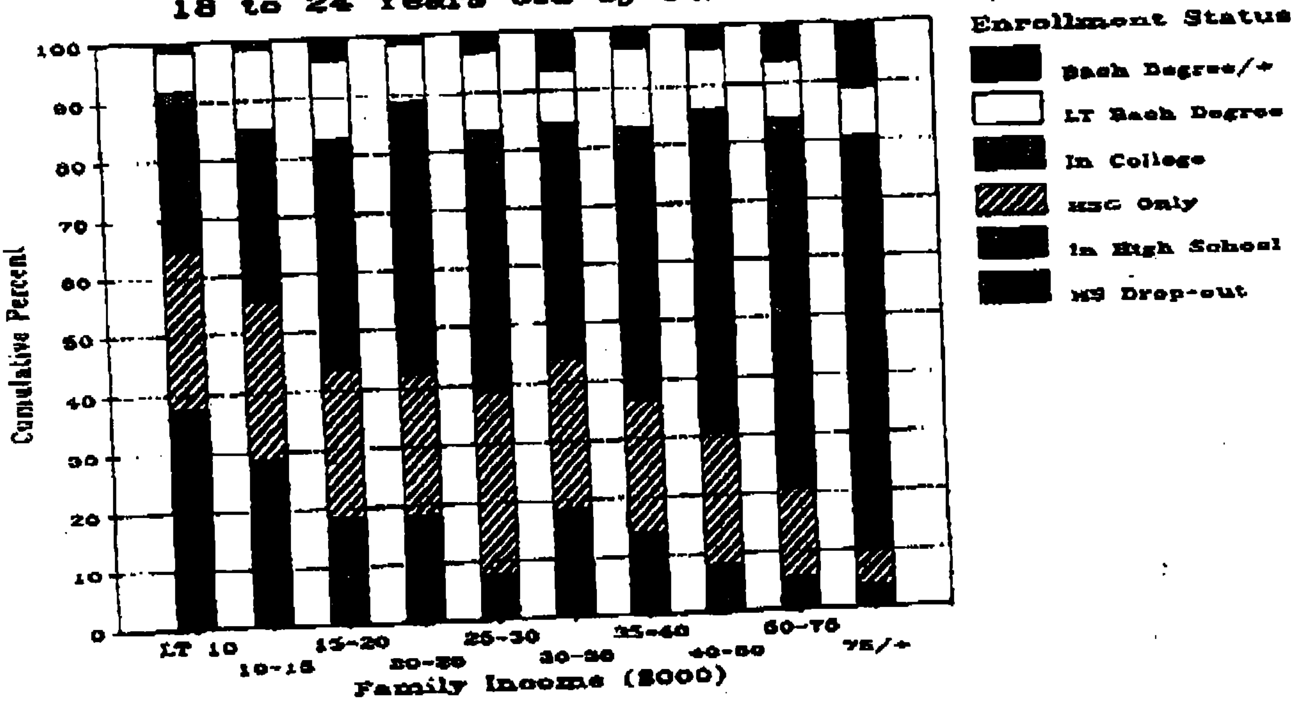
Over the twenty-five year period between 1970 and 1994, family income has been redistributed: the



Enrollment Status of 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

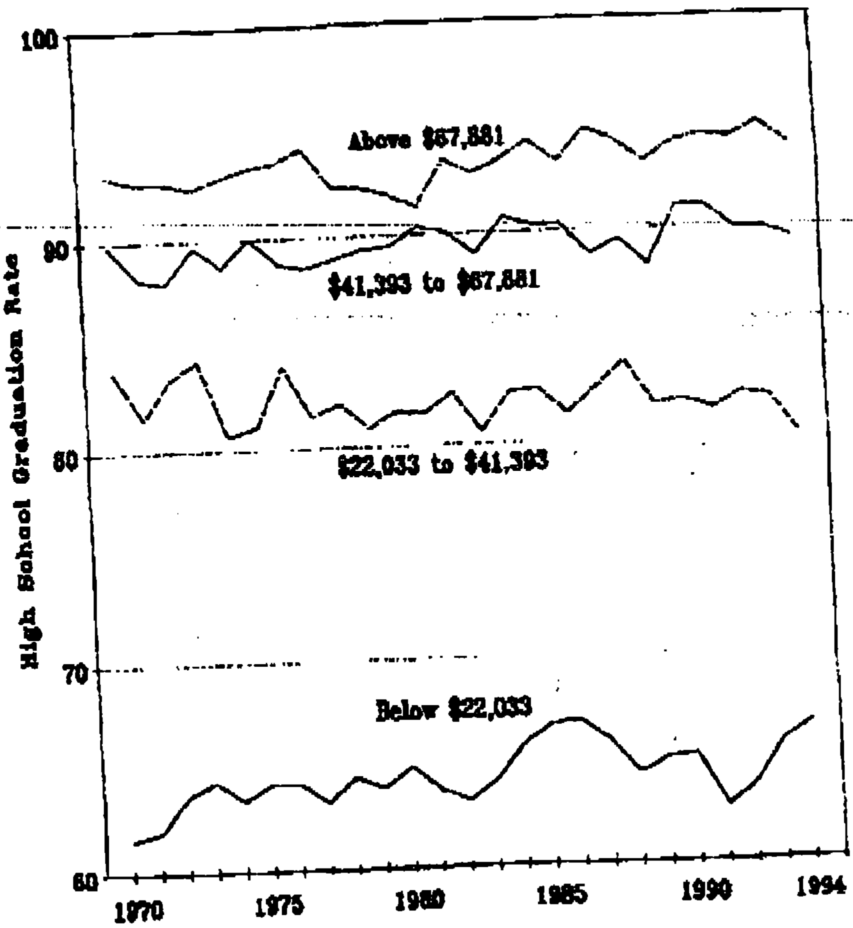
The chart on page 3 summarizes the enrollment status of dependent family members between the ages of 18 and 24 by family income ranges in October 1994. The charts on page 4 break these data down by gender.

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.

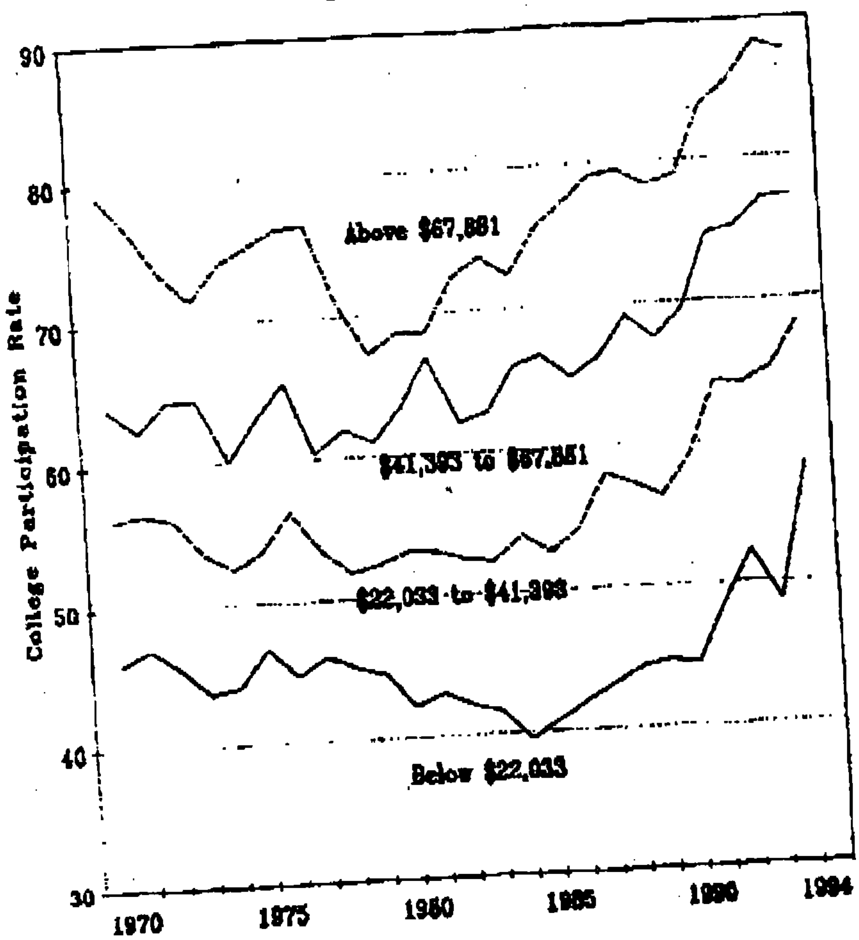
Here, some of the inequality that accumulated after rationing of higher educational opportunity was effectively imposed beginning in 1980 was reversed in the 1994 data. College participation rates appear to have declined slightly in the top quartile of family income, remained flat in the third quartile,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

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%

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



Enrollment Distribution by Type and Control of Institution

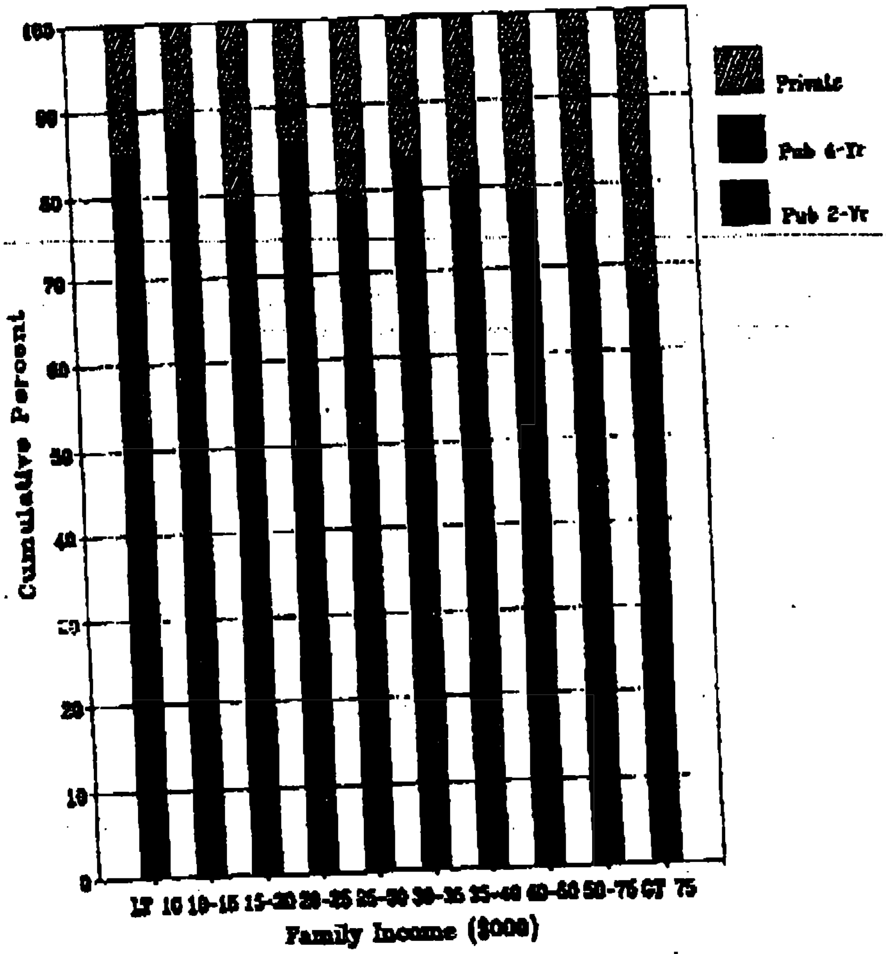
About half of all 18 to 24 year old dependent family members that were enrolled in college in October 1994 were enrolled in public 4-year colleges and universities. The balance were enrolled in either public 2-year colleges or private colleges and universities.

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 [illegible] 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.

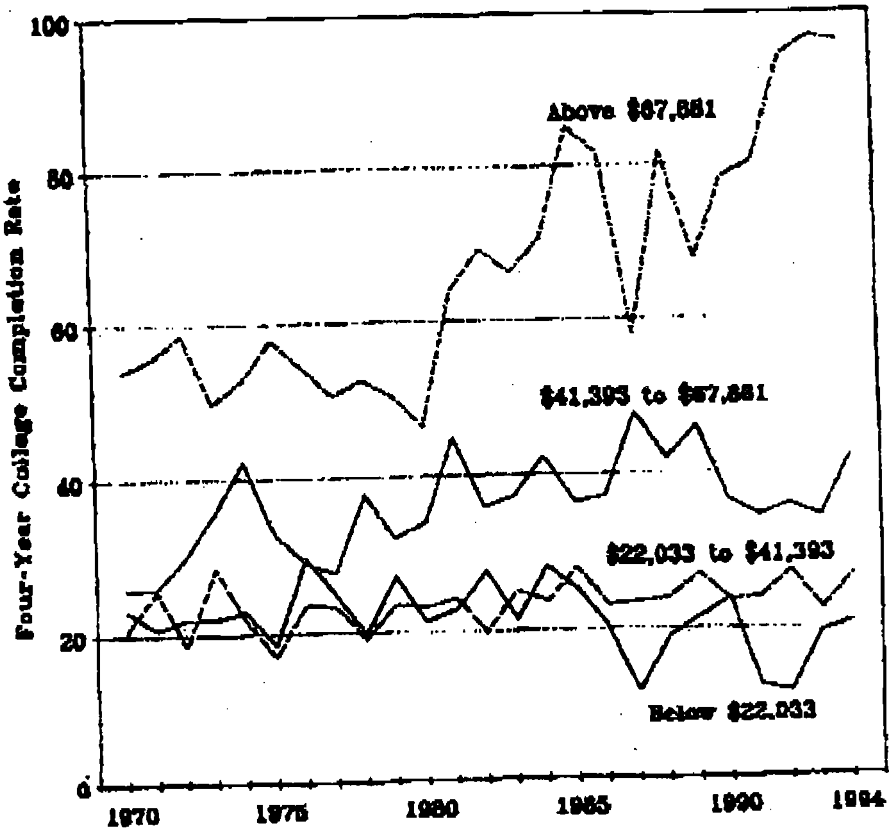
There are different ways to express the significance of these findings.

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



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE SECRETARY

BW
BS

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:

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9 PAGE(S) TO FOLLOW

EDUCATION DAILY

The education community's independent daily news service

Vol. 30, No. 19
Wednesday, January 29, 1997

Clinton Focusing Raises On Reform, Student Aid

President Clinton yesterday previewed an education budget for next year with sharp increases for student aid and his favorite K-12 programs: Goals 2000, charter schools and technology.

Although Clinton's fiscal 1998 budget won't be released until next week, details he rolled out yesterday show some significant changes from the student aid proposals he has been touting since the campaign.

Budget '98

The biggest surprise is Clinton's proposal to raise the maximum Pell Grant from $2,700 to $3,000, which he touted as "the largest increase in the maximum grant in 20 years," during a White House news conference. Congress raised the maximum $230 this year.

Clinton also wants to expand eligibility to an expected 348,000 students, mostly those 24 or older who are financially independent.

The president has backed raising the maximum grant to $3,128 by 2002 and increasing the number of students served. His more recent proposals for tax breaks have been criticized as overlooking the neediest students.

10 Percent Raise

Together, the Pell changes alone would account for $1.7 billion of Clinton's plan to raise Education Department appropriations by $2.7 billion. That would bring ED's total, excluding mandatory spending for programs such as student loans, to $29 billion.

The raises for K-12 would go to a handful of Clinton's favorite projects. School technology

(more on p. 2)

In This Issue

Justice: Decency Law Protects Web For Schools

The Clinton administration is defending a federal law that limits indecent material on the Internet as vital to ensuring that schools can use the technology.

In a brief filed with the U.S. Supreme Court last week, the Justice Department says students and parents have a First Amendment right to "receive information and acquire knowledge." In that aim, Justice says, the Internet is an "unparalleled educational resource."

"Unless steps are taken to restrict the availability of [sexually explicit] material to children, parents and schools may be deterred from permitting children to use interactive computer services," the brief says. "The result will be to exclude those children from an equal opportunity to participate in the promise of our new technological age."

The 1996 Communications Decency Act holds "content providers" criminally liable for exposing children to "patently offensive" material via computer. People who knowingly expose children to offensive material could be fined up to $100,000 and sentenced to two years in prison (ED, Dec. 13, 1995).

(more on p. 3)

Clinton Focusing Raises On Reform, Student Aid (Cont.)

would receive $500 million, up from $257 million this year. Goals 2000 would get a 26 percent raise, to $620 million, and charter schools funding would nearly double, to $100 million.

That's enough fund start-up costs for 1,200 new charter schools, said domestic policy adviser Mike Cohen. Clinton wants to have 3,000 charter schools by the year 2000.

"It really shows an outstanding advocacy for education initiatives," said Edward Kealy, executive director of the Committee for Education Funding.

Clinton made no mention of increases for special education, conspicuous by its absence because Senate Republicans have proposed a $1 billion increase for next fiscal year (ED, Jan. 23). ED and other sources predict Clinton will propose a modest increase.

The president's budget also may include some familiar targets for cuts.

'Opening The Doors To College'

Money for the Pell Grant raise would come from reshaping the $1,500 tuition tax credit that Clinton has been touting for a year.

The "Hope Scholarship" tax credit would be nonrefundable, meaning it could only decrease students' tax debt, not be paid to them.

Call David

"A lot of folks told us it wasn't the best way to help students," David Longanecker, ED's assistant secretary for postsecondary education, said in an interview, explaining the move from the full tax credit to a major Pell raise.

But Republicans still aren't missing the opportunity to point out how the tax credit would help middle-income families.

"One message you can go away with is $300 for the neediest students and $1,500 for the middle class. How do you reconcile that?" asked Pam Devitt, education policy director for the Senate's education committee.

A comprehensive Republican education bill would create tax-free savings accounts and offer a host of other student aid tax savings (ED, Jan. 23).

Clinton also reiterated his support for a $10,000 tax deduction for higher education.

Student Loans

The president also said he wants to reduce student loan origination fees. Currently 4 percent, they would be cut in half for low-income students and to 3 percent on unsubsidized loans, for which the federal government does not cover the interest while students are in school.

Clinton said the move would save families $2.6 billion over five years. Although $1.7 billion of that would come from ED administration cuts, student loan guarantors would lose $900,000 from their reserve funds. ?

"This puts more money in pockets of students," said Terry Hartle, director of government relations for the American Council on Education. But he also noted that it would take $9 billion to restore the balance between loans and grants that existed before an explosion in student borrowing after 1992.

Clinton's other proposals include:

- Special Individual Retirement Accounts that would enable most parents "to save for college tuition without ever paying a penny in taxes;"
- Increasing funding for Work-Study $46 million next year, boosting the number of positions from 700,000 to 1 million, with 100,000 of those to participate as tutors for his children's literacy campaign (ED, Aug. 28, 1996); and
- Make tax-free the amount of student loans that are forgiven for borrowers who serve as teachers and rural doctors.

—Laureen Lazarovici, Rebecca Weiner

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Justice: Decency Law Protects Web For Schools (Cont. from p. 1)

Justice's brief does not address the concern of some educators and groups such as the American Library Association (ALA) that they could be held liable if a student working on one of their computers wanders into an inappropriate Internet site (ED, Dec. 11, 1996).

No school groups have joined the ALA in opposing the law, which is part of the sweeping 1996 Telecommunications Act.

The decency provision is on hold pending the appeal.

The High Court will review the law March 19 in *Reno v. American Civil Liberties Union* (96-511). A decision is expected by July.

The U.S. District Court for the Eastern District of Pennsylvania has declared the law unconstitutionally vague and said it violates the First Amendment (ED, June 13, 1996).

But Justice has turned around the free speech argument of the law's opponents, saying the government has a "compelling interest in protecting the First Amendment interests of all Americans" to use the Internet without fear of exposing children to indecent words and pictures.

Defending The Neighborhood

Justice likened the government's motives in the Internet case to defending zoning laws that prohibit adult movie theaters in residential neighborhoods.

The administration also contends that software to screen sexually explicit material is not used widely and is "only partially effective."

Experts say a school's best protection against Internet controversy is a strong, clear policy defining students' acceptable use and setting penalties for unacceptable behavior (ED, April 11, 1996). —Dave Boyer

Court Upholds Prayer For 'Solemn' College Ceremony

A federal appeals court has approved prayer that "solemnizes" a state university's graduation ceremony, saying it runs no risk of violating church-state separation mandates.

The U.S. Seventh Circuit Court of Appeals agreed with a lower court that the age of students in the audience is important in judging whether such prayer promotes religion.

The appeals court rejected the claim of a law school professor and three students that Indiana University's traditional commencement prayer violates the First Amendment's prohibition against government establishing a religion (ED, Aug. 2, 1996).

The three-judge panel ruled unanimously in *Tanford v. Brand* (96-3053) that a brief invocation and benediction "serve legitimate secular purposes of solemnizing public occasions."

As did the lower court, the appeals panel drew a distinction between prayer at the college ceremony in *Tanford* and a U.S. Supreme Court ruling in 1992 that barred school prayer at a high school ceremony.

In *Lee v. Weisman* (505 U.S. 577), the Court struck down prayer at a Rhode Island high school because of the danger of "subtle coercive pressure" in elementary and secondary schools (ED Supplement, Aug. 6, 1992).

But the Seventh Circuit judges said there is no coercion at a state university ceremony.

"Many students chose not to attend," the court said. "The mature stadium attendees were voluntarily present and free to ignore the cleric's remarks."

Nonsectarian Benediction

University officials told the cleric—in this case, a Catholic priest—to deliver an "uplifting, general message" at commencement. The actual prayer asked for strength "of mind, of heart, of spirit ... in the name of our common God."

The university has used a nonsectarian invocation and benediction at commencement since 1840. Each year, the school chooses a different cleric to pray. —Dave Boyer

District Teaching Parents School-To-Work Benefits

TAMPA, Fla. — Gus Paras says he'd rather not count the students in the school-to-work program he manages for the Hillsborough County, Fla., School District.

Such numbers reinforce parents' fears that the program will track their students into jobs rather than college, he says. Paras said he hopes even the school-to-work name will fade away as a result of the program being successfully integrated into the education system for all students.

In the meantime, with Florida's school-to-work partnerships expected to serve more than 300,000 students and adults this academic year, he continues working to overcome parents' fears that the program will turn their children away from college.

The district so far has emphasized getting businesses and teachers up to speed on the program, which is being piloted in four of Hillsborough's 15 high schools this school year. Now it's time to educate the parents and ease their concerns, Paras said in a recent interview.

Earning Scholarships

A local business and community colleges are chipping in to ensure students will continue their education.

The customer service industry is rapidly growing in the county, and a firm in that field is spearheading a scholarship program for its student workers through school-to-work.

Teletech Corp., an 800-employee customer service company whose clients include American Express, will withhold 25 cents per hour from students' pay and match it. The district, in turn, matches that 50 cents.

Several local community colleges have agreed to match that pot dollar-for-dollar for students who attend their schools. And the district is looking to build on the scholarships, Paras said.

Each Child's Needs

Still, straight talk is the best way to win over parents, Paras said.

He recalled a meeting with parents whose children attended a college prep-like high school, when the district was planning its school-to-work program. One parent said the program would be useless to his daughter, because she was going to be a surgeon.

To explain the benefits, Paras noted that school-to-work would give the girl a chance to talk with surgeons, find out what they do, the training they need and schools they attended.

Hillsborough doesn't want critics of school-to-work—which include the conservative Eagle Forum—to muster grassroots support against the program, like they have in towns such as Oakville, Mo., and Fairfax, Va.

To learn more about what parents want from the program, Paras said, the district will use a consultant it initially hired to hold focus groups with businesses. One idea the business focus group pitched was to have a countywide career fair, similar to a college fair, where businesses and parents could discuss how school-to-work could prepare students for careers.

For more information, contact Gus Paras, School-To-Work Project Manager, Hillsborough County School District, Leary Technical Center, 5410 N. 20th St., Tampa, Fla. 33610-8299, (813)231-1958. —Matthew Dembicki

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Foundation Gives $11 Million For Education Research

A Chicago-based foundation has given $11.25 million to fund graduate-level research into methods of improving education.

The Spencer Foundation yesterday announced that it has divided the money to finance the careers of more "outstanding researchers" at nine schools of education: the University of California's Berkeley and Los Angeles campuses, the Teachers College at Columbia University, Harvard University, the University of Michigan, Michigan State University, the University of Pennsylvania, Stanford University, and the University of Wisconsin.

The grants will fund fellowships allowing students to pursue their doctoral degrees with less need to work. The Spencer Foundation supports research into how education can be better understood and improved. —William J. Cahir

Treasury New/Revised Examples

EXAMPLES SHOWING BENEFITS FROM PRESIDENT'S EDUCATION PACKAGE

Example 1, Joe Anderson, an independent student

Joe Anderson is a college freshman in the fall of 1998. He supports himself, but doesn't have a wife or children. In 1998 he has earned approximately $10,000. In July 1998 Joe enrolls in college and is charged $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.**

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 2, the Baileys, a married couple with one child in college

Tom and Susan Bailey are a married couple with one child, Mary. Tom and Susan earn approximately $30,000 in 1998. They claim Mary as a dependent because they provide more than half of her support. Mary 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, Mary 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, Tom and Susan are entitled to a tuition deduction for the $5,000 their family has paid in tuition and required fees. The deduction reduces the Baileys' tax bill by $750. **Thus, the Baileys get a total benefit of $1,050.**

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: $2,194	Tax liability: $1,444

Example 3, the Thompsons, a married couple with one child in college

Larry and Jill Thompson are a married couple with two children. Larry and Jill earn approximately $60,000 in 1998. They claim both children as dependents because they provide more than half of their support. Bobby, the Thompsons' older child, enrolls as a freshman in a junior 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 Thompsons are entitled to a HOPE Scholarship tuition credit of $1,500. The credit reduces their tax liability by $1,500. **Thus, the Thompsons get a total benefit of $1,500.**

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, the Greens, a married couple with two children in college
Paul and Debbie Green are a married couple with two children, David and Barbara. Paul and Debbie have income of approximately $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 $3,500. 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 they are in the phase-out range, the maximum credit and deduction are lower.) The credit and the deduction reduce their tax liability by $1,450. **Thus, the Greens get a total benefit of $1,650.**

<u>Without the President's Proposals</u>
Tuition cost: $8,500
Pell grant: $0
Tax liability: $12,128
Penalty for early withdrawal: $200.

<u>With the President's Proposals</u>
Tuition cost: $8,500
Pell grant: $0
Tax liability: $10,678

GOP Queries White House On Tuition Tax Break Plan

By Clay Chandler
Washington Post Staff Writer

Days after President Clinton's inaugural appeal for bipartisanship, congressional Republicans have questioned the package of tax breaks for students that is high on Clinton's agenda for his second term.

In a letter sent yesterday to Treasury Secretary Robert E. Rubin, House Ways and Means Committee Chairman Bill Archer (R-Tex.) expressed support for using the tax code to make post-secondary education more affordable. But he asked whether the specific provisions urged by Clinton would:

- Entice colleges to push tuition costs higher.
- Grant new power to the Internal Revenue Service by requiring it to monitor student report cards.
- Pressure teachers to go easy in grading students.
- Prove difficult to administer because school years are unlikely to correspond with the tax year.

"The principle of using the tax code to help provide for affordable educational opportunities represents common ground," Archer wrote, "but I await your reply in order to evaluate the merits of this particular tax proposal." Archer's committee has jurisdiction over all tax measures.

Republicans last year scrambled to keep Clinton from claiming the cost-of-education issue for himself. In the final days of the last Congress, GOP legislators allocated more money even than Clinton had requested for education programs.

But they stopped short of endorsing the specifics of Clinton's education program, which calls for nearly $40 billion in tuition tax breaks over the next five years to expand educational opportunities for students after high school.

Clinton will outline his education proposals in greater detail Feb. 6 when he submits his fiscal 1998 budget to Congress. He is expected to stick with the measures he advocated in last year's budget and during the campaign.

Under that plan, freshmen and sophomores could choose between a $1,500 refundable tax credit and a federal income tax deduction of as much as $10,000 a year. Students would be required to earn at least a B average to be eligible for the credit in their second year—the final year that the tax credit could be used. For the tax deduction, there would be no minimum grade requirement and no limit on the number of years that it could be used. To qualify for either break, taxpayers would have to earn below $100,000 for joint filers and below $70,000 for single filers.

The Republican game plan, many analysts contend, is to feign opposition to Clinton's plans, then offer to accept them in exchange for concessions on a cherished Republican objective: the reduction of tax rates on capital gains.

"The thing Clinton wants most is his tuition tax cuts, and the thing Republicans want most is a capital gains tax cut," reasons John F. Jennings, director of the Center on National Education Policy. "It looks to me like we're headed for a deal where both sides get what they're after."

At the same time, fiscal analysts as well as education policy experts say there is good reason for skepticism about Clinton's education programs. Many echo Archer's concerns that the Clinton plan could trigger tuition inflation and make it hard for teachers to grade objectively. But they also raise an objection Archer didn't cite: Tax breaks are a clumsy tool for reducing the financial obstacles to college study and will mostly end up as a "windfall" gain for families who could afford to send their kids to college anyway.

"I see this as a grossly unfair tilting of federal resources away from students who have the greatest need in favor of higher-income families," said Lawrence E. Gladieux, executive director for policy analysis in the Washington office of the College Board.

Deputy Treasury Secretary Lawrence H. Summers argued that the Clinton proposals were modeled on a successful program adopted in Georgia where there has been no evidence of significant tuition or grade inflation. "This is the best way we could think of to ensure that Americans' opportunities for higher education are not limited by their capacity to pay for it," Summers said.

Earlier this week, Senate Republicans also endorsed the idea of using the tax code to provide relief to students and their families. Among other proposals, Senate Republicans urged restoring the interest deduction for student loans, new tax breaks for savings accounts designated for education and new tax breaks for students taking advantage of state-sponsored prepaid college tuition plans.

Ben

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 tax 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.

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

We ~~also~~ want to assure you that we have addressed the ~~any~~ concerns ~~we may have~~ raised in the course of developing these proposals ~~have been addressed to our satisfaction both as the initial proposal was finalized~~ and have made last May and as we have prepared the budget. ~~In addition~~, a number of improvements ~~have been made as we have begun to prepare~~ while preparing legislation. ~~Most importantly~~, we believe that the President's proposals would provide vital support for postsecondary education and training while easing the tax burden on middle-income Americans.

for postsecondary education

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

We hope to work closely with you on these issues as you debate the tax proposals in Congress. We also plan to continue working with the higher ed community on implementation issues as the ... moves.

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?

we expect

The IRS will ~~not~~ be collecting student transcripts or student grade point averages. The Secretary of the Treasury and the Secretary of Education will issue regulations to implement the credit. The 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. Colleges and universities would 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. We do not believe such concern is warranted enough to 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 scholarships, and even with the aid of the tuition deduction, would be sensitive to price increases. We also believe that the competition for students among postsecondary 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 get benefits such as 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 it instituted its 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. Ultimately, professors need a grading system that is equitable for all students, not just those with particular incentives.

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.

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

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IMPORTANT

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 an expansion of the program for eligible ~~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 have 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.

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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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 scholarships, 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 it? instituted their program several years ago.

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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 those docs to Treasury

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

Handwritten changes are per Stan Dicson

104TH CONGRESS
2D SESSION

H. R. ____

IN THE HOUSE OF REPRESENTATIVES

M. introduced the following bill; which was referred to the Committee on

A BILL

To amend the Internal Revenue Code of 1986 to provide tax benefits for higher education expenses, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "____".

TITLE I—TAX BENEFITS FOR HIGHER EDUCATION EXPENSES

SEC. 101. REFUNDABLE CREDIT FOR HIGHER EDUCATION EXPENSES.

(a) IN GENERAL.—Subpart C of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 (relating to refundable credits) is amended by redesignating section 35 as section 36 and by inserting after section 34 the following new section:

"SEC. 35. HIGHER EDUCATION TUITION AND FEES.

"(a) ALLOWANCE OF CREDIT.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this subtitle for the taxable year the amount of qualified higher education expenses paid by the taxpayer during such taxable year.

"(b) CREDIT LIMITED TO $1,500 PER ACADEMIC YEAR.—

"(1) IN GENERAL.—The amount allowed as a credit under subsection (a) for any taxable year with respect to an eligible student shall not exceed the sum of the credit amounts for qualified academic periods beginning during such taxable year or the 1st 3 months of the next taxable year. A qualified academic period may not be taken into account under the preceding sentence more than once.

"(2) CREDIT ALLOWED ONLY FOR FIRST 2 ACADEMIC YEARS OF POST-SECONDARY EDUCATION.—

"(A) IN GENERAL.—For purposes of paragraph (1), the term 'qualified academic period' means, with respect to any student, any academic period for which such student is an eligible student if such period, when added to prior periods that such student was an eligible student, does not exceed 2 full-time academic years (or the equivalent thereof).

"(B) GRADE-POINT REQUIREMENT.—Subparagraph (A) shall be applied by substituting '1 full-time academic year' for '2 full-time academic years' if the student did not have a grade point average of at least 2.75 on a 4 point scale (or met a substantially similar measure of achievement) for the first full-time academic year (or its equivalent) for which such student is an eligible student.

"(3) CREDIT AMOUNT.—For purposes of paragraph (1)—

"(A) IN GENERAL.—Except as otherwise provided in regulations prescribed by the Secretary, the credit amount for any academic period is the amount equal to—

"(i) $1,500, divided by

"(ii) the number of such academic periods during the academic year.

In the case of an eligible student who is not a full-time student for an academic period, the credit amount for such period shall be ½ the amount determined under ~~this~~ the preceding sentence.

"(B) CREDIT AMOUNT REDUCED BY OTHER NONTAXABLE FEDERAL ASSISTANCE.—If any nontaxable Federal assistance is allocable to any academic period, the credit amount for such period shall be the credit amount determined under subparagraph (A) reduced by the nontaxable Federal assistance which is so allocable.

"(C) NONTAXABLE FEDERAL ASSISTANCE.—For purposes of subparagraph (B), the term 'nontaxable Federal assistance' means any scholarship or grant provided by the Federal Government which is exempt from tax under this chapter by reason of section 117 or any other Federal law.

W-5?

"(4) INFLATION ADJUSTMENT OF CREDIT LIMITATION FOR ACADEMIC YEAR.—

"(A) IN GENERAL.—In the case of a taxable year beginning after 1997, the $1,500 amount in paragraph (3)(A)(i) shall be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1996' for 'calendar year 1992' in subparagraph (B) thereof.

"(B) ROUNDING.—If any amount as adjusted under subparagraph (A) is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.

"(c) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

"(1) IN GENERAL.—The amount which would (but for this subsection) be taken into account under subsection (a) for the taxable year shall be reduced (but not below zero) by the amount determined under paragraph (2).

"(2) AMOUNT OF REDUCTION.—The amount determined under this paragraph is the amount which bears the same ratio to the amount which would be so taken into account as—

"(A) the excess of—

"(i) the taxpayer's modified adjusted gross income for such taxable year, over

"(ii) $50,000 ($80,000 in the case of a joint return), bears to

"(B) $20,000.

"(3) MODIFIED ADJUSTED GROSS INCOME.—The term 'modified adjusted gross income' means the adjusted gross income of the taxpayer for the taxable year—

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"(A) determined without regard to section 220, and

"(B) increased by any amount excluded from gross income under section 911, 931, or 933.

"(4) INFLATION ADJUSTMENT.—

"(A) IN GENERAL.—In the case of a taxable year beginning after 1999, the $50,000 and $80,000 amounts in paragraph (2) and section 220(b)(2)(B)(i)(II) shall each be increased by an amount equal to—

"(i) such dollar amounts, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1998' for 'calendar year 1992' in subparagraph (B) thereof.

"(B) ROUNDING.—If any amount as adjusted under subparagraph (A) is not a multiple of $5,000, such amount shall be rounded to the next lowest multiple of $5,000.

"(d) QUALIFIED HIGHER EDUCATION EXPENSES.—For purposes of this section—

"(1) QUALIFIED HIGHER EDUCATION EXPENSES.—

"(A) IN GENERAL.—The term 'qualified higher education expenses' means tuition and fees required for the enrollment or attendance of—

"(i) the taxpayer,

"(ii) the taxpayer's spouse, or

"(iii) any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151,

as an eligible student at an institution of higher education.

"(B) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC.—Such term does not include expenses with respect to any course or other education involving sports, games, or hobbies, unless such course or other education is part of the student's degree program.

"(C) EXCEPTION FOR NONACADEMIC FEES.—Such term does not include student activity fees, athletic fees, insurance expenses, or ~~other expenses~~ unrelated to a student's academic course of instruction.

"(D) ELIGIBLE STUDENT.—~~For purposes of subparagraph (A),~~ the term 'eligible student' means, with respect to any academic period, a student who—

"(i) meets the requirements of section 484(a)(1) of the Higher Education Act of 1965 (20 U.S.C. 1091(a)(1)), as in effect on the date of the enactment of this section, and

"(ii) is carrying at least ½ the normal full-time work load for the course of study the student is pursuing, as reasonably determined by the institution of higher education.

"(2) INSTITUTION OF HIGHER EDUCATION.—The term 'institution of higher education' means an institution—

"(A) which is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on the date of the enactment of this section, and

"(B) which is eligible to participate in programs under title IV of such Act.

"(3) FULL-TIME STUDENT.—The term 'full-time student' means any student who is carrying at least the normal full-time work load for the course of study the student is pursuing, as reasonably determined by the institution of higher education.

"(e) SPECIAL RULES.—

"(1) DENIAL OF CREDIT IF STUDENT CONVICTED OF DRUG OFFENSE.—No credit shall be allowed under subsection (a) for qualified higher education expenses for the enrollment or attendance of a student for any academic period if such student has been convicted of a Federal or State offense consisting of the possession or distribution of a controlled substance before the end of such period.

"(2) NO DOUBLE BENEFIT.—

"(A) IN GENERAL.—No credit shall be allowed under subsection (a) for qualified higher education expenses for the enrollment or attendance of a student for any academic period if any such expense for the enrollment or attendance of such student for such period is allowed as a deduction to the taxpayer under any other provision of this chapter.

"(B) DEPENDENTS.—No credit shall be allowed under subsection (a) to any individual with respect to whom a deduction under section 151 is allowable to another taxpayer for a taxable year beginning in the calendar year in which such individual's taxable year begins.

"(3) IDENTIFICATION REQUIREMENT.—No credit shall be allowed under subsection (a) to a taxpayer with respect to an eligible student unless the taxpayer includes the name and taxpayer identification number of such eligible student on the return of tax for the taxable year.

"(4) ADJUSTMENT FOR CERTAIN SCHOLARSHIPS.—The amount of qualified higher education expenses otherwise taken into account under subsection (a) with respect to the education of an individual for an academic period shall be reduced (be fore the application of subsections (b) and (c)) by the sum of—

"(A) the amounts received with respect to such individual which are allocable to such period as—

"(i) a qualified scholarship which under section 117 is not includable in gross income,

"(ii) an educational assistance allowance under chapter 30, 31, 32, 34, or 35 of title 38, United States Code, or

"(iii) a payment (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)) for educational expenses, or attributable to enrollment at an eligible educational institution, which is exempt from income taxation by any law of the United States, and

"(B) the amount excludable from gross income under section 135 which is allocable to such expenses with respect to such individual for such period.

"(5) NO CREDIT FOR MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—If the taxpayer is a married individual (within the meaning of section

7703), this section shall apply only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

"(6) NONRESIDENT ALIENS.—If the taxpayer is a nonresident alien individual for any portion of the taxable year, this section shall apply only if such individual is treated as a resident alien of the United States for purposes of this chapter by reason of an election under subsection (g) or (h) of section 6013.

"(7) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including—

"(A) regulations requiring recordkeeping and information reporting, and

"(B) regulations providing for a recapture of credit allowed under this section in cases where there is a refund in a subsequent taxable year of any amount which was taken into account in determining the amount of such credit."

(h) EXTENSION OF PROCEDURES APPLICABLE TO MATHEMATICAL OR CLERICAL ERRORS.—Paragraph (2) of section 6213(g) of such Code (relating to the definition of mathematical or clerical errors) is amended by striking "and" at the end of subparagraph (E), by striking sub-

Leave current law alone, or out and do, and paragraph (F), and by inserting after subparagraph (E) the following new subparagraph~~s~~:

"(F) an omission of a correct TIN required under section 35(e)(~~2~~3) or under section 220(d)(3)(B) (relating to higher education tuition and fees) to be included on a return."

(c) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 1324(b) of title 31, United States Code, is amended by inserting before the period "or from section 35 of such Code".

(2) The table of sections for subpart C of part IV of subchapter B of chapter 1 of such Code is amended by striking the last item and inserting the following new items:

"Sec. 35. Higher education tuition and fees.
"Sec. 36. Overpayments of tax."

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 1996.

(2) PERIODS BEFORE 1997 TAKEN INTO ACCOUNT.—For purposes of applying section 35(b)(2)(A) of the Internal Revenue Code of 1986 (as added by this section), periods before January 1, 1997, that the student was an eligible student shall be taken into account.

SEC. 102. DEDUCTION FOR HIGHER EDUCATION EXPENSES.

(a) DEDUCTION ALLOWED.— Part VII of subchapter B of chapter 1 of the Internal Revenue Code of 1986 (relating to additional itemized deductions for individuals) is amended by redesignating section 220 as section 221 and by inserting after section 219 the following new section:

"**SEC. 220. HIGHER EDUCATION TUITION AND FEES.**

"(a) ALLOWANCE OF DEDUCTION.—In the case of an individual, there shall be allowed as a deduction the amount of qualified higher education expenses paid by the taxpayer during the taxable year.

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"(b) LIMITATIONS.—

"(1) DOLLAR LIMITATION.—

"(A) IN GENERAL.—The amount allowed as a deduction under subsection (a) for any taxable year shall not exceed $10,000.

"(B) PHASE-IN.—In the case of taxable years beginning in 1997 or 1998, subparagraph (A) shall be applied by substituting '$5,000' for '$10,000'.

"(2) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

"(A) IN GENERAL.—The amount allowed as a deduction under subsection (a) (after application of paragraph (1)) shall be reduced (but not below zero) by the amount determined under subparagraph (B).

"(B) AMOUNT OF REDUCTION.—The amount determined under this subparagraph equals the amount which bears the same ratio to the deduction (determined without regard to this paragraph) as—

"(i) the excess of—

"(I) the taxpayer's modified adjusted gross income for such taxable year, over

"(II) $50,000 ($80,000 in the case of a joint return), bears to

"(ii) $20,000.

"(C) MODIFIED ADJUSTED GROSS INCOME.—The term 'modified adjusted gross income' means the adjusted gross income of the taxpayer for the taxable year determined—

for purpose of subparagraph (B)

"(i) without regard to this section and sections 911, 931, and 933, and

"(ii) after the application of sections 86, 135, 219 and 469.

For purposes of sections 86, 135, 219, and 469, adjusted gross income shall be determined without regard to the deduction allowed under this section.

"(D) CROSS REFERENCE.—

"For inflation adjustment of $50,000 and $80,000 amounts, see section 35(e)(4).

"(c) DEFINITIONS.—For purposes of this section—

"(1) IN GENERAL.—Except as provided in paragraph (2), terms used in this section which are also used in section 35 have the respective meanings given such terms in section 35.

"(2) DEDUCTION AVAILABLE FOR EDUCATION TO ACQUIRE OR IMPROVE JOB SKILLS.—For purposes of applying this section, the requirement of section 35(d)(1)(D)(ii) shall be treated as met if the student is enrolled in a course which enables the student to improve the student's job skills or to acquire new job skills.

"(d) SPECIAL RULES.—

"(1) DENIAL OF DOUBLE BENEFIT.—No deduction shall be allowed under subsection (a) for qualified higher education expenses with respect to which a deduction is allowable to the taxpayer under any other provision of this chapter unless the taxpayer irrevocably waives his right to the deduction of such expenses under such other provision.

"(2) LIMITATION ON TAXABLE YEAR OF DEDUCTION.—

"(A) IN GENERAL. A deduction shall be allowed under subsection (a) for any taxable year only to the extent the qualified higher education expenses are in connection with enrollment at an institution of higher education during the taxable year.

"(B) CERTAIN PREPAYMENTS ALLOWED.—Subparagraph (A) shall not apply to qualified higher education expenses paid during a taxable year if such expenses are in connection with an academic term beginning during such taxable year or during the 1st 3 months of the next taxable year.

"(3) CERTAIN RULES TO APPLY.—Rules similar to the following rules of section 35(e) shall apply for purposes of this section:

"(A) Paragraph (2)(B) (relating to denial of double benefit for dependents).

"(B) Paragraph (3) (relating to identification requirement).

"(C) Paragraph (4) (relating to adjustment for certain scholarships).

"(D) Paragraph (5) (relating to no benefit for married individuals filing separate returns).

"(E) Paragraph (6) (relating to nonresident aliens).

"(4) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including regulations requiring recordkeeping and information reporting."

(b) DEDUCTION ALLOWED IN COMPUTING ADJUSTED GROSS INCOME.—Section 62(a) of such Code is amended by inserting after paragraph (15) the following new paragraph:

"(16) HIGHER EDUCATION TUITION AND FEES.—The deduction allowed by section 220."

(c) CONFORMING AMENDMENT.—The table of sections for part VII of subchapter B of chapter 1 of such Code is amended by striking the item relating to section 220 and inserting:

"Sec. 220. Higher education tuition and fees.
"Sec. 221. Cross reference."

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1996.

TITLE II—REVENUE OFFSETS

SEC. 201. RESTORATION OF $10 TAX ON INTERNATIONAL DEPARTURES.

(a) RESTORATION OF TAX.—Subsection (g) of section 4261 of the Internal Revenue Code of 1986 (relating to imposition of tax on transportation of persons by air) is amended is read as follows:

"(g) TERMINATION.—

"(1) IN GENERAL.—Except as provided in paragraph (2), the taxes imposed by this section shall apply with respect to transportation beginning after August 31, 1982, and before January 1, 1996.

"(2) INTERNATIONAL DEPARTURE TAX.—The tax imposed by subsection (c) shall apply with respect to transportation beginning after the date of the enactment of this paragraph and before October 1, 2006. Paragraph (1) of section 9502(b) shall be applied by substituting 'October 1, 2006' for 'January 1, 1996' with respect to the tax imposed by subsection (c) of this section."

(b) $10 RATE OF TAX.—Subsection (c) of section 4261 of such Code is amended by striking "$6" and inserting "$10". $10

(c) CONFORMING AMENDMENT.—The second sentence of section 4261(c) of such Code is amended by inserting "subsection (g) and" before "sections 4281".

(d) EFFECTIVE DATE.

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to transportation beginning after the date of the enactment of this Act but shall not apply to amounts paid on or before such date.

(2) DEPOSITS IN TRUST FUND.—The second sentence of section 4261(g)(2) of the Internal Revenue Code of 1986 (as added by this section) shall apply to amounts received in the Treasury after the date of the enactment of this Act.

SEC. 202. MODIFICATION OF SOURCE RULE FOR CERTAIN INVENTORY PRODUCED IN THE UNITED STATES AND SOLD OUTSIDE THE UNITED STATES.

(a) IN GENERAL.—Subsection (b) of section 865 of the Internal Revenue Code of 1986 (relating to source rules for personal property sales) is amended to read as follows:

"(b) EXCEPTION FOR INVENTORY PROPERTY.—

"(1) IN GENERAL.—In the case of income derived from the sale of inventory property—

"(A) this section shall not apply, and

"(B) such income shall be sourced under the rules of sections 861(a)(6), 862(a)(6), and 863(b).

"(2) TREATMENT OF SALES OF UNPROCESSED TIMBER.—Notwithstanding paragraph (1), any income from the sale of any unprocessed timber which is a softwood and was cut from an area in the United States shall be sourced in the United States and the rules of sections 862(a)(6) and 863(b) shall not apply to any such income. For purposes of the preceding sentence, the term 'unprocessed timber' means any log, cant, or similar form of timber.

"(3) LIMITATION ON AMOUNT OF INCOME TREATED AS SOURCED IN UNITED STATES.—In the case of a sale of inventory property (other than natural resources) produced (in whole or in part) by the taxpayer within and sold or exchanged without the United States, the amount of gross income which is treated as derived from sales activities shall not exceed 25 percent of the total gross income of the taxpayer attributable to such production and sale unless the taxpayer establishes to the satisfaction of the Secretary that (based on facts and circumstance) a greater amount should be so treated."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after the date of the enactment of this Act.

DRAFT

HOPE SCHOLARSHIP TUITION TAX CREDIT AND EDUCATION AND JOB TRAINING TAX DEDUCTION

CURRENT LAW

Taxpayers generally may not deduct the expenses of higher education and training. There are, however, special circumstances in which deductions for higher education expenses are allowed, or in which the payment of higher education expenses by others is excluded from income.

Higher education expenses may be deductible, but only if the taxpayer itemizes, and only to the extent that the expenses, along with other miscellaneous itemized deductions, exceed two percent of adjusted gross income (AGI). A deduction for educational purposes is allowed only if the education maintains or improves a skill required in the individual's employment or other trade or business, or is required by the individual's employer, or by law or regulation for the individual to retain his or her current job.

The interest from qualified U.S. savings bonds is excluded from a taxpayer's gross income to the extent the proceeds of the bonds are used to pay qualified educational expenses. To be qualified, the savings bonds must be purchased after December 31, 1989, by a person who has attained the age of 24. The interest exclusion is phased out for taxpayers with AGI between certain income limits. For 1995, the exclusion was phased out for taxpayers with modified AGI between $42,300 and $57,300 ($63,450 and $93,450 for joint returns). Qualified educational expenses consist of tuition and fees for enrollment of the taxpayer, the taxpayer's spouse, or the taxpayer's dependent at a public or non-profit institution of higher education, including two-year colleges and vocational schools.

REASONS FOR CHANGE

Special tax treatment for higher education expenses would combine needed tax relief with preparation for new economic imperatives. The expenses of higher education place a significant burden on many middle-class families. Grants and subsidized loans are available to students from low- and moderate-income families; high-income families can afford the cost of higher education. The combination of Federal grants and a refundable tax credit would create a Federal guarantee of a ~~minimum~~ certain amount of assistance with higher education expenses. A credit or a deduction for certain education expenses would reduce the after-tax cost of higher education.

Well-educated workers are essential to an economy experiencing technological change and facing global competition. The Administration believes that reducing the after-tax cost of education for individuals and families through tax credits and deductions would encourage investment in education and training while lowering tax burdens for middle-income taxpayers.

PROPOSAL

As described in detail below, taxpayers would be able to claim a refundable tax credit or a tax deduction for qualified higher education expenses incurred for themselves, their spouses or their dependents during their first two years of postsecondary education in a degree or certificate program. If the requirements for both the credit and the deduction were met with respect to a particular student's expenses, the taxpayer would be free to choose either the credit or the deduction for those expenses. The deduction, but not the credit, would be available for qualified higher education expenses incurred after the first two years of postsecondary education or at any time for courses that enable the taxpayer, the taxpayer's spouse or dependent to acquire or improve job skills.

Hope Scholarship Tuition Tax Credit

A taxpayer would be allowed a refundable credit against Federal income tax for qualified higher education expenses paid during the taxable year for the education of the taxpayer, the taxpayer's spouse, or the taxpayer's dependents. The credit would be available for a student's first two years of postsecondary education (assuming full-time enrollment), or the substantial equivalent. The credit would be available for education in connection with degree or certificate programs.

A credit for qualified higher education expenses would be available for the taxable year during which the expenses are paid, subject to the requirement that the education commence or continue during that year or during the first three months of the next year. Qualified higher education expenses paid with the proceeds of a loan (rather than repayment of the loan itself) generally will be eligible for the credit. The credit will be recaptured where a student or the taxpayer received a refund (or reimbursement through insurance) of tuition and fees for which a credit had been claimed in a prior year.

With respect to an individual student, a taxpayer is limited to a tuition tax credit of the lesser of the taxpayer's qualified higher education expenses and the maximum credit amount for that student. The maximum credit for an academic period is $1500 divided by the number of academic periods in an academic year, reduced by any federal educational grants, such as Pell Grants, awarded for that period of enrollment. The maximum credit for students that are enrolled at least half-time would be half that allowed for students enrolled full-time. For example, the maximum credit for a full-time freshman would be $750 per semester and for a half-time freshman would be $375 per semester, where two semesters make up an academic year. For an academic year composed of three quarters, the maximum credit for a full-time freshman would be $500 per quarter, and for a half-time freshman would be $250 per quarter. Beginning in 1998, the maximum credit amount would be indexed for inflation, rounded down to the closest multiple of $50. A taxpayer could claim credits with respect to more than one eligible student. With respect to any one student, credits for no more that the equivalent of two academic years could be claimed over the entirety of that student's academic career.

The maximum credit amount would be phased out ratably for taxpayers with modified AGI between $50,000 and $70,000 ($80,000 and $100,000 for joint returns). Modified AGI would include taxable Social Security benefits and amounts otherwise excluded with respect to income earned abroad (or income from Puerto Rico or U.S. possessions), and would be determined before the deduction for education expenses contained in this proposal. Beginning in 2000, the income phase-out range would be indexed for inflation, rounded down to the closest multiple of $5000.

Qualified higher education expenses would be defined as tuition and fees charged by an institution of higher education that are directly related to an eligible student's course of study (e.g., registration fees, laboratory fees, and extra charges for particular courses). Charges and expenses associated with meals, lodging, student activities, athletics, health care, transportation, books and similar personal, living or family expenses would not be included. The expenses of education involving sports, games, or hobbies would not be qualified higher education expenses unless the education is required as part of a degree program.

Qualified higher education expenses generally would include only out of-pocket tuition and fees. Qualified higher education expenses would not include expenses covered by educational assistance that is not required to be included in the gross income of either the student or the taxpayer claiming the credit. Thus, total tuition and required fees would be reduced by scholarship or fellowship grants excludable from gross income under section 117 of the Internal Revenue Code (even if the grants are used to pay expenses other than qualified higher education expenses) and any educational assistance received as veterans' benefits. However, assistance with expenses other than tuition, required fees and books, such as expenses associated with meals, lodging, student activities, athletics, health care and transportation, could be received without a reduction of creditable higher education expenses. In addition, qualified higher education expenses would be reduced by any interest from qualified U.S. savings bonds that is excluded from a taxpayer's gross income for the taxable year. However, no reduction would be required for tuition and fees paid out of the proceeds of a gift, bequest, devise, or inheritance within the meaning of section 102(a).

An eligible student would be one who is enrolled or accepted for enrollment in a degree, certificate, or other program (including a program of study abroad approved for credit by the institution at which such student is enrolled) leading to a recognized educational credential at an eligible institution. The student must pursue a course of study on at least a half-time basis. In addition, for a student's qualified higher education expenses to be eligible for the credit, the student must not have been convicted of a Federal or state offense consisting of the possession or distribution of certain drugs, and generally cannot be a nonresident alien. Furthermore, a taxpayer would not be entitled to a credit for a student's second academic year unless the student earned a grade point average (GPA) of at least 2.75 (B-) on 4-point scale. Institutions that do not use a 4-point grading scale could retain their own system by determining a measure that reasonably approximates a B- GPA.

An "institution of higher education" is defined by reference to section 481 of the Higher Education Act. Such institutions generally would be accredited postsecondary educational 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 have entered into an agreement with the Department of Education to participate in the student ~~loan~~ aid program.

The proposed credit would not affect deductions claimed under any other section of the Code, except that if a student's qualified higher education expenses for an academic term are deducted under another section of the Code (including the proposed deduction for education expenses) no credit would be available for the same academic term under this provision. If a taxpayer is eligible to claim either the credit or the deduction for qualified higher education expenses with regard to a single student for a particular academic term, the taxpayer may choose between the credit and the deduction, but may not claim both. In addition, a taxpayer may 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 could be claimed as a dependent of another taxpayer.

The proposed amendments to the Internal Revenue Code grant the Secretary of the Treasury authority to issue regulations under the new Code section. For example, such regulations would provide rules to determine the maximum credit amount when an institution's academic year is divided into terms other than semesters or quarters; whether a student is enrolled in the first two years of postsecondary education; and when 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 be coordinated with regulations issued by the ~~Department~~ Secretary of Education, as appropriate.

The proposal would be effective for taxable years beginning after 1996.

<u>Education and Job Training Tax Deduction Proposal</u>

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 and even if they do not meet the two-percent AGI floor on miscellaneous itemized deductions.

The term "eligible student" is defined generally in the same way for the deduction as it is for the tuition credit, that is, to include students enrolled full-time or at least half-time in a degree or certificate program at an institution of higher education. However, a student, even if pursuing a course of study on a less than half-time basis, taking a course to improve or acquire job skills would also be an eligible student for purposes of the deduction. "Institution of higher education" is defined the same way for purposes of this proposal as it is in the tuition tax credit proposal.

Qualified higher education expenses would also be defined in the same way for the deduction as they are for the tuition credit, that is tuition and required fees that are directly related to an eligible student's course of study. Normal tax benefit rules would apply to refund (and reimbursements through insurance) of previously deducted tuition and fees, making such refunds includable in income in the year received.

In 1997 and 1998 the maximum deduction would be $5,000. In 1999 and thereafter, this maximum would increase to $10,000. The deduction would be phased out ratably in the same way as the credit.

This proposal would not affect deductions claimed under any other section of the Code, except that any amount deducted under another section of the Code could not also be deducted under this provision. In addition, a taxpayer who claimed a deduction for a student's qualified higher education expenses for a particular academic period could not also claim a tuition tax credit for any of the student's qualified higher education expenses for the period. A postsecondary student would not be eligible to claim a deduction under this provision if that student could be claimed as a dependent of another taxpayer.

The proposal grants the Secretary of the Treasury authority to issue regulations under this section, including rules requiring record keeping and information reporting.

This proposal would be effective for taxable years beginning after 1996.

DRAFT 7/25/96

STUDENT AID NEED ANALYSIS AMENDMENTS

SEC. ___. (a) CALCULATION OF AVAILABLE INCOME.--(1) Section 475 of the Higher Education Act of 1965 (20 U.S.C. 1001 *et seq.*, hereinafter in this section referred to as "the Act") is amended--

(A) by amending subsection (c)(1)(A) to read as follows:

"(A) the sum of--

"(i) Federal income taxes;

"(ii) the amount of any tax credit taken under section 35 of the Internal Revenue Code of 1986, minus the refundable portion of such credit, if any; and

"(iii) the amount by which tax liability determined without regard to the deduction provided under section 220 of the Internal Revenue Code exceeds the amount of tax liability determined after taking such deduction into account;"; and

(B) by amending subsection (g)(2)(A) to read as follows:

"(A) the sum of--

"(i) Federal income taxes;

"(ii) the amount of any tax credit taken by the student under section 35 of the Internal Revenue Code of 1986, minus the refundable portion of such credit, if any; and

"(iii) the amount by which tax liability determined without regard to the deduction provided under section 220 of the Internal Revenue Code exceeds the amount of tax liability determined after taking such deduction into account;".

(2) Section 476(b)(1)(A)(i) of the Act is amended to read as follows:

"(A) the sum of--

"(i) Federal income taxes;

"(ii) the amount of any tax credit taken under section 35 of the Internal Revenue Code of 1986, minus the refundable portion of such credit, if any; and

"(iii) the amount by which tax liability determined without regard to the deduction provided under section 220 of the Internal Revenue Code exceeds the amount of tax liability determined after taking such deduction into account;".

(3) Section 477(b)(1)(A) of the Act is amended to read as follows:

"(A) the sum of--

"(i) Federal income taxes;

"(ii) the amount of any tax credit taken under section 35 of the Internal Revenue Code of 1986, minus the refundable portion of such credit, if any; and

"(iii) the amount by which tax liability determined without regard to the deduction provided under section 220 of the Internal Revenue Code exceeds the amount of tax liability determined after taking such deduction into account;".

(b) <u>DEFINITIONS</u>.--Section 480 of the Act is amended--

(1) in subsection (a)(2)--

(A) by striking out "and no portion" and inserting in lieu thereof "no portion"; and

(B) by inserting immediately after "(42 U.S.C. 12571 *et seq.*)," the following: "and no portion of any tax credit taken under section 35 of the Internal Revenue Code of 1986,";

(2) in subsection (b)--

(A) in paragraph (13), by striking out "and" at the end thereof;

(B) by redesignating paragraph (14) as paragraph (15); and

(C) by inserting immediately after paragraph (13) the following new paragraph:

"(14) any tax deduction taken under section 220 of the Internal Revenue Code of 1986; and";

(3) in subsection (e)--

(A) in paragraph (3), by striking out "and" at the end thereof;

(B) in paragraph (4), by striking out the period at the end thereof and inserting in lieu thereof a semicolon and "and"; and

(C) by adding at the end thereof the following new paragraph:

"(5) any tax credit taken under section 35 of the Internal Revenue Code of 1986; and";

(4) in subsection (j), by adding at the end thereof the following new paragraph:

"(4) Notwithstanding paragraph (1), a tax credit taken under section 35 of the Internal Revenue Code of 1986 shall not be treated as estimated financial assistance for purposes of section 471(3).".

DRAFT 7/30/96 5:15 p.m.

CURRENT LAW

A postsecondary student's need for assistance under Title IV of the Higher Education Act of 1965 (HEA) is generally calculated as the student's cost of attendance minus the expected family contribution (EFC), minus other estimated non-Title IV HEA financial assistance. The income and asset information used in this calculation is typically the information for the calendar year that precedes the start of the academic year or award year (July 1-June 30) for which the assistance is sought.

The statutory formula used in this calculation is in section 475, 476, or 477 of the HEA, depending on whether the student is a dependent student, an independent student with dependents, or an independent student without dependents (other than a spouse).

If the student is a dependent student, the EFC is a combination of the calculation of the Parent Contribution (PC) and the Student Contribution (SC). The overall PC consists of the parents' contribution from income and the parents' contribution from assets. In determining the contribution from income, the family's financial resources (taxable and nontaxable) are divided between mandatory expenditures (e.g., taxes and living expenses) and discretionary expenditures. Postsecondary education expenses are considered discretionary expenditures of family income since no State mandates education beyond the secondary level. The parents' contribution from income is then calculated by applying a marginal assessment of between 22% and 47% to their available income (total income less mandatory expenditures).

Assets are treated similarly. A portion (including the net value of the family's principal place of residence) is exempt from assessment; the remainder is subject to an assessment that ranges from 2.64% to 5.64%, depending on the level of the parent's available income.

The dependent student's contribution is calculated in much the same way as the parents' contribution is calculated. The SC is comprised of the student's contribution from income (50% of the student's available income) plus 35% of his or her net assets.

If the student is independent, the student's EFC is calculated using only the income and assets of the student (and his or her spouse, if any). The percentages of income and assets considered to be available for postsecondary expenses are lower than those applied to dependent students, and lower still if the independent student has dependents of his or her own.

REASONS FOR CHANGE

Without complementary changes to the calculation of need for Title IV, HEA assistance, a student's future eligibility would be decreased by his or her family's use of the HOPE Scholarship tax credit or the education and training tax deduction.

PROPOSAL

The amount of the HOPE Scholarship tax credit would be treated as "excludable income" by including it in the definition of that term in section 480(e) of the HEA. In addition, by amending section 480(a)(2) of the HEA, the proposal would clarify that the tax credit is not to be treated as part of "untaxed income and benefits" under section 480(b) of the HEA. These two changes would prevent the tax credit from being treated as part of the family's "total income," as that term is defined in section 480(a)(1) of the HEA.

The amount of the education and training tax deduction would be treated as part of "untaxed income and benefits." This treatment is necessary because the Title IV, HEA total income definition is based on the family's AGI, and the education and training tax deduction is an "above-the-line" deduction already accounted for in calculating AGI. Thus, treating the deduction as untaxed income and benefits for need analysis purposes would prevent the deduction from reducing the family's total income to less than it would have been without the deduction.

The calculation of the family's available income would be modified to take into account federal taxes that would be owed if neither the HOPE Scholarship tax credit nor the education and training tax deduction were available, thus ensuring that the family's available income is accurately reflected.

Finally, the proposal would clarify that the amount of the HOPE Scholarship tax credit is not to be treated as financial assistance under section 480(j) of the HEA, which would prevent the tax credit from substituting for other forms of student aid.

S. A. Noe

01/08/97 02:58:44 PM

Record Type: Record

To: Robert M. Shireman/OMB/EOP
cc:
bcc: Records Management
Subject: Re: I talked to mike

Drafting: I talked to Cathy Livingston (lawyer) at Treasury. Treasury people plan to meet with Senate Leg Council people next week. If we want to know when we are going to see their draft, you need to talk to Mike Thorton (?), Cathy's boss.

Estimates: I got a new estimate from Ann Parcell. (Ann thought we all got the new numbers when she gave to OMB about two weeks ago.)

97	98	99	2000	01	02	03	04	05	06	07
-.1	-4.0	-6.2	-7.8	-8.6	-9.4	-9.6	-9.9	-10.3	-10.5	-11.15

5-year total $36.2B
10-year total $87.7B

- No refunability is assumed for this estimate.
- The B average requirement is in and a credit amount is calculated according to the amount of out-of-pocket tuition and fees paid not an enrollment status (e.g., part-time vs. 3/4 time).
- Not reflect recent Pell policy changes (independent students and a $3,000 max award)

Although she does not think the Pell outyear max policy and the indepdent student changes would affect her estimate, she wants to know what to assume for outyears.

Let me know when is convenient for you to hear more about what ED did for Pell outyears.

Robert M. Shireman

Robert M. Shireman

01/08/97 02:08:30 PM

Record Type: Record

To: Barry White/OMB/EOP
cc: S. A. Noe/OMB/EOP
bcc:
Subject: Re: I talked to mike

Robert M. Shireman
12/26/96 04:18:05 PM

Record Type: Record

To: Kenneth S. Apfel/OMB/EOP, Barry White/OMB/EOP, S. A. Noe/OMB/EOP

cc: Leslie S. Mustain/OMB/EOP, S. A. Noe/OMB/EOP, Timothy A. Rosado/OMB/EOP, Patricia A. Smith/OMB/EOP

Subject: Draft Letter from the Higher Ed assns:

on HOPE and related issues:

December 20, 1996

The Honorable Richard W. Riley
Secretary of Education
U.S. Department of Education
600 Independence Avenue, SW
Washington, DC 20202

Dear Mr. Secretary:

Thank you for taking time from your busy schedule to have lunch with the
higher education community to discuss the reauthorization of the Higher Education Act and the President's HOPE Scholarship and tax deduction plans. As was apparent from the discussion, we are most grateful to the President for his commitment to higher education, and fully endorse his call for the extension of universal access to the first two years of college. We believe the President's tax proposals are promising initiatives that, in combination with continued investment in need-based student aid, could make college more accessible to more Americans.

As you refine and configure the tax plans, however, we hope you will address the higher education community's reservations about several features of these initiatives. First, we are concerned that the tax proposals provide little benefit for lower-income families, who, by definition, need federal assistance the most, and for whom such assistance could make the difference as to whether they can afford college. Second, we have serious misgivings about the use of a student's grade point average to determine eligibility for the second year of a HOPE Scholarship. We believe that such a step would be significant intrusion into the academic policy of colleges and universities and would potentially link the Internal Revenue Service with confidential student records. In addition, we believe that such a scheme, while simple in the abstract, will prove extremely difficult to implement and would create substantial administrative burdens for the federal government, colleges and families. Further, unless combined with a requirement of a B average from high school, the eligibilitity requirement of a B average in one year in college is not likely to provide a meaningful incentive to students and parents.

In addition, as these plans move forward, we hope that you will work with us to supplement the proposals by including other important student aid tax provisions. As we have indicated our priority list would include restoration of student loan interest deductability, forgiveness of income-contingent loan balances at the end of twenty-five years and permanent extension of Section 127 tax incentives for employee-education assistance for all students -- undergraduate, graduate and professional.

We once again emphasize our strong commitment to working with you to find the most efficient and effective ways to design the details of the peoposed tax initiaves to ensure that they broaden college access without creating unnecessary administrative burdens. We look forward to our continuing dialogue to resolve these issues.

Sincerely

Stanley O. Ikenberry
President

Student Asks Court For More Rights In Gun Case

A New Mexico student who was expelled permanently for bringing a gun to school has asked the U.S. Supreme Court to stay his "death penalty."

The student's lawyer says the Court needs to spell out the procedure public schools should follow before expelling a student forever.

The Court ruled in 1975 in *Goss v. Lopez* (419 U.S. 565) that schools must give a student and parents written or oral notice of charges and an opportunity to be heard before handing out suspensions of 10 days or less.

In the case of *Trujillo v. Taos Municipal Schools* (96-695), attorney Samuel Herrera contends the justices should establish stricter due process procedures for students facing more severe punishment.

The federal Gun-Free Schools Act requires states to ensure that students who bring guns to school are expelled for at least a year.

Veltran Trujillo, an honor student, was caught bringing a handgun and a clip of bullets to his junior high school. The school notified him and his parents of a disciplinary hearing, at which the principal expelled the boy permanently.

The appeal contends that the school did not give adequate notice of the possible penalty and the superintendent did not follow through with a promised second hearing. The school says it followed its policy, and the U.S. 10th Circuit Court of Appeals upheld its action.

"This case begs for a Supreme Court decision," Herrera's brief said. "An exemplary student was expelled for no reason other than ... carrying a gun in school." The lawyer agrees that bringing a gun to school is serious, but says the boy was never in trouble before. —Dave Boyer

College Aid Cuts Limit Options for Low-Income Students

Reduced federal and state higher education funding is limiting whether and where low-income students attend college, two researchers have found.

Tuition increases without more student aid are causing the "ghettoization" of low-income students at community colleges, according to Michael McPherson, Macalaster College president, and Morton Schapiro, University of Southern California's dean of the College of Letters, Arts and Sciences.

"Almost half of the lowest-income students are enrolled at community colleges," Schapiro said at a National Center for Postsecondary Improvement seminar Tuesday. "Low-income students don't have the options they used to."

McPherson showed that in 12 years, state contributions to higher education have dropped 10 percentage points. Federal research funding to major universities also has dropped about 4 percentage points.

The decreases have forced private and public universities to raise tuition.

"We have been seeing substantial price increases," McPherson said. "But there hasn't been success in insulating low- and middle-income students from the price increases.

A General Accounting Office study on college costs found that tuition has increased 234 percent over the past 15 years (ED, Aug. 20).

Schapiro and McPherson said high costs have reduced students' flexibility to choose the postsecondary education that best suits them.

Using an American Council on Education survey that tracks first-time, first-year college students, the researchers found that in 1994, 47 percent of students with annual family incomes lower than $20,000 attended two-year community colleges; 14 percent of students from families making between $100,000 and $200,000 attended two-year institutions.

In 1980, the numbers were 45 percent and 17 percent, respectively.

While 28 percent of students in families in the upper-income range attend public universities today, only 11 percent of students in the lower income range do so.

"The probability of attending any university depends critically on income," Schapiro said.

(more)

Aid Cuts Limit Options for Low-Income Students (Cont.)

Schapiro added that the willingness of middle-class families to take out student loans to pay for college has softened the blow of the tuition increases. He said his research shows that those students are attending universities at rates similar to a decade ago.

"The middle class has been willing to graduate with debt," he said.

The GAO found that student loan volume increased 435 percent over the past 15 years (ED, Aug. 20).

Schapiro and McPherson suggest redirecting the funding for President Clinton's proposed $10,000 college tax deduction toward more need-based student aid, such as Pell Grants (ED, Aug. 29). They say increased grant aid would allow more low-income students to attend a variety of higher education institutions.

The researchers plan to compile their data in a book, *Meeting Need and Rewarding Talent*, that is expected to be published this spring.

For more information about the National Center for Postsecondary Improvement seminar series, contact Gregory Henschel, Office of Educational Research and Improvement, Education Department, 555 New Jersey Ave. NW, Washington, D.C. 20002, (202)219-2082.
—Rebecca S. Weiner

House Panel Has 'Misperceptions' About DSL, ED Asserts

The Education Department responded to a new House probe of the Direct Student Loan (DSL) program with a series of reports and asserts that the education panel has "misperceptions" about the program's management.

A summary report compiled last week by David Longanecker, ED's assistant secretary for postsecondary education, says that glitches in processing status reports through the National Student Loan Data System were expected because the new procedure was being tested. Student Status Confirmation Reports (SSCRs) verify a student's enrollment to ensure eligibility for federal loan programs.

ED's reports are a response to an inquiry by the Republican leadership of the House Economic and Educational Opportunities Committee. In late November, the legislators asked ED to respond to questions about DSL administration.

The questions were prompted by problems with SSCRs, outlined in recent reports by ED's inspector general. House lawmakers said they were concerned that oversight was lacking in the DSL program because of delays with the SSCRs and DSL contractors reporting eligibility information (ED, Nov. 27).

The trial run of the database system "identified problems in a controlled environment and enabled us to fix them before incorporating a new procedure into the standard operating procedure," Longanecker wrote.

Because of technical problems, ED had to delay from September 1996 to February 1997 its plans to handle SSCRs through a new computer database.

The House panel's November letter to ED said the department's delays could "harm" DSL borrowers because they won't get timely notification of repayment options. In addition, the delays could make it difficult to track students who change addresses, the letter claimed.

Longanecker responded that it is easier to track students through DSL than it is through the Family Education Loan (FEL) program. "There is ample historical evidence from the FEL program to indicate that the process of updating borrower enrollment status presents challenges on many fronts," he said.

Longanecker said the "multiple players"—lenders, guarantors, servicers and secondary markets—involved in the FEL program make it difficult to keep track of student information. Under DSL, loans are made between the student and the federal government.

The House probe renews GOP criticisms that ED is ill-equipped to provide student loans. Republicans have tried to kill DSL since its inception in 1993, saying it's expensive and unnecessary.

A committee staffer said hearings on the ED's data systems and SSCRs are tentatively planned for the spring. —Rebecca S. Weiner

December 18, 1996

NOTE TO BOB SHIREMAN
OMB

FROM: ERIC TODER ET.
TREASURY

SUBJECT: Year by Year Receipts Effects of Making the HOPE Credit Refundable

The attached table shows the year-by-year effect on receipts of making the HOPE credit refundable. (Making the credit non-refundable would have the same estimate, with the opposite sign.)

The estimate assumes that a non-refundable credit would be stacked <u>after</u> the EITC. If the non-refundable credit were stacked before the EITC, EITC recipients would receive more credits. The revenue pickup from eliminating refundability would be lowered by about $100 million per year ($5.3 billion over 5 years).

These estimates are preliminary; technical re-estimates now in progress will changes these figures slightly.

Effect on Receipts of refundable portion of Educ. proposal for FY 1997 MSR 1/
Proposal is: Refundable credit for 1st 2 years (includes non-degree)
1500/750 B- average freshman year
$5000 Deduction for everyone else ($10,000 in 1999 and after)
80/100 phase out
50/70 single
(FY; in $ millions)

	1997	1998	1999	2000	2001	2002	1997-02
revenue effect of the refundable portion of credit	0.0	-0.9	-0.9	-1.1	-1.3	-1.5	-5.8

Department of the Treasury
Office of Tax Analysis

Dec. 18, 1996

1/ estimate based on FY 1997 Mid-Session Review estimate. Technical re-estimate (work in progress) will change these figures slightly.

- Doesn't include simplification savings.

FAX COVER SHEET

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Telephone Number: 202/622-0050
Fax Number: 202/622-0646

DATE: 12/18/96

NUMBER OF PAGES: 3
(including transmittal sheet)

Fax Number: 395 4875

TO: Bob Shireman
OMB

FROM: Eric Toder

Comments/Special Instructions:

See attached.

Andrew M. Schoenbach 12/17/96 08:53:25 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc: Barry B. Anderson/OMB/EOP, Barry White/OMB/EOP, Robert M. Shireman/OMB/EOP
Subject: Education Settlements numbers -- Pell

The numbers on the Department of Education Appeals one-pager includes the proposal to add discretionary funds to Pell as an alternative to the refundability and simplification components of the HOPE scholarship tax credit. Neither the Pell discretionary numbers nor the reduction in the HOPE scholarship tax credit are in our settled appeals tables. (Note: the Education Department is appealing to the President and the Pell proposal is part of the OMB recommended settlement level).

Bob Shireman has now given us the numbers for the Pell discretionary increase and guestimates for the offset to the HOPE tax incentive receipts proposal. However, because of the coordination needed between the receipts and discretionary tables to avoid double-counts, **we are not putting the Pell numbers into our discretionary settlement tables for the Wednesday 9:30 meeting with the President.**

In preparation for the eventual inclusion of this item in our collective tables, we need to review the numbers -- especially the receipts, which, as indicated below, are just guestimates.

However, please don't change your tables until we hear from Barry.

Pell Addition to Discretionary (deltas to Passback):

	98	99	00	01	02	5yr
BA	958	987	1016	1047	1078	5086
OL	73	1052	995	1022	1180	4322

Removal of Refundability and Simplification from the Receipts tax relief proposal we are currently carrying ("Provide tax incentive for education and training (HOPE initiative"):

Receipts.......	67	1083	1208	1485	1657	5500
Deficit Impact	+6	-31	-213	-463	-477	-1178

Note on the Receipts numbers calculations. The above receipts estimates are guestimates derived as follows: Bob Shireman talked with Eric Toder at Treasury. They would not give him year-by-year estimates but said the five-yr totals for Refundability and simplification were about $4B and $1.5B respectively, totaling $5.5B -- these are the amounts we would reduce the current $32.253B HOPE tax incentive proposal if we do the Pell settlement in discretionary.

Bob suggested that it would be reasonable to estimate the year-by-year impact by calculating the ratio of the 5.5B five-yr total to the 32.253 five-yr total of the current proposal and reducing each individual year of the current proposal by that factor (.17053). The above numbers stream was calculated that way.

HOPE/PELL Policy Options

	5-year (1998-2002) estimates ($ in billions)
Tax credit/deduction:	$32.3
Simplification:	-1.5
Eliminate refundability:	-4.0

<u>Options for tax savings:</u>

Pell independent student fix to offset loss of refundability:	4.0
Increase Pell Grant maximum $100	1.5

for
Wed for
PRZ

Rev. 12/11/96 5 p.m.

HOPE/PELL Policy Options

	5-year (1998-2002) estimates ($ in billions)
Tax credit/deduction:	$32.3
Simplification:	-1.5
Eliminate refundability:	-4.0
~~Reduce credit to $1400:~~	~~-2.0 to -3.0~~

Options for tax savings:

Pell independent student fix to offset loss of refundability:	4.0
Pell "prospective income" accounting change to allow more dislocated workers to use Pell:	1.0
Increase Pell Grant maximum $35	.5
Increase Pell Grant maximum addt'l $100	1.5

used for
DPC

Rev. 12/11/96 5 p.m.

S. A. Noe

12/13/96 09:15:33 PM

Record Type: Non-Record

To: Robert M. Shireman/OMB/EOP

cc:

Subject: tax deduction on student loan interest

This proposal was talked about in three different contexts.

1. In Feb 1995, Daschle introduced the proposal in S242, but it went nowhere. (No cost was estimated.)

2. Republicans listed the item in their "Family First" campaign document. (No cost was estimated.)

3. Last summer during the Reconciliation debates, the deduction item entered to HR2491.
According to the bill:
-- The maximum deduction is $2,500.
-- Income phase-out is $45,000 for single filers and $65,000 for joint filers.
-- The deduction is allowed for interest payments due after December 31, 1995, on any qualified education loan. "Thus, in the case of already existing qualified education loans used to pay the qualified higher education expenses of the taxpayer or the taxpayer's spouse, interest payments will qualify for the credit to the extent that the 60-month period has not expired."
-- The deduction is for the taxpayer or the taxpayer's spouse, **not** for dependents.

Randy at OMB Economic Analysis says that in August 1996, JCT did estimate the cost of this or other similar proposal. At that time, the cost stream was like this: $50 million in 97, $200 million in 98 and 99, and $300 million in 2000-2002. The total 1997-2002 cost estimate was $1.1 billion.

On Monday, I'll try to check with William Graham at ED (or Treasury people) to see whether this estimate was for HR2491.

HOPE OPTIONS
(cost estimates are rough)

Option 1: Maintain refundability of credit

- Cost can be reduced by $1.5 billion 1998-2002 through simplifications that are essential to reducing paperwork and the extreme complexity of the original proposal.

- $1.5 billion could be used on the mandatory side to:

    - ☛ Restore student loan interest deduction (it would need to be narrow and prospective at this price). The Democratic platform endorsed the concept, and the Republicans included it in their budget last year. Higher education groups strongly support.

    - ☛ Reduce the student loan origination fee by one percentage point (it is 3% in passback), or reduce the fee on loans to needy students by two percentage points.

    - ☛ Create a merit-based scholarship for low-income students. (Capped mandatory, provided to colleges based on Pell volume, disbursed to Pell recipients on the basis of merit. Maximum $1000 to top 10% of recipients).

Option 2: Eliminate refundability of credit

- The $4 billion cost of refundability can be eliminated, but would be criticized if comparable benefits are not provided to the poorest students in another way.

- Simplification saves an additional $1.5 billion, for a total of $5.5 billion available.

- The $5.5 billion could be used on the mandatory side to:

    - ☛ Reduce the borrower cost of income-contingent repayment (no proposal or cost estimate has been done).

    - ☛ Restore student loan interest deduction broadly. This could benefit many who are now out of school but have debt. Higher education groups strongly support the idea, but might not see this as sufficient recompense for elimination of refundability.

    - ☛ Establish a mandatory appropriation for the Pell Grant program (not an individual entitlement). Current discretionary spending would supplement this pot of funds, and appropriators would still set the maximum award each year. The additional funds could bring low-income independent students into Pell and assist dislocated workers (see below). But there is a danger that appropriators will use these funds to supplant the discretionary funds.

Option 3: Eliminate refundability of the credit and make Pell Grants an entitlement

- Refundability, which costs $4 billion 1998-2002, is essential to reaching poor students (particularly *independent* students now ineligible for the Pell Grant) with the tax credit.

- Independent students can be brought into the Pell Grant system at a cost of about $3.9 billion over five years, which addresses the bulk of the refundability benefits issue.

- If refundability is eliminated and simplification is adopted, savings would total $5.5 billion 1998-2002.

- Options for the other $1.6 billion in savings include:

  - ☛ Requiring the use of projected current-year income for dislocated workers in the Pell Grant system (approximate cost of $1 billion).

  - ☛ Increase the maximum Pell Grant by $100.

  - ☛ Restore student loan interest deduction (it would need to be narrow and prospective at this price).

  - ☛ Reduce the student loan origination fee by one percentage point (it is 3% in passback), or reduce the fee on loans to needy students by two percentage points.

  - ☛ Create a merit-based scholarship for low-income students (capped mandatory).

Bob—
Revised Table

Pell Grant Program

Effect of Changing Income Protection Allowances for Independent Students without Dependents to Match Those for Independents with Dependents

1998 - 99		All Students										Independents Without Dependents										Change from Current Law to Proposed Policy*				
		Current Law					Proposed Policy					Current Law					Proposed Policy									
Maximum Award	Family Income	Recips (000)	Distrib.	Avg Award	Cost (millions)	Distrib.	Recips (000)	Distrib.	Avg Award	Cost (millions)	Distrib.	Recips (000)	Distrib.	Avg Award	Cost (millions)	Distrib.	Recips (000)	Distrib.	Avg Award	Cost (millions)	Distrib.	Recips (000)	Distrib.	Avg Award	Cost (millions)	Distrib.
$2,900	Up to $4,000	682	17.4%	$2,211	$1,444	21.3%	682	16.4%	$2,218	$1,448	19.3%	304	45.9%	$2,233	$679	51.8%	304	34.3%	$2,249	$683	37.6%	0	0.1%	$16	$5	0.0%
	$4,001 to $7,500	589	16.0%	$1,937	$1,163	17.1%	589	15.1%	$2,215	$1,351	17.8%	217	32.8%	$1,470	$321	29.1%	218	24.6%	$2,238	$488	27.0%	1	0.3%	$768	$198	23.7%
	$7,501 to $10,000	346	9.2%	$1,742	$603	8.9%	361	9.1%	$2,209	$799	10.7%	105	15.9%	$709	$75	5.8%	120	13.6%	$2,227	$269	14.8%	15	6.5%	$1,523	$194	27.5%
	$10,001 to $12,000	185	4.9%	$2,079	$385	5.3%	238	6.0%	$2,169	$516	6.9%	15	2.3%	$801	$14	1.2%	70	7.9%	$2,086	$147	8.1%	55	24.4%	$1,195	$133	18.7%
	$12,001 to $15,000	259	6.9%	$2,048	$532	7.8%	341	8.6%	$1,951	$670	8.9%	13	2.0%	$745	$10	0.9%	95	10.7%	$1,565	$149	8.2%	82	36.4%	$808	$139	19.5%
	$15,001 to $20,000	446	11.9%	$1,987	$889	13.1%	513	12.9%	$1,881	$964	12.7%	7	1.0%	$485	$3	0.3%	72	8.1%	$948	$68	3.8%	65	29.0%	$462	$65	9.2%
	$20,001 to $25,000	407	10.9%	$1,788	$728	10.7%	413	10.4%	$1,775	$735	9.8%	0	0.0%	$400	$0	0.0%	7	0.7%	$852	$6	0.3%	6	2.9%	$462	$6	0.8%
	$25,001 to $30,000	326	8.7%	$1,467	$480	7.2%	327	8.2%	$1,484	$480	6.5%	0	0.0%	$0	$0	0.0%	1	0.1%	$486	$0	0.0%	1	0.4%	$486	$0	0.1%
	$30,001 to $999,999	531	14.2%	$1,092	$564	8.2%	531	13.4%	$1,058	$554	7.4%	0	0.0%	$0	$0	0.0%	0	0.0%	$350	$0	0.0%	0	0.0%	$350	$0	0.0%
	Total	3,749	100.0%	$1,808	$6,787	100.0%	3,974	100.0%	$1,880	$7,495	100.0%	662	100.0%	$1,680	$1,102	100.0%	887	100.0%	$2,039	$1,812	100.0%	225	100.0%	$379	$710	100.0%
$3,000	Up to $4,000	682	17.2%	$2,285	$1,483	21.1%	682	16.3%	$2,292	$1,498	19.2%	304	45.1%	$2,328	$703	60.8%	304	34.1%	$2,334	$709	37.7%	0	0.1%	$18	$5	0.7%
	$4,001 to $7,500	589	15.8%	$2,011	$1,207	17.1%	600	15.0%	$2,250	$1,378	17.6%	217	32.2%	$1,546	$337	29.2%	218	24.5%	$2,313	$505	26.9%	1	0.5%	$767	$168	23.2%
	$7,501 to $10,000	351	9.3%	$1,794	$630	8.9%	361	9.0%	$2,282	$826	10.6%	110	16.4%	$733	$84	7.3%	120	13.5%	$2,303	$276	14.8%	10	4.6%	$1,550	$194	26.8%
	$10,001 to $12,000	188	4.8%	$2,150	$397	5.6%	238	5.9%	$2,252	$533	6.8%	19	2.9%	$834	$16	1.4%	70	7.8%	$2,171	$152	8.1%	51	23.2%	$1,347	$156	19.6%
	$12,001 to $15,000	260	6.9%	$2,116	$550	7.9%	341	8.5%	$2,033	$695	8.9%	14	2.1%	$795	$11	1.0%	95	10.7%	$1,625	$155	8.3%	81	37.2%	$800	$144	19.9%
	$15,001 to $20,000	448	11.8%	$2,054	$920	13.0%	516	12.9%	$1,919	$991	12.7%	8	1.1%	$530	$4	0.4%	78	8.6%	$960	$75	4.0%	69	31.1%	$455	$71	9.7%
	$20,001 to $25,000	404	10.8%	$1,805	$760	10.7%	416	10.4%	$1,840	$766	9.8%	0	0.0%	$375	$0	0.0%	7	0.8%	$902	$6	0.3%	7	3.0%	$527	$6	0.8%
	$25,001 to $30,000	329	8.7%	$1,580	$518	7.3%	330	8.2%	$1,557	$516	6.6%	0	0.0%	$0	$0	0.0%	1	0.1%	$509	$1	0.0%	1	0.5%	$509	$1	0.1%
	$30,001 to $999,999	565	14.8%	$1,078	$609	8.5%	565	13.8%	$1,026	$600	7.7%	0	0.0%	$0	$0	0.0%	0	0.0%	$335	$0	0.0%	0	0.0%	$335	$0	0.0%
	Total	3,794	100.0%	$1,862	$7,079	100.0%	4,009	100.0%	$1,947	$7,804	100.0%	673	100.0%	$1,712	$1,155	100.0%	891	100.0%	$2,108	$1,880	100.0%	218	100.0%	$383	$725	100.0%
$3,100	Up to $4,000	682	17.0%	$2,380	$1,547	20.9%	682	16.1%	$2,387	$1,549	19.1%	304	44.5%	$2,385	$725	60.1%	304	34.0%	$2,400	$731	38.6%	0	0.1%	$15	$5	0.7%
	$4,001 to $7,500	598	15.6%	$2,086	$1,253	17.3%	600	14.8%	$2,365	$1,421	17.5%	218	31.9%	$1,621	$354	29.3%	218	24.4%	$2,388	$522	26.9%	1	0.3%	$768	$168	22.6%
	$7,501 to $10,000	354	9.2%	$1,854	$660	8.9%	361	8.9%	$2,355	$850	10.5%	113	16.6%	$811	$93	7.7%	120	13.5%	$2,379	$287	14.7%	7	3.3%	$1,567	$194	26.3%
	$10,001 to $12,000	185	5.0%	$2,131	$412	5.6%	238	5.9%	$2,308	$551	6.8%	25	3.6%	$762	$19	1.6%	70	7.8%	$2,246	$157	8.1%	45	21.3%	$1,488	$138	18.7%
	$12,001 to $15,000	261	6.8%	$2,180	$571	7.7%	342	8.4%	$2,105	$721	8.9%	15	2.1%	$846	$12	1.0%	95	10.6%	$1,688	$162	8.3%	81	38.0%	$853	$150	20.3%
	$15,001 to $20,000	450	11.8%	$2,130	$967	13.0%	521	12.9%	$1,978	$1,033	12.7%	9	1.3%	$585	$5	0.4%	79	8.8%	$1,018	$81	4.2%	70	33.2%	$454	$76	10.3%
	$20,001 to $25,000	411	10.7%	$1,922	$792	10.7%	418	10.3%	$1,907	$799	9.8%	0	0.0%	$368	$0	0.0%	7	0.8%	$945	$7	0.3%	7	3.2%	$577	$7	0.9%
	$25,001 to $30,000	331	8.7%	$1,625	$541	7.3%	334	8.2%	$1,619	$542	6.7%	0	0.0%	$0	$0	0.0%	1	0.1%	$554	$1	0.0%	1	0.6%	$634	$1	0.1%
	$30,001 to $999,999	573	15.1%	$1,115	$640	8.8%	579	14.3%	$1,115	$649	8.0%	0	0.0%	$0	$0	0.0%	0	0.0%	$338	$0	0.0%	0	0.1%	$338	$0	0.0%
	Total	3,833	100.0%	$1,900	$7,377	100.0%	4,045	100.0%	$2,109	$8,117	100.0%	683	100.0%	$1,765	$1,208	100.0%	898	100.0%	$2,171	$1,949	100.0%	212	100.0%	$406	$740	100.0%
$3,200	Up to $4,000	683	16.8%	$2,484	$1,582	20.7%	683	16.0%	$2,441	$1,597	18.9%	304	43.9%	$2,461	$749	59.3%	304	33.8%	$2,476	$754	37.4%	0	0.1%	$15	$5	0.7%
	$4,001 to $7,500	598	15.5%	$2,161	$1,286	16.9%	600	14.7%	$2,440	$1,467	17.4%	218	31.4%	$1,695	$370	29.3%	218	24.1%	$2,464	$538	26.7%	1	0.2%	$766	$169	22.3%
	$7,501 to $10,000	357	9.2%	$1,919	$685	8.9%	362	8.9%	$2,431	$881	10.4%	115	16.7%	$874	$101	8.0%	120	13.4%	$2,454	$295	14.7%	5	2.4%	$1,580	$150	20.3%
	$10,001 to $12,000	199	5.1%	$2,146	$429	5.6%	239	5.8%	$2,379	$568	6.7%	31	4.4%	$721	$22	1.8%	70	7.8%	$2,319	$162	8.1%	35	18.9%	$1,538	$140	18.8%
	$12,001 to $15,000	262	6.8%	$2,250	$590	7.7%	342	8.4%	$2,177	$747	8.9%	15	2.2%	$930	$14	1.1%	96	10.6%	$1,772	$168	8.4%	80	38.9%	$872	$158	20.8%
	$15,001 to $20,000	452	11.7%	$2,169	$982	12.9%	526	12.9%	$2,027	$1,073	12.7%	9	1.3%	$807	$6	0.5%	85	9.7%	$1,058	$88	4.3%	73	35.5%	$448	$82	10.9%
	$20,001 to $25,000	414	10.7%	$1,986	$824	10.7%	421	10.3%	$1,971	$831	9.9%	1	0.1%	$572	$0	0.0%	7	0.8%	$992	$7	0.4%	7	3.3%	$530	$7	0.9%
	$25,001 to $30,000	335	8.7%	$1,687	$568	7.4%	337	8.7%	$1,682	$568	6.7%	0	0.0%	$0	$0	0.0%	1	0.1%	$570	$1	0.0%	1	0.6%	$570	$1	0.1%
	$30,001 to $999,999	604	15.6%	$1,155	$699	9.1%	604	14.8%	$1,152	$698	8.3%	0	0.0%	$0	$0	0.0%	0	0.0%	$551	$0	0.0%	0	0.1%	$551	$0	0.0%
	Total	3,876	100.0%	$1,976	$7,678	100.0%	4,082	100.0%	$2,080	$8,437	100.0%	692	100.0%	$1,818	$1,262	100.0%	898	100.0%	$2,237	$2,016	100.0%	207	100.0%	$419	$754	100.0%
$3,300	Up to $4,000	683	16.7%	$2,509	$1,641	20.8%	683	15.9%	$2,516	$1,647	18.8%	304	43.3%	$2,537	$772	58.6%	304	33.7%	$2,563	$777	37.3%	0	0.1%	$16	$5	0.7%
	$4,001 to $7,500	600	15.3%	$2,235	$1,344	16.8%	600	14.6%	$2,515	$1,513	17.3%	218	31.0%	$1,772	$387	29.4%	218	24.2%	$2,540	$555	26.6%	0	0.2%	$769	$168	21.9%
	$7,501 to $10,000	359	9.1%	$1,987	$713	8.9%	362	8.4%	$2,505	$909	10.4%	117	16.8%	$941	$110	8.4%	120	13.3%	$2,529	$305	14.6%	4	1.9%	$1,578	$195	25.4%
	$10,001 to $12,000	206	5.3%	$2,164	$445	5.6%	239	5.8%	$2,451	$587	6.7%	37	5.3%	$850	$26	2.0%	70	7.7%	$2,394	$168	8.0%	33	16.2%	$1,695	$141	18.4%
	$12,001 to $15,000	223	5.7%	$2,318	$511	7.7%	343	8.3%	$2,249	$773	8.8%	16	2.2%	$953	$15	1.1%	96	10.6%	$1,846	$178	8.5%	80	39.6%	$882	$161	21.0%
	$15,001 to $20,000	464	11.6%	$2,254	$1,048	12.9%	550	12.9%	$2,087	$1,114	12.7%	10	1.4%	$647	$7	0.5%	86	9.5%	$1,094	$94	4.5%	76	37.6%	$447	$86	11.4%
	$20,001 to $25,000	418	10.6%	$2,060	$865	10.7%	425	10.3%	$2,036	$865	9.9%	1	0.1%	$365	$0	0.0%	8	0.8%	$1,005	$8	0.4%	7	3.4%	$647	$8	1.0%
	$25,001 to $30,000	338	8.5%	$1,750	$594	7.4%	340	8.2%	$1,745	$594	6.9%	0	0.0%	$0	$0	0.0%	1	0.2%	$613	$1	0.1%	1	0.7%	$613	$1	0.1%
	$30,001 to $999,999	628	16.0%	$1,197	$751	9.4%	628	15.2%	$1,192	$751	8.6%	0	0.0%	$0	$0	0.0%	0	0.0%	$329	$0	0.0%	0	0.1%	$329	$0	0.0%
	Total	3,916	100.0%	$2,183	$7,982	100.0%	4,118	100.0%	$2,120	$8,750	100.0%	702	100.0%	$1,872	$1,317	100.0%	903	100.0%	$2,304	$2,080	100.0%	201	100.0%	$452	$763	100.0%
$3,400	Up to $4,000	683	16.5%	$2,380	$1,580	20.4%	683	15.7%	$2,590	$1,686	18.7%	304	42.7%	$2,613	$795	57.9%	304	33.5%	$2,638	$800	37.2%	0	0.1%	$15	$5	0.7%
	$4,001 to $7,500	600	15.2%	$2,310	$1,389	16.8%	600	14.5%	$2,589	$1,558	17.2%	218	30.6%	$1,847	$403	29.4%	218	24.1%	$2,615	$572	26.3%	0	0.2%	$768	$168	21.6%
	$7,501 to $10,000	359	9.1%	$2,056	$740	8.9%	362	8.7%	$2,578	$936	10.3%	118	16.5%	$1,011	$119	8.7%	121	13.3%	$2,603	$314	14.6%	3	1.5%	$1,564	$186	23.0%
	$10,001 to $12,000	213	5.4%	$2,166	$463	5.6%	238	5.8%	$2,525	$606	6.7%	44	6.2%	$682	$30	2.2%	70	7.7%	$2,468	$173	8.0%	26	13.3%	$1,776	$142	18.2%
	$12,001 to $15,000	264	6.7%	$2,385	$631	7.6%	343	8.3%	$2,320	$799	8.8%	16	2.3%	$1,003	$16	1.2%	96	10.5%	$1,917	$183	8.5%	79	40.5%	$914	$167	21.4%
	$15,001 to $20,000	456	11.5%	$2,321	$1,061	12.8%	534	12.7%	$2,158	$1,155	12.7%	11	1.5%	$694	$8	0.5%	89	9.8%	$1,138	$101	4.7%	78	39.8%	$444	$94	12.0%
	$20,001 to $25,000	419	10.6%	$2,115	$886	10.7%	425	10.3%	$2,089	$895	9.9%	1	0.1%	$406	$0	0.0%	8	0.9%	$1,067	$9	0.4%	7	3.8%	$662	$8	1.0%
	$25,001 to $30,000	341	8.6%	$1,814	$620	7.5%	342	8.2%	$1,808	$621	6.8%	0	0.0%	$0	$0	0.0%	2	0.2%	$538	$1	0.0%	2	0.8%	$538	$1	0.1%
	$30,001 to $999,999	651	16.5%	$1,232	$806	8.7%	651	15.7%	$1,231	$805	8.9%	0	0.0%	$0	$0	0.0%	0	0.0%	$420	$0	0.0%	0	0.1%	$420	$0	0.0%
	Total	3,956	100.0%	$2,080	$8,289	100.0%	4,132	100.0%	$2,179	$8,888	100.0%	711	100.0%	$1,926	$1,372	100.0%	908	100.0%	$2,371	$2,153	100.0%	196	100.0%	$445	$781	100.0%
$3,500	Up to $4,000	683	16.4%	$2,667	$1,729	20.2%	684	15.6%	$2,664	$1,744	18.6%	304	42.7%	$2,699	$818	57.3%	304	33.4%	$2,704	$825	37.1%	0	0.1%	$16	$5	0.7%
	$4,001 to $7,500	600	15.0%	$2,384	$1,434	16.7%	601	14.4%	$2,663	$1,602	17.1%	218	30.2%	$1,927	$419	29.4%	218	24.0%	$2,680	$585	26.5%	0	0.2%	$768	$168	21.2%
	$7,501 to $10,000	360	9.0%	$2,127	$766	8.9%	362	8.7%	$2,651	$963	10.3%	118	16.6%	$1,090	$129	9.0%	120	13.3%	$2,679	$323	14.6%	2	1.2%	$1,587	$155	24.6%
	$10,001 to $12,000	220	5.5%	$2,178	$480	5.6%	239	5.7%	$2,595	$623	6.6%	50	7.0%	$697	$35	2.5%	70	7.7%	$2,542	$178	8.0%	19	10.3%	$1,845	$145	18.0%
	$12,001 to $15,000	265	6.6%	$2,448	$651	7.6%	344	8.2%	$2,390	$824	8.8%	17	2.4%	$1,040	$18	1.2%	95	10.5%	$1,980	$190	8.6%	78	41.5%	$850	$173	21.8%
	$15,001 to $20,000	458	11.5%	$2,388	$1,095	12.7%	537	12.8%	$2,221	$1,195	12.7%	12	1.8%	$730	$9	0.6%	91	10.0%	$1,187	$108	4.9%	79	41.8%	$457	$99	12.5%
	$20,001 to $25,000	421	10.6%	$2,179	$920	10.7%	428	10.2%	$2,183	$939	9.9%	1	0.2%	$422	$1	0.0%	9	0.9%	$1,088	$9	0.4%	7	3.8%	$551	$9	1.1%
	$25,001 to $30,000	349	8.8%	$1,676	$548	7.5%	345	8.3%	$1,870	$647	6.9%	0	0.0%	$0	$0	0.2%	2	0.2%	$671	$1	0.1%	2	0.9%	$671	$1	0.1%
	$30,001 to $999,999	623	15.9%	$1,272	$800	10.3%	674	16.1%	$1,272	$860	9.2%	0	0.0%	$0	$0	0.0%	0	0.0%	$448	$0	0.0%	0	0.2%	$448	$0	0.0%
	Total	3,985	100.0%	$2,146	$8,555	100.0%	4,184	100.0%	$2,239	$9,367	100.0%	720	100.0%	$1,979	$1,428	100.0%	908	100.0%	$2,459	$2,221	100.0%	189	100.0%	$450	$793	100.0%

* Proposed Policy Affects Only Independents Without Dependents