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HOPE [Hope and Opportunity for Postsecondary Education]: [Information] [2]

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

December 10, 1996

MEMORANDUM FOR THE DIRECTOR

FROM: Ken Apfel
SUBJECT: Hope scholarships and Pell Grants

Should some HOPE savings be moved into Pell Grants?

The HOPE tax credit and the tuition tax deduction cost a total of $42.9 billion over six years. $17.8 billion of that is for the deduction, and $25.1 is for the credit. Of the cost of the credit, $5.3 billion is for refundability. Refundability was included in order to provide assistance to poor students who were not getting Federal student aid. However, there are a number of concerns with refundability, including potential fraud, and the monitoring that would be needed to prevent it.

Through some simplifications in the tax proposals, we have been able to shave the cost by about $2 billion. If refundability is eliminated, that gives us about $7.3 billion over the six year period.

The people who are hurt by eliminating refundability are primarily low-income *independent* students who are not now eligible for the Pell Grant. They do not receive Pell because the current student aid formula requires them to pay a large share of their educational costs once their income exceeds a base of only $3000.

In order to compensate for independent students' loss of refundability, the $3,000 income base could be raised to a level comparable to that used for other types of students. This would cost roughly $3-4 billion over five years.

After addressing the independent student problem, more than $3 billion would be available to increase the maximum Pell Grant award. This could buy an annual increase of perhaps $200. Assuming that the current budget for FY98 could pay for an award of $2900, the increase would bring the maximum to $3100. (All of these estimates assume inflationary increases in the maximum in the out years).

Income Distribution of Pell Grant awards

In the 1994-5 award year, almost two-thirds of the recipients reported incomes of less than $15,001. The majority of these recipients are independent students. In fact, independent students are heavily concentrated at this lower income range, because they quickly lose their eligibility as their income rises.

Of dependent recipients, only one-fourth report incomes of less than $9,000. Nearly 40% of dependent recipients report incomes exceeding $20,000 (less than 14% of independents report income exceeding $20,000).

A student's eligibility does not vary dramatically according to the cost of the school he or she attends. Pell Grants provide the foundation of aid: if a student is needy, the grant is available. However, it does explain why there are some recipients in the $40-50,000 income range.

At the higher income ranges, students are generally not receiving the full amount. Instead, they are receiving a partial grant.

How far up the income scale will increases reach?

A Pell Grant at the passback level of $2780 reaches into the $30-$40,000 income range (almost exclusively dependent students). As the attached table shows, 14.7% of the recipients would receive an average grant of $1,125. Only 8% have incomes exceeding $40,000.

As I already noted, after addressing the independent student needs, the remaining savings from eliminating refundability would fund a maximum Pell Grant of perhaps $3100. If additional funds are available -- for example, if the tax deduction is halved or eliminated -- then that would buy further increases, though the rise up the income scale would not be dramatic:

> --An increase to $3500 brings the number of recipients in the $30-40,000 range up by less than two percentage points, to 16.4%. Those over $40,000 receive more of a boost, to 11.6%. This would cost roughly $7 billion more (over five years) than the $3100 option.
>
> --An increase to $4000 brings the number of recipients in the $30-40,000 range up by another 0.6%. Those over $40,000 constitute 14.3% of the recipients. This would cost nearly $16 billion (roughly the cost of the tax deduction) more than the $3100 option.

These numbers don't tell us what percentage of the students in these income groups are being served in these scenarios. We are checking to see what data is available.

Pell Grants as an entitlement

Eliminating the refundability of the tax credit would only be acceptable to the higher education community if the increases in the Pell Grant were guaranteed. This would require making the Pell Grant an entitlement. This change could probably also free up some room on the discretionary spending side.

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HOPE Scholarships and Pell Grants

- Tax credit/deduction cost $42.9 billion 1997-2002, $32.3 billion 1998-2002 (start date not decided).

- Cost can be reduced by $1.5 billion in 1998-2002 through simplifications that are essential to reducing paperwork and the extreme complexity of the original proposal.

- $4 billion of the cost is for refundability, which is essential to reaching poor students (particularly *independent* students now ineligible for the Pell Grant). Treasury concerned that refundability adds to potential for fraud.

- Refundability can be eliminated if comparable benefits are provided to the poorest students in another way -- through Pell Grants.

- If refundability is eliminated and simplification is adopted, savings would total $5.5 billion 1998-2002.

Bringing low-income independent students into Pell

- Refundability can be eliminated only if those who would have benefited are brought into the Pell Grant system.

- Independent students can be brought into the Pell Grant system at a cost of about $4 billion over five years, which addresses the bulk of the refundability benefits issue.

Using "prospective income" for dislocated worker Pell Grant eligibility

- Some dislocated workers are shut out of the Pell Grant system because their prior year income -- used to determine financial aid eligibility -- is too high.

- Current law allows colleges to give dislocated workers special consideration, using projected current-year income to determine eligibility. But dislocated workers do not know that they can ask, and colleges need not cooperate.

- Requiring the use of projected current-year income for dislocated workers would cost roughly an additional $1 billion over five years.

Opening Pell to non-degree, non-certificate students

- Pell Grants are only available to students in degree or certificate programs.

- Eligibility could be expanded for other students (for example, a worker being trained how to use a particular computer program).

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

Increasing the Pell Grant maximum

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

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

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

Making Pell Grants an entitlement

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

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

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

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

Hefty

- Reduction of cap is paygo neutral/
OMB
- CBO & budget Comms - didn't agree

→ X

- FAA appropriations - financing w/ existing fee... reduce cap... saved $...

IMPLICATIONS OF OPTIONS:

Option 1: (PAD Recommendation) Under the 3-percent maximum-award increase policy, the additional BA over the 1997 enacted level is estimated at $2,317 million for FY2002.

Option 2: (ED Request) Under the annual $100 maximum-award increase policy, the additional BA over the 1997 enacted level is estimated at $2,555 million for FY2002.

Option 3: (Mechanical Target) Under the 3-percent BA increase policy, the additional BA needed over the 1997 enacted level is estimated at $957 million for FY2002.

Outyear Policy Comparisons

	Enacted FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	
PAD Recommendation at Target (3 percent annual increase in maximum award)							
BA (in millions)	5,919	6,677	7,045	7,415	7,815	8,236	
Maximum Award	2,700	2,780	2,863	2,949	3,037	3,128	
Recipients (in thousands)	3,759	3,830	3,927	4,025	4,133	4,243	
Mechanical Target (3 percent BA increase)							
BA (in millions)	5,919	6,108	6,292	6,481	6,675	6,876	
Maximum Award	2,700	2,590	2,610	2,645	2,675	2,705	
Recipients (in thousands)	3,759	3,730	3,790	3,862	3,935	4,001	
		569	753	934	1140	1360	4756
ED Request (annual $100 increase in maximum award)							
BA (in millions)	5,919	6,735	7,160	7,579	8,021	8,474	
Maximum Award	2,700	2,800	2,900	3,000	3,100	3,200	
Recipients (in thousands)	3,759	3,839	3,943	4,054	4,166	4,277	

RECOMMENDATION:

Option 1: $6,677 million. (PAD Recommendation at Target) Taking into account the current budgetary constraints and various types of discretionary and (existing and proposed) mandatory programs to support postsecondary education, PAD recommends continuing the President's announced policy of setting the FY1998 Pell grant maximum award level at $2,780.

HOPE/PELL Policy Options

	5-year (1998-2002) estimates (billions)
Tax credit/deduction:	$32.3
Simplification:	-1.5
Eliminate refundability:	-4.0
Net Cost:	27.8
Tax savings available:	5.5

Options for tax savings:

Pell independent student fix to offset loss of refundability: at 2900 max 3% increase 99-2002	~~4.0~~	w 1998 3.931
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 $100	1.5	

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Year	Cost at $3,000Max	Cost at $4,500 Max	
1998	7,370	11,786	4416
1999	7,469	11,988	4519
2000	7,579	12,136	4557
2001	7,698	12,255	4557
2002	7,817	12,270	4453

12/9

~~Hpk~~
- Cra Grudi (?); Bilgensten
need: revenue items

x Ron Wirrell

prelim $: $2.3 billion 6 years
$600 million 2002 (in the billion)

- N of U school?

- B : student over machine needs...
2 bites @ the apple.

ab - Steel -

Gene
- # of taxpayers in 70-90 phase-out range
- what % of taxpayers are under 80K...

Refundability

Who is hurt if elim?

- Low-income independents.

  - Many eligible for P.G.

* ☐ - Discarded workers - prior year vs. current year

Treasury Cost of refunds:

- If stacked before EITC - $5.3 billion
- If " after $5.8 billion

$4.4 - $6 in 2002

Ormond

Also:

☐ Hope still credit for displ. wkrs who return fund pell after 12 wks active job search.

- P.G. - Mond; include non-degree if programs have a min. qu. earnings test (PHI cert's)

Robert Mould.

TOTAL SAVINGS : 2.0 in 2002

7.6 over 5 yrs.

1. Fix All
2. Increase All Max
3. Fix for dislocated wkrs — prospective income
4. Mandatory

Budget buster?
- Yes, but balanced budget w/in this ...
- It's always been effectively an entitlement - honest budgeting

Get estimate

[illegible] Dr Non-degree okay if earnings test... (the deal that was cut)

EFFECTIVE DATE

⟹ P. 6. each issue → bullets "will be amended" we will fight ... at cost

DISTINGUISH

Credit--Current Parameters	**Credit--Simplified Parameters**
Maximum $1500 credit per academic year for full-time enrollment (e.g., for two semesters, or three quarters), maximum $750 credit per academic year for at least half-time enrollment, maximum $3000 lifetime.	Maximum $1500 credit per calendar year (regardless of whether enrolled half-time or full-time). Credit available twice in student's lifetime.
Taxpayer must choose between a credit or deduction for each academic period. Can claim both a deduction and a credit for the same student in the same year.	Taxpayer who is ~~eligible to claim~~ ~~the~~ credit for a student cannot claim ~~a deduction for the~~ student.
Credit available to parent if student eligible to be claimed as dependent. Otherwise available to student.	Same
Credit is phased out for MAGI of between $80,000 and $100,000	Same
Credit is only available for tuition paid during taxable year for an academic period during which the student is enrolled least half-time in a degree or certificate program in the taxable year or beginning in the first three months of the next taxable year.	Credit is available for any tuition paid during taxable year if the student is enrolled at least half-time in a degree or certificate program for any academic period in current taxable year or beginning in first three months of next taxable year (provided tuition paid in current taxable year)
Credit is available only for tuition paid for academic periods before completion of second post-secondary year of education.	Credit is available for any tuition paid during taxable year in which student is enrolled in one of first two years of post-secondary education).
Maximum credit is reduced by federal grants.	Same
Amount of credit limited to tuition and required fees actually paid (e.g., less all grants and scholarships).	Same
Must earn B- GPA in 13th year to qualify for credit in 14th year.	Must obtain a B- GPA for all post-secondary course work begun in prior years
Must not have felony drug conviction	Same

Deduction--Current Parameters	**Deduction--Simplified Parameters**
Maximum $10,000 deduction per family per year.	Same
Deduction limited to tuition and required fees actually paid (e.g., less all grants and scholarships).	Same
To claim the deduction, the student must be enrolled at least half-time in a degree or certificate program or taking course to improve job skills.	Deduction is available for any tuition paid during taxable year if the student is enrolled at least half-time in a degree or certificate program for any academic period in current taxable year or beginning in first three months of next taxable year (provided tuition paid in current taxable year), or taking course to improve job skills.
Deduction available to parent if student eligible to be claimed as dependent. Otherwise available to student.	Same
Credit is phased out for MAGI of between $80,000 and $100,000	Same

Form 1099 HE 1999

Name of institution ______________________ EIN ________________

Taxpayer's Social Security Number ____________________________

Name Address

Student will have to supply SSN to institution

Student's Name (if different from taxpayer's) ______________________

Student's Social Security Number ______________________

1 Payments of tuition and required fees during 1999 by, or on behalf of, student from sources other than grants or scholarships or employers for semester, etc., beginning in 1999 or the first three months of 2000.

$__ __ , __ __ __

2 Check box if any line 1 payments were for a semester, etc., during which student was enrolled at least half-time in the first or second academic year of post-secondary education that was part of a degree or certificate program.

☐

3 Check box if student completed two academic years of post-secondary education prior to enrollment in the first academic period covered by this 1099 HE.

☐

If the line 3 box is checked, the remainder of this form need not be completed.

4 Check box if student completed one academic year of post-secondary education prior to enrollment in any course of instruction for which a line 1 payment was made.

☐

5 Federal grants allocable to semester(s), etc., for which line 1 payments were made.

$__ , __ __ __

4.0 scale

6 The lesser of line 1 or $1,500 minus line 5.

$__ , __ __ __

GPA

Instructions for Form 1099 HE

1 Payments made from the proceeds of loans are included in line 1. Payments made by employers are excluded to the extent they are excluded from the employee's income. All grants and scholarships are treated as payment first for tuition and required fees, even if nominally designated for another purpose, e.g., room and board. Exempt Savings Bond interest is treated as a grant.

2 Pell and SEOG grants are included in line 5. Payments for work study are not included If a single payment from a federal grant is made for academic periods for which line 1 payments were made and other academic periods, the federal grant must be appropriately allocated to the periods for which line 1 payments were made.

Instructions for this1099
will have to be based
on detailed IRS guidance
regarding definition of
terms and addressing unusual
circumstances

 Taxpayer name ________________________ Taxpayer Social Security Number ______________________

Schedule HE-C Tax Credits for Higher Education

Use this schedule for calculating allowable credits for the payment of tuition and required fees for the first two years of post-secondary education for the taxpayer, the taxpayer's spouse, and any person claimed as a dependent by the taxpayer. If a credit may be claimed with respect to any individual student, no deduction for higher education expenses may be claimed with respect to that student by any taxpayer. Credits may not be claimed in more than two taxable years with respect to any individual student. Credits are not allowed for taxpayers with modified adjusted gross income of more than $100,000 on a joint return or $70,000 on a single or head of household return. Credits are not allowed on the returns of married persons filing separately or for students who are non-resident aliens or certain drug felons. No student may claim a credit on a return if the student is claimed as a dependent on the return of any other person. All claims for credits must be supported by Form 1099 HE(s) attached to this schedule. A credit may be claimed for an individual student only if the line 2 box is checked on at least one Form 1099 HE for 1999. If the line 3 box is checked, no credit may be claimed. If the line 4 box on any 1099 HE is checked, or if this is the second year for which a credit is being claimed for a student, the student must have earned a B- grade average (2.75 on a 4 point scale), or the equivalent thereof, with respect to education at post-secondary institutions completed prior to any academic period for which a credit is claimed on this Schedule; evidence thereof must be maintained in the taxpayer's records.

1 First student's name ______________________ Social Security number ________________________

Name of institution supplying 1099 HE	Institution's EIN	1099 HE line 6 amount	
a ____________________	____________________	$__ , ___	
b ____________________	____________________	$__ , ___	
c ____________________	____________________	$__ , ___	
d Enter the sum of lines a, b, and c.			$__ , ___
e Enter the lesser of line d or $1,500			$__ , ___

2 Second student's name ______________________ Social Security number ________________________

Name of institution supplying 1099 HE	Institution's EIN	1099 HE line 6 amount	
a ____________________	____________________	$__ , ___	
b ____________________	____________________	$__ , ___	
c ____________________	____________________	$__ , ___	
d Enter the sum of lines a, b, and c.			$__ , ___
e Enter the lesser of line d or $1,500			$__ , ___

3 Third student's name ______________________ Social Security number ________________________

Name of institution supplying 1099 HE	Institution's EIN	1099 HE line 6 amount	
a ____________________	____________________	$__ , ___	
b ____________________	____________________	$__ , ___	
c ____________________	____________________	$__ , ___	
d Enter the sum of lines a, b, and c.			$__ , ___
e Enter the lesser of line d or $1,500			$__ , ___

4 Fourth student's name ______________________ Social Security number ________________________

Name of institution supplying 1099 HE	Institution's EIN	1099 HE line 6 amount	
a ____________________	____________________	$__ , ___	
b ____________________	____________________	$__ , ___	
c ____________________	____________________	$__ , ___	
d Enter the sum of lines a, b, and c.			$__ , ___
e Enter the lesser of line d or $1,500			$__ , ___

5 Potential credit. Enter the sum of 1e, 2e, 3e, and 4e. $__ , ___

Schedule HE-C Tax Credits for Higher Education

Application of phase-out ratio

6 Adjusted gross income (from line xx, Form 1040) $__,___
7 Income excluded by reason of sections 911, 931, and 933 (see instructions) $__,___
8 Modified adjusted gross income: add lines 6 and 7 $__,___

> If your line 8 amount is $50,000 or less ($80,000 or less for a joint return), enter the amount on line 5 on line yy of your Form 1040 and do not complete the rest of this page.
>
> If your line 8 amount is $70,000 or more ($100,000 or more for a joint return), you are ineligible for any credit calculated on this Schedule HE-C or any deduction calculated on Schedule HE-D.

9 Phase-out ratio
(a) Line 8 amount minus $50,000 (80,000 for joint returns) $__,___
(b) Divide (a) by $20,000 and enter. If greater than 1.00 no credit may be claimed. __.__
10 Enter amount from line 5. $__,___
11 Multiply line 10 amount by line 9 (b) phase-out ratio. $__,___
12 Allowable credit: Subtract line 11 from line 10 and enter on line yy of your Form 1040. $__,___

Taxpayer name ______________________ Taxpayer Social Security Number ____________________

Schedule HE-D Deductions for Higher Education

Use this schedule for calculating allowable deductions for the payment of tuition and required fees for any period of post-secondary education for the taxpayer, the taxpayer's spouse, and any person claimed as a dependent by the taxpayer. Deductions are not allowed for taxpayers with adjusted gross income of more than $100,000 on a joint return or $70,000 on a single or head of household return. Deductions are not allowed on the returns of married persons filing separately or for students who are non-resident aliens or certain drug felons. No student may claim a deduction on a return if the student is claimed as a dependent on the return of any other person. No deduction may be claimed for educational expenses of students for whom a credit may be claimed. All claims for deductions must be supported by Form 1099 HE(s) attached to this schedule. Generally, no deduction with respect to an individual student may be claimed unless the box on line 2 of at least one Form 1099 HE for that student has been checked by the issuing institution. If the line 2 box has not been checked, a deduction may only be claimed if the education is related to the student's job or enhances the student's employment-related skills and the taxpayer so indicates by checking the appropriate box on lines 1 - 4. No deduction may be claimed with respect to line 1 amounts on any Form 1099 HE which has been used by the taxpayer or any other person to claim a credit using Schedule HE - C.

		education is job/skill related	1099 HE line 1
1 First student's name ____________	Social Security number ____________		
Name of institution supplying 1099 HE	Institution's EIN		
a ____________	____________	☐	$__ , ___
b ____________	____________	☐	$__ , ___
c ____________	____________	☐	$__ , ___
2 Second student's name ____________	Social Security number ____________		
Name of institution supplying 1099 HE	Institution's EIN		
a ____________	____________	☐	$__ , ___
b ____________	____________	☐	$__ , ___
c ____________	____________	☐	$__ , ___
3 Third student's name ____________	Social Security number ____________		
Name of institution supplying 1099 HE	Institution's EIN		
a ____________	____________	☐	$__ , ___
b ____________	____________	☐	$__ , ___
c ____________	____________	☐	$__ , ___
4 Fourth student's name ____________	Social Security number ____________		
Name of institution supplying 1099 HE	Institution's EIN		
a ____________	____________	☐	$__ , ___
b ____________	____________	☐	$__ , ___
c ____________	____________	☐	$__ , ___
5 Enter the sum of all amounts from lines 1 - 4.			$__ , ___
6 Potential deduction: Enter the lesser of line 5 amount or $10,000.			$__ , ___

Schedule HE-D Deductions for Higher Education

Application of phase-out ratio

7 Adjusted gross income (from line xx, Form 1040) $__,___
8 Income excluded by reason of sections 911, 931, and 933 (see instructions) $__,___
9 Modified adjusted gross income: add lines 6 and 7 $__,___

> If your line 9 amount is $50,000 or less ($80,000 or less for a joint return), enter the amount on line 6 on line zz of your Form 1040 and do not complete the rest of this page.
>
> If your line 9 amount is $70,000 or more ($100,000 or more for a joint return), you are ineligible for any deduction calculated on this Schedule HE-D or any credit calculated on Schedule HE-C.

10 Phase-out ratio
(a) Line 9 amount minus $50,000 (80,000 for joint returns) $__,___
(b) Divide (a) by $20,000 and enter. If greater than 1.00 no deduction may be claimed. __.__
11 Enter amount from line 6. $__,___
12 Multiply line 11 amount by line 10 (b) phase-out ratio. $__,___
13 Allowable deduction: Subtract line 12 from line 11 and enter on line zz of your Form 1040. $__,___

Higher education tax credit/deduction: other modifications to consider

1. Eliminate refundability, put savings into a higher *mandatory* Pell Grant (also could improve Pell Grant eligibility for independent students).

Improvements that cost money:

2. Restore tax deduction for student loan interest (part of Republican plan, also in Democratic platform).

3. Allow up to $500 in required costs (books, etc.) on top of tuition and fees.

4. Reduce the current dollar-for-dollar offset of the credit by federal grants.

5. Verifying GPA: **self-reporting** is preferred by interest groups.

Possible offsetting savings:

6. Deduction: turn it into a 15% credit. This would reduce cost and make it less regressive.

7. Offset the deduction by any student **loan** amounts (good proposal in combination with #2).

8. Limit deduction to undergraduate education.

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Analysis of Simplifications of the HOPE Scholarship Proposal

Some of major implementation difficulties stem from four basic features of the current HOPE proposal. This paper describes the four features and related problems and offers possible solutions.

Feature 1: The current proposal provides a maximum $1,500 credit <u>per academic year</u> for full-time enrollment and maximum $750 credit per academic year for at least half-time enrollment, up to a <u>maximum $3,000 credit</u> in student's lifetime.

Problem: Relatively complex calculations are necessary to come up with the appropriate credit, because the student must take into account his enrollment status (e.g., full-time vs. half-time) in each academic term during the taxable year.

Example A: Jane was enrolled full-time in the 1995 fall semester as a first-time freshman; and continued to be enrolled full-time in the 1996 spring and fall semesters. Under the current proposal, if Jane paid tuition for the 1996 spring semester in December 1995, Jane would be eligible for the $1,500 credit in the 1995 taxable year. But if Jane paid tuition for the 1996 spring semester in January 1996, Jane could claim only the $750 credit in the 1995 taxable year. In the 1996 taxable year, she could claim the $1,500 credit for tuition paid for the 1996 spring and fall semesters -- $750 for the second semester of her freshman year and $750 for the first semester of her sophomore year.

Example B: Joe completed his first year of postsecondary education in this way: in the 1994 fall semester, he was enrolled half-time; in the 1995 spring semester he did not go to school and instead he worked; in the 1995 fall semester, he went back to school half-time; and in the 1996 spring semester, he was enrolled full-time. Under the current proposal, Joe would be eligible to claim up to $375 for fall 1994, $0 for spring 1995, $375 for fall 1995, and $750 for spring 1996 (totaling $1,500 for his 13th year of education).

Solution: Provide the credit <u>on a calendar-year basis</u>, regardless of enrollment status, and make it available <u>twice</u> in a student's lifetime.

Examples A & B: Under the modified proposal, both Jane and Joe now could claim the $1,500 credit in any one or two years they were enrolled at school at least half-time. But after claiming a credit twice, they would not get any additional tax credit in their lifetime. This means that if Joe claims $1,500 in 1994 and 1995, then he would not be eligible to claim any tax credit in 1996 or in future years -- not even for his second year of postsecondary education.

Analysis

Advantage:

- Reduces credit-calculation and record-keeping burdens on taxpayers.

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Considerations:

- Provides students with less incentive to persist or complete full first year.
- Some students will get less benefit (e.g., part-time at low-cost institution); some will get more (e.g., part-time at higher cost school).

Feature 2: Under the current proposal, the credit is available for tuition paid during the taxable year for any academic period during which the student is enrolled at least half-time in a degree or certificate program in the taxable year or beginning in the first three months of the next taxable year.

Problem: Again, relatively complex calculations are necessary to come up with the appropriate credit for the current taxable year (as opposed to the academic year), because the student must take into account his enrollment status in each academic term during the taxable year.

Example: Ann started her first year of college in this way: in the 1996 spring semester she was enrolled half-time, and in the fall semester she took only one course. Under the current proposal, Ann would be eligible for only 25 percent of the $1,500 credit for the spring semester, because the full credit is for full-time full-year attendance; for the fall semester, since she did not meet the "at-least" half-time requirement, she would be eligible for no credit.

Solution: Make the credit available for any tuition paid during taxable year if the student is enrolled at least half-time in a degree or certificate program for any academic period in the current taxable year or beginning in first three months of next taxable year.

Example: Under the modified proposal, Ann's credit would be based on total tuition she paid for both semesters (including tuition paid for one course in the fall semester), since she was enrolled half-time at least for a semester in 1996. Alternatively, Ann could wait and claim the maximum $1,500 credit in some future years when she goes to school full-time and has higher tuition expenditures than in 1996.

Analysis:

Advantage:

- Reduces credit-calculation and record-keeping burdens.

Consideration:

- Allows student to attend less-than-half-time for most of the year and still get the credit.

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Feature 3: The current proposal allows taxpayers to choose between a credit or deduction for each academic period of the first two years of postsecondary education. Also, students are allowed to claim both a credit and a deduction for the same calendar year. (For example, a student who claims a credit for her sophomore spring semester will have to switch to a deduction for her first semester of junior year the following fall.)

Problem: Taxpayers have to do long, complex calculations to figure out whether credit or deduction is more advantageous for each academic term. If a taxpayer has more than one child at college, the taxpayer need to do such calculations for each child. It is also very likely that many taxpayers will not understand how to switch from a credit to a deduction in the same year and will calculate their tax benefits incorrectly.

Example: In the 1994 fall semester, John attended a local community college as a first-time freshman; in the 1995 spring semester, he transferred to a private college. Under the current proposal, John's parents may choose a credit for fall 1994 since the community college tuition was relatively inexpensive, but may decide to claim a deduction for spring 1995 since they paid much more tuition.

Solution: Prohibit taxpayers who are eligible to claim a credit from also claiming a deduction for the same student for the same tax year.

Example: John's parents would now have to claim a credit for both fall 1994 and spring 1995.

Analysis:

Advantages:

- Makes it easier for IRS to administer.
- Reduces error-prone calculations.

Consideration:

- Makes high-income families and students attending expensive schools worse off than the current proposal.

Feature 4: Under the current proposal, student must earn B- GPA in 13th year to qualify for credit in 14th year.

Problem: All three parties -- student, school(s), and IRS -- must keep track of when the student completes her 13th year and what the student's cumulative GPA in the 13th year is.

Example: Janet started was enrolled full-time in the 1995 fall semester as a first-time freshman; and continued to be enrolled full-time in the 1996 spring and fall semesters. Under the current proposal, Jane has to prove or attest that she earned a B- GPA in the 1995 fall and 1996 spring semesters to be eligible for a credit for tuition paid for the 1996

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fall semester.

Solution: Require student to obtain a B- GPA for all postsecondary course work begun in prior years.

Example: Under the modified proposal, if Janet claims a credit in 1995, she has to prove or attest that she had a B- GPA in the 1995 fall semester; and if she claims her second credit in 1996, she has to prove or attest that she had a B- GPA from the 1995 fall semester to the 1996 fall semester.

Analysis

Advantage:

- Makes taxpayers easier to figure out the grade requirement.

Consideration:

- Grade requirement won't necessarily conform to the first full year of college.

Higher education tax credit/deduction: other modifications to consider

1. Eliminate refundability, put savings into a higher *mandatory* Pell Grant (also could improve Pell Grant eligibility for independent students).

<u>Improvements that cost money:</u>

2. Restore tax deduction for student loan interest (part of Republican plan, also in Democratic platform).

3. Allow up to $500 in required costs (books, etc.) on top of tuition and fees.

4. Reduce the current dollar-for-dollar offset of the credit by federal grants.

5. Verifying GPA: **self-reporting** is preferred by interest groups.

Possible offsetting savings:

6. Deduction: turn it into a 15% credit. This would reduce cost and make it less regressive.

7. Offset the deduction by any student **loan** amounts (good proposal in combination with #2).

8. Limit deduction to undergraduate education.

Higher education tax credit/deduction: other modifications to consider

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Hope questions:

How to address LATE Pell Grants (how often does it happen now?).

What privacy issues to address? (OIRA) Buckley amendment?

Robert M. Shireman
12/08/96 08:47:33 PM

Record Type: Record

To:

cc:
Subject: HOPE meeting

Here's a preview of today's meeting, and my thoughts for next steps.

1. SIMPLIFICATION. I sat down with Treasury and ED and we hammered out the details of the simplified credit that I outlined at the last meeting. In discussions with the cost estimator, we do not anticipate any cost problem (Toder told me the estimate will be done for the meeting). In addition, Treasury will bring a side-by-side comparison of the current parameters of the tax credit and the simplified parameters, as well as new mock tax forms. Aromie has done a more detailed analysis which we will bring.

2. DISTRIBUTION OF THE CREDIT. Treasury provided some numbers, though the details are still sketchy. **Refundability** primarily goes to independent students with income under $15-20,000. These are people who I would have thought should be getting Pell Grants. But I'm becoming convinced that we screwed them over in the '92 formula changes. *This may also explain why dislocated workers aren't getting Pell Grants.*

I think we will find that the idea of increasing Pell Grants (with perhaps a formula change to help independent students) could allow us to eliminate refundability of the tax credit without hurting poor students. (If it is done in the context of making Pell Grants an entitlement).

There are other ways we could satisfy some of the "poor students" concerns. Below I've listed some approaches, and some offsetting savings that we could consider. I'll bring this to the meeting in case we want to distribute it for discussion.

Higher education tax credit/deduction: other modifications to consider

1. Eliminate refundability, put savings into a higher *mandatory* Pell Grant (also could improve Pell Grant eligibility for independent students).

Improvements that cost money:

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Current Location of and Reporting Frequency for Information Needed to Calculate the "*Simplified*" HOPE Scholarship Tax Credit and Middle-Class Bill of Rights Tax Deduction

The following information items are required with respect to each tax/calendar year during which a student was enrolled. The table indicates the current location of each item (that is, the potential reporting entity) and the entity that would receive the information.

It must be noted that in order to ensure an acceptable level of taxpayer compliance, postsecondary institutions will be responsible to report small sets of individual-level data to the IRS and the student.

In the table below, annual reporting means that the IRS would receive a single tape or other machine-readable formatted data from an institution at the time appropriate to ensure effective compliance (most likely in January or February following the close of the tax/calendar year). The annual institution-provided information would include student-level data for any enrollment during the tax year. ED could funnel data from institutions to the IRS.

The "Simplified" HOPE Scholarship policy would be to provide a maximum $1,500 tax credit for the first two years of postsecondary education, irrespective of attendance intensity. That is, the credit is available twice in a student's lifetime. The credit would be available for any out-of-pocket tuition expenses incurred during the tax/calendar year if the student were enrolled at least half-time in a degree or certificate program for any academic period in that tax year or beginning within the first three months of the following tax year. This "Simplified" approach would also deny eligibility for the deduction to any student who is otherwise eligible for the credit.

Information Item	Required for: Credit	Required for: Deduct.	Current Location (Reported by)	Reported Annually to
Name and SSN of student(s)	Yes	Yes	Institution, ED[1]	IRS[2]
Name and SSN of taxpayer(s)	Yes	Yes	NONE	IRS[2]
Name and EIN of institution(s) attended	Yes	Yes	ED, Institution[3]	IRS[2]
Net tuition/fees paid (i.e. less grants, refunds etc.)	Yes	Yes	Institution,[4] student	IRS[2]
Federal grant aid	Yes	No	ED,[5] Institution, student	IRS[2]
Attendance status (at least half-time at any time)	Yes	No	Institution, ED[5], student	IRS[2]

DRAFT

Year in school (13th or 14th year of education)	Yes	No	Institution, student	IRS[2]
Eligible program	Yes	Yes	Institution, student[6]	IRS[2]
Skill acquisition course	No	Yes	Institution, student[6]	Taxpayer
Grade point average	Yes	No	Institution, student[6]	Taxpayer
Drug-free certification	Yes	No	Student, ED[1]	Taxpayer
Non-resident alien	Yes	No	ED	IRS
Prior year allowable tax credits	Yes	No	IRS	

- Student-reported information, while readily available, may be unreliable.
- ED's program databases are not currently configured to facilitate tax (calendar) year reporting.
- ED's existing survey (e.g. NPSAS) architecture might be expanded to collect student-level data at institutions (i.e. information noted in the table as currently located at institutions).

1 Title IV Federal financial aid applicants only.
2. Information reported to the IRS would also be reported to the taxpayer via a 1099-like form.
3 ED would annually provide a list of eligible institutions to IRS. Institutions could provide their EIN to their students.
4 Assumes institution is aware of all private aid sources. Institution may be unaware of insurance reimbursements.
5. Pell grant recipients only.
6 If properly informed by institution.

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ED/OPE
December 6, 1996

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

FACSIMILE COVER SHEET
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DATE: 12-6 *NUMBER OF PAGES, INCLUDING COVER PAGE* 3

TO: AROMIE / BOB S. *FAX NUMBER:*

SALLY KIRKGASLER, DIRECTOR ____ *ROSE FLETCHER,* PROGRAM ASSISTANT

Policy and Budget Development Unit		Forecasting and Policy Analysis Unit	
David Bergeron Unit Chief		Daniel Madzelan Unit Chief	X
Allen Cissell (On Detail) Program Analyst		Steve Carter Program Analyst	
Karen Wenk Education Program Specialist		Joseph Mike Program Analyst	
Ellen Sealey Program Analyst		Julieta Laurel Statistician	
Donald Conner Management/Program Analyst		Charles Masten Economist	
Maria Rojtman Management/Program Analyst		Mary Miller Management Program/Analyst	
Deborah Santiago Program Analyst		Adam Ochlis Management Analyst	
Heather Moore Program Analyst			

REMARKS: HERE'S A STAB AT REVISED "DATA LOCATION" TABLE BASED ON YESTERDAY'S SIMPLIFICATION DISCUSSION

DAN

Mastercard/Ed -

Q's

- What are pmt practices of CC's
  - Dec. or Jan for winter/spring ??

B - - self-declaration - they maintain records

- people fearful

→ GPA - still need rules - Secy of Ed.

Ga: schools rpt back on grades every 45 units

☐ OIRA - any privacy issues

Buckley: unauthorized release (by school) of transcripts personal

☐ Effective date - X date, with respect to ed'l loading duty / ??

Assumption of time for getting pgm. system up and running.

- BUT behavior takes a year to kick in (people don't know)

How many?? → ☐ Core Pell Grants: Lessn rpt → add to next years rates. require PATSAs for all

- Adoption → 15% credit.
→ and save money

Other simplification:

1. Elim. req't that have to meet $[illegible] &
tuition & fees expenses. . .

B26 cost
→ lower

2. Extend the child credit.... to 18-19 yr-olds

3. Not reduce credit by P.6.

40% more

- Most of $ and students refunded are indep. students
(dep. more likely to get P.G. given income)

Most of refundables should be getting a P.G.
- family ed pay
- 6 mths our good part
- debt arrears
- farm pop difficult...

Credit overall distribution

97-2002

Refundability: old model: $5.7 billion (includes unemploy. & behavioral)
incorporating 92-93 NPSAS now

- House: Refundability → goes to Approps

- Higher Ed Community -
some role in whatever system...

- save cost reduction due to sec 127
when abt other cred. ...

Barmak + Ed 12/6/96

- General line: tax expenditures: credit, deduction, interest, IRAs

▸ Interest: plank in abstract 'restore'
- ☐ check estimates

AACC - likes it, thinks it could be more than $2 billion...

~~[illegible]~~
Ideas for Doing the gets

- Net return & Gen =

- How much savings of deductibility also netted out against borrowing - ruling a deduction against loans based on future income...
(- Senate bill)

replace w/ st. loan deductibility...

- Squeeze the credit, increase Pell:
but can't do Pell in reconciliation. (Approps - lucid in, harmless)
(- Schools increase return, and increase

- up to $500 other reg'd costs using [illegible] definition...

- Pell minimum in approps and throw people into the tax credit. payed?

CA: Loan forgiveness for rehirs.
Age of program

- Tuition/fees vs. Cost of Attendance. -
→ pro-rate the rest of grant aid...
(Reduction would have to be $2000 probably)...

- People w/ loan more w/o Pell:
(NASFAA: it's not need analysis, it's rationing)...
- because Pell doesn't have a realistic living expenses
↳ for single ind's

• Dependents: changed from BLS low to moderate # & indexed.
(taken off the top)
old: $12k to live on '92: $17
(family of 4.

• Independent:
old: $6400 living expense
@ 9000 → $2000 in eligibility
new: absorbed in COA, but only 3 mo. = 1/4 of $12 = $3000
no indexing

From: Kenneth S. Apfel on 11/19/96 08:47:17 AM

Record Type: Record

To: Barry White/OMB/EOP, Robert M. Shireman/OMB/EOP

cc:
Subject: TEXT TO SEND OMB WHEN THEY CALL

fyi

---------------------- Forwarded by Kenneth S. Apfel/OMB/EOP on 11/19/96 08:47 AM ---------------------------

ElmendorfE @ aascu.nche.edu
11/18/96 08:22:00 PM

Record Type: Record

To: Kenneth S. Apfel

cc:
Subject: TEXT TO SEND OMB WHEN THEY CALL

per our phone conversation. will set up time with Debbie to meet after Thanksgiving..../ed

Date: 11/18/1996 06:56 pm (Monday)
From: Edward Elmendorf
To: ELMENDORFE
Subject: TEXT TO SEND OMB WHEN THEY CALL

Tax Expenditures for Higher Education

Background

The President (and virtually all Democratic candidates) ran on an education platform that included three items:

#Hope# scholarships#This initiative calls for the creation of a refundable tax credit of up to $1,500 for those in first year of postsecondary education, which would be renewed for the second year if the student gets a #B# average and stays #drug-free.# The tax credit would be phased out for single filers between $50,000 and $70,000 of income and for joint filers between $70,000 and $90,000 of income. While the income phase-out adds a certain degree of progressivity to the plan, the fact that federal grant aid is #netted# against the tax credit#i.e., there is a dollar-for-dollar reduction in the tax credit for every dollar of Pell or SEOG received by a student#channels the benefits delivered by this proposal away from the needy.

Tax deductibility of up to $10,000 of tuition and fees#This proposal modifies the #Middle Class Bill of Rights,# which AASCU (unlike ACE and NAICU) refused to endorse. The sole difference here is that the income phase-out has been lowered to that of the Hope scholarship initiative mentioned above. This plan continues to be regressive, is biased toward high-tuition institutions, and does even less for the needy than does the Hope initiative

Expanded use of IRAs#This would allow flexible use of IRAs for payment of college expenses. This feature is also popular with Republicans, and was one of Senator Dole#s two higher education proposals during the presidential campaign. This is a proposal that makes both political and policy sense, and that we should be able to endorse quite enthusiastically. I would argue that it also has the highest probability of enactment, and that we should attempt to work with the administration and congress to expand and improve it in as many ways as possible. The Dole campaign also endorsed the restoration of student loan interest deductibility, which we can also support enthusiastically.

Discussion

The President will vigorously pursue the enactment of the package described above. It is, however, unlikely that the GOP-controlled congress would give him his tax package intact, and probably only those provisions that Republicans can claim credit for cab realistically expected to pass. As of now, the only such area of overlap is the expanded uses of IRAs. In any case, the administration would have to have the vocal and enthusiastic support of all of higher education for its package to stand a chance. I would suggest the following as the comprehensive enumeration of what it should take for AASCU to jump on the bandwagon:

1- Hope scholarships should be modified in a manner that would provide significant benefit for the needy as well as the #middle-income.# Middle-income, in American politics anyway, appears to describe a state of mind than an economic fact. Median family income in the U.S. continues to hover below $40,000 per year, and a proposal like Hope scholarships that provides almost no subsidies to those below $20,000, and channels most of its aggregate subsidies to those in the $40,000 to $80,000 of income, can only be labeled #middle-income# through stretching the truth. Potential modifications could include a variety of possible changes already put forth by AASCU, including adjustments to how various forms of aid are netted against the tax credit. Short of this, I would strongly argue against AASCU#s endorsement of the plan, because it does nothing for access directly, and jeopardizes it indirectly by putting tuition costs under additional inflationary pressures. The application of the #B# grade cut-off is disturbing in both policy and operational terms. Why is the second-year refundable tax credit, which may, at least in theory, provide some benefit to the needy subject to a GPA requirement, when the tax deduction, which is even more regressive, does not have a similar criterion for its expenditure of subsidies for the unlimited number of years that it is available to upper-income families? Also, the implementation of a GPA requirement will be operationally difficult and costly for both schools and the Internal Revenue Service, and add to the anxieties of taxpayers who will have to contemplate being audited by the IRS for their children#s grades.

In addition to the two basic policy issues a broad range of operational issues need to be settled. The extent and scope of implementation burdens on schools, and the question of timing of the tax credit are important factors in any final decision to support the initiative. — expand

2- Tax deductibility of tuition and fees is an idea we could support only if it is offered as a part of a package that includes other, more appropriate tax subsidies. A lower deductibility maximum would be more acceptable to us if instead of tuition and fees, all educational expenses were to be tax deductible. Even without such a change, though, we could lukewarmly support this provision if it is intrinsically packaged with other provisions that constitute good public policy. discuss

3- Expanded Use of IRAs would be an indispensable component of a good tax package for us. There are many details to be worked out here, but the concept of using the tax code to promote savings and enable #real# middle-income Americans to save for their children#s education is a sound one.

4- Deductibility of the student loan interest payments should be restored. The 1986 Tax Reform Act#s elimination of this deductibility was a mistake that ought to be corrected. If future generations of college graduates are going to be saddled with heavy college debt burdens, the least the federal government can do would be to make sure that the cost of borrowing is tax deductible. In many ways, from an economic policy point of view, this is a more effective manner of implementing the idea that individual educational expenditures are analogous to capital investment for businesses. The idea of writing off a large portion of the cost of education up-front is an alternative manner of implementing this same idea, but the former option has the following obvious advantages:

Agree [illegible]
— What are the various approaches??

It is non-inflationary
It goes to the people who borrowed, which automatically targets it away from those who have the ability to just write a check
It goes to the people who borrowed at a point when they have income, instead of going to their parents
It does not impose any administrative burdens on schools, and is much easier for the IRS to run.

5- The combined effects of all of the above and Section 127 should be carefully worked out. In the absence of legislative language on tax deductibility, it is difficult to decide what changes, if any, would be appropriate for Section 127, the employee educational benefits provision currently in effect on a temporary basis. It is possible that tax deductibility would render 127 unnecessary, though 127 does provide theoretical#but probably very limited#benefits outside the upper end of the new income range for the tax deductibility proposal. The 104th Congress, in extending 127, limited it to undergraduate costs only, and tax deductibility, at least in this sense, is more expansive. On the hand, 127 does not have any income ceiling, and is thus a more broadly available benefit that deductibility as proposed. These and other issues should be worked out by the community, the administration, and congress before any endorsements are issued.

6- The administration must include in any package its promised CRITICAL tax-exemption of the unpaid amounts owed by borrowers in the income-contingent repayment option who receive forgiveness after 25 years of repayment. The administration offered language to the 104th congress, but did not vigorously lobby for passage. It should fulfill its promise as part of any comprehensive tax package.

Conclusion

AASCU should take the broader policy position of asking for a package that, in its totality, does more good than harm. Obviously, a final decision as to whether we can mobilize on behalf of any package will depend on which items from our ideal wish-list end up being included. To this extent, I would disagree with Terry#s declaration in his memo to Stan that #we are agreed that we should support the Administration#s plans.# We can only support the sudden availability of $42.5 billion of tax expenditures, and attempt to channel these new resources toward higher education. As they stand in outline, however, the administration#s plans do not support higher education, they provide a windfall to upper-income families, who happen to have kids in college, who will not spend a dime more on higher education, unless schools hike their tuitions.

AMERICAN COUNCIL ON EDUCATION

Division of Governmental Relations

MEMORANDUN

To: Bob Shireman
Office of Management and Budget

From: Terry Hartle

cc: Jacqueline King

Date: November 20, 1996

Building on what I think was a productive meeting with Ken and Barry, I have included a list of technical and analytic questions on the tuition tax deduction and Hope Scholarship proposals (see attached).

In addition to technical questions, I think there are a number of broader policy questions that have to be addressed. From where I sit, this has to do with not only making good policy but crafting a proposal that all types of colleges can support. Of course, the most glaring issue is the exclusion of low income students from the programs. AASCU has completed an analysis (see attached) which shows that the vast majority of the subsidy in the tax deduction will accrue to students with adjusted gross family incomes of $50,000 or more. We have already discussed the problem of netting the Hope Scholarship against the Pell Grant.

Because of the difference in tuition charges and family income profiles of students in various types of institutions, these proposals -- as currently structured -- set up a situation in which private institutions are much more likely to benefit than publics. Under this scenario, it may be very difficult for the community to come up with a consensus opinion. Without such a consensus, it seems to me that the likelihood of congressional support is greatly diminished. I am very happy to work with you, as well as the relevant staff in Treasury and ED, to produce a package that the entire higher education community can support.

As you work through this list, please feel free to follow up with either myself or Jaci King in my office. She has recently joined ACE as director of federal policy analysis. Her direct line is 939-9354.

One Dupont Circle, Washington, D.C. 20036-1193 (202) 939-9355
FAX (202) 833-4762

Tuition Tax Deduction/Hope Scholarship (Tax Credit)

1. The most basic question at this point is who is the authoritative source of information on the program at this time? Who is designing the legislation?

2. Who is doing the cost estimation? What assumptions went into developing the cost estimates for the program? What, if any, assumptions were made about changes in behavior by students and institutions, such as increased enrollment, price increases, or grade inflation? Can we take these questions directly to whoever is doing this work?

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

4. What qualifies for the deduction, total tuition charged or tuition paid net student aid? If the latter, are loans and work-study netted against the deduction? What about state aid or private scholarships?

5. Are the institutional and student eligibility requirements for both programs the same as for Title IV student aid?

6. For how many years can one claim the deduction? Do graduate and first professional students qualify?

7. What are the offsets against the Hope Scholarship? What are the cost implications of eliminating any offsets? Could savings from changing the design of the tax deduction feasibly pay for elimination of offsets in Hope?

8. How would the benefits of the credit and deduction be distributed across the income scale?

9. What are the cost implications of the B average requirement? What percent of Hope recipients do you predict would lose their benefits in their sophomore year?

10. What documentation would be required of tax filers to prove either tuition charges or a B average? Would institutions be required to provide documentation of student grades or accounts to the IRS? (Its our understanding that, under the child care deduction, no documentation is required of filers or child care providers.)

11. If institutions provide information on student grades and accounts to the IRS, how would this interact with the Buckley Amendment?

12. How would part-time and less-than part-time students be handled in terms of grade reporting? When would the grade requirement "kick in - after one academic year or after sophomore standing is achieved?"

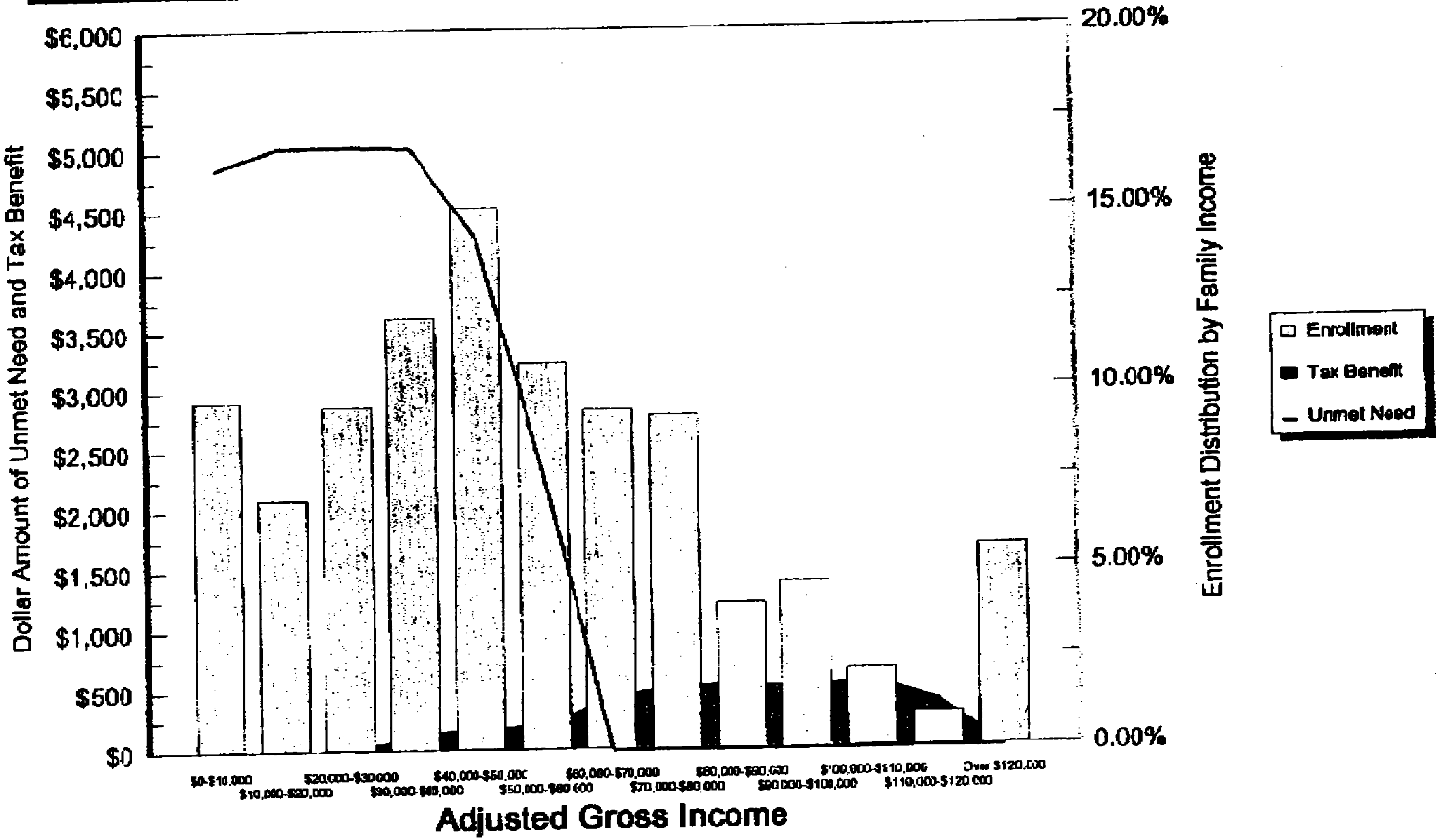
13. Many students transfer after their first year (especially at community colleges) or "stop out" and resume their academic careers after several years at a different institution. How would grade and student account reporting requirements be handled for these students?

14. Individuals can be audited for at least seven years. Most institutions do not keep account records for that long. If institutions were to provide account documentation to the IRS, how long would they be required to maintain records?

15. We assume that the 1040EZ form would be changed so that students could claim the tax credit. If not, how would students be made aware that they have to file a long form?

Analysis of Tuition Tax Deductibility: Dependent Undergraduates

Unmet Need Compared with The Targeting of Tax Subsidies in the Public 4-year Sector



AASCU – DGR

Sources: NPSAS 90, The Pell Model, 1994 Compilation of Campus-based Data, Census Bureau: Current Population Survey

Barry White
12/07/96 12:43:09 PM

Record Type: Record

To: Robert M. Shireman/OMB/EOP

cc:
Subject: roschwalb

He called to moan about HOPE. He has been unable to get any insight from David or Maureen about design issues/progress and despaired of doing so. He fears that Treasury will run over Education and do dire (unspecified) things.

He reports that while institution presidents are quite positive on HOPE, the 1 dupont crowd remains quite negative. He hopes there will be a moment in time when he and his ilk get to talk about the issues and possible solutions with someone, before the design is locked in and sent to Congress.

I told him that neither ED nor Treasury is in control here, the WH and OMB are. (oddly, this made him feel a bit better).

I said we were working most at what we see as the biggest issues, the interaction with Pell (he isn't all that much interested in impact on poor folk), and administerability (which he applauded). But his biggest worry is the b- average. He uses the "b- at MIT vs. b- at Podunk" argument.

In your work on HOPE, I think you should be formulating with ED a grade point average position something like "b- or an equivalent determination by the school based on a methodology developed in accord with guidelines of and approved in advance by, the Secretary of Education, under which not more than X% of the 1st year students in the school would qualify." "X" would be set at the same percentage which ED's records say students with that grade or above represent of the national postsecondary student population (they had this data last summer, which was used for costing), but the % for a given school could be varied upon a showing by the school of an objective basis for doing so which the Secretary accepts.

This gives us the ability to tout b- average, but also the flex the schools are looking for.

Thoughts?

You should also be proposing to Ken/Gene a strategy for the consultation sessions. I think they should be held on a tripartite basis, with you in the middle, between ED and Treasury. That way, you can referee some, but more imporantly, can keep things in pespective and bring back objective assessmetns of what the groups are after and whether their ideas have merit. Thoughts on this?

By the way, which is his organization?

Credit--Current Parameters	Credit--Simplified Parameters
Maximum $1500 credit per academic year for full-time enrollment (e.g., for two semesters, or four quarters), maximum $750 credit per academic year for at least half-time enrollment, maximum $3000 lifetime.	Maximum $1500 credit per calendar year (regardless of whether enrolled half-time or full-time). Credit available twice in student's lifetime.
Taxpayer must choose between a credit or deduction for each academic period. Can claim both a deduction and a credit for the same student in the same year.	Taxpayer must choose between claiming the credit or the deduction ~~for the student for the taxable~~ year, regardless of the academic periods. [Simplified alternative: taxpayer who is eligible to claim the credit for a student cannot claim a deduction for the student.]
Credit available to parent if student eligible to be claimed as dependent. Otherwise available to student.	Same
Credit is phased out for MAGI of between $80,000 and $100,000	Same
Credit is only available for tuition paid during taxable year for an academic period during which the student is enrolled least half-time in a degree or certificate program in the taxable year or beginning in the first three months of the next taxable year.	Credit is available for any tuition paid during taxable year if the student is enrolled at least half-time in a degree or certificate program for any academic period in current taxable year or beginning in first three months of next taxable year (provided tuition paid in current taxable year).
Credit is available only for tuition paid for academic periods before completion of second post-secondary year of education.	Credit is available for any tuition paid during taxable year in which student is enrolled in one of first two years of post-secondary education.
Maximum credit is reduced by federal grants.	Same
Amount of credit limited to tuition and required fees actually paid (e.g., less all grants and scholarships).	Same
Must earn B- GPA in 13th year to qualify for credit in 14th year.	[Must obtain a B- GPA for all post-secondary course work begun in prior years] -- or -- [~~must obtain a B- GPA for all courses~~ beginning in first year in which credit claimed to qualify for second year's credit]
Must not have felony drug conviction	Same

Deduction--Current Parameters	**Deduction--Simplified Parameters**
Maximum $10,000 deduction per family per year.	Same
Deduction limited to tuition and required fees actually paid (e.g., less all grants and scholarships).	Same
To claim the deduction, the student must be enrolled at least half-time in a degree or certificate program or taking course to improve job skills.	Deduction is available for any tuition paid during taxable year if the student is enrolled at least half-time in a degree or certificate program for any academic period in current taxable year or beginning in first three months of next taxable year (provided tuition paid in current taxable year), or for any course to improve job skills.
Deduction available to parent if student eligible to be claimed as dependent. Otherwise available to student.	Same
Credit is phased out for MAGI of between $80,000 and $100,000	Same

Form 1099 HE 1999

Name of institution ______________________ EIN ________________

Taxpayer's Social Security Number ______________________

Name Address

Student will have to supply SSN to institution

Student's Name (if different from taxpayer's) ______________________

Student's Social Security Number ______________________

1 Payments of tuition and required fees during 1999 by, or on behalf of, student from sources other than grants or scholarships or employers for semester, etc., beginning in 1999 or the first three months of 2000.

$__ __ , __ __ __

2 Check box if any line 1 payments were for a semester, etc., during which student was enrolled at least half-time in the first or second academic year of post-secondary education that was part of a degree or certificate program.

☐

3 Check box if student completed two academic years of post-secondary education prior to enrollment in the first academic period covered by this 1099 HE.

☐

If the line 3 box is checked, the remainder of this form need not be completed.

4 Check box if student completed one academic year of post-secondary education prior to enrollment in any course of instruction for which a line 1 payment was made.

☐

5 Federal grants allocable to semester(s), etc., for which line 1 payments were made.

$__ , __ __ __

6 The lesser of line 1 or $1,500 minus line 5.

$__ , __ __ __

Instructions for Form 1099 HE

1 Payments made from the proceeds of loans are included in line 1. Payments made by employers are excluded to the extent they are excluded from the employee's income. All grants and scholarships are treated as payment first for tuition and required fees, even if nominally designated for another purpose, e.g., room and board. Exempt Savings Bond interest is treated as a grant.

2 Pell and SEOG grants are included in line 5. Payments for work study are not included If a single payment from a federal grant is made for academic periods for which line 1 payments were made and other academic periods, the federal grant must be appropriately allocated to the periods for which line 1 payments were made.

Instructions for this1099 will have to be based on detailed IRS guidance regarding definition of terms and addressing unusual circumstances

Taxpayer name ______________________ Taxpayer Social Security Number ____________________

Schedule HE-C Tax Credits for Higher Education

Use this schedule for calculating allowable credits for the payment of tuition and required fees for the first two years of post-secondary educatio for the taxpayer, the taxpayer's spouse, and any person claimed as a dependent by the taxpayer. If a credit is claimed with respect to any individual student, no deduction can be claimed with respect to that student by any taxpayer. Credits may not be claimed in more than two taxable years with respect to any individual student. Credits are not allowed for taxpayers with modified adjusted gross income of more than $100,000 on a joint return or $70,000 on a single or head of household return. Credits are not allowed on the returns of married persons filing separately or for students who are non-resident aliens or certain drug felons. No student may claim a credit on a return if the student is eligible to be claimed as a dependent on the return of any other person. All claims for credits must be supported by Form 1099) attached to this schedule. A credit may be claimed for an individual student only if the line 2 box is checked on at least one Form 1099 HE for 1999. If the line 3 box is checked, no credit may be claimed. If the line 4 box on any 1099 HE is checked, or if this is the second year for which a credit is being claimed for a student, the student must have earned a B- grade average (2.75 on a 4 point scale), or the equivalent thereof, during the student's first year of post-secondary education and evidence thereof must be maintained in the taxpayer's records.

1 First student's name ______________________ Social Security number ______________________

Name of institution supplying 1099 HE	Institution's EIN	1099 HE line 6 amount	
a ____________________	____________________	$__ , ___	
b ____________________	____________________	$__ , ___	
c ____________________	____________________	$__ , ___	
d Enter the sum of lines a, b, and c.			$__ , ___
e Enter the lesser of line d or $1,500			$__ , ___

2 Second student's name ______________________ Social Security number ______________________

Name of institution supplying 1099 HE	Institution's EIN	1099 HE line 6 amount	
a ____________________	____________________	$__ , ___	
b ____________________	____________________	$__ , ___	
c ____________________	____________________	$__ , ___	
d Enter the sum of lines a, b, and c.			$__ , ___
e Enter the lesser of line d or $1,500			$__ , ___

3 Third student's name ______________________ Social Security number ______________________

Name of institution supplying 1099 HE	Institution's EIN	1099 HE line 6 amount	
a ____________________	____________________	$__ , ___	
b ____________________	____________________	$__ , ___	
c ____________________	____________________	$__ , ___	
d Enter the sum of lines a, b, and c.			$__ , ___
e Enter the lesser of line d or $1,500			$__ , ___

4 Fourth student's name ______________________ Social Security number ______________________

Name of institution supplying 1099 HE	Institution's EIN	1099 HE line 6 amount	
a ____________________	____________________	$__ , ___	
b ____________________	____________________	$__ , ___	
c ____________________	____________________	$__ , ___	
d Enter the sum of lines a, b, and c.			$__ , ___
e Enter the lesser of line d or $1,500			$__ , ___

5 Potential credit. Enter the sum of 1e, 2e, 3e, and 4e. $__ , ___

Schedule HE-C Tax Credits for Higher Education

Application of phase-out ratio

6 Adjusted gross income (from line xx, Form 1040) $__ , ___
7 Income excluded by reason of sections 911, 931, and 933 (see instructions) $__ , ___
8 Modified adjusted gross income: add lines 6 and 7 $__ , ___

> If your line 8 amount is $50,000 or less ($80,000 or less for a joint return), enter the amount on line 5 on line yy of your Form 1040 and do not complete the rest of this page.
>
> If your line 8 amount is $70,000 or more ($100,000 or more for a joint return), you are ineligible for any credit calculated on this Schedule HE-C or any deduction calculated on Schedule HE-D.

9 Phase-out ratio
(a) Line 8 amount minus $50,000 (80,000 for joint returns) $__ , ___
(b) Divide (a) by $20,000 and enter. If greater than 1.00 no credit may be claimed. __ . __
10 Enter amount from line 5. $__ , ___
11 Multiply line 10 amount by line 9 (b) phase-out ratio. $__ , ___
12 Allowable credit: Subtract line 11 from line 10 and enter on line yy of your Form 1040. $__ , ___

 Taxpayer name ____________________ Taxpayer Social Security Number ____________________

Schedule HE-D Deductions for Higher Education

Use this schedule for calculating allowable deductions for the payment of tuition and required fees for any period of post-secondary education for the taxpayer, the taxpayer's spouse, and any person claimed as a dependent by the taxpayer. Deductions are not allowed for taxpayers with adjusted gross income of more than $100,000 on a joint return or $70,000 on a single or head of household return. Deductions are not allowed on the returns of married persons filing separately or for students who are non-resident aliens or certain drug felons. No student may claim a deduction on a return if the student is eligible to be claimed as a dependent on the return of any other person. All claims for deductions must be supported by Form 1099 HE(s) attached to this schedule. Generally, no deduction with respect to an individual student may be claimed unless the box on line 2 of at least one Form 1099 HE for that student has been checked by the issuing institution. If the line 2 box has not been checked, a deduction can only be claimed if the education is related to the student's job or enhances the student's employment-related skills and the taxpayer so indicated by checking the appropriate box on lines 1 - 4. No deduction may be claimed with respect to line 1 amounts on any Form 1099 HE which has been used by the taxpayer or any other person to claim a credit using Schedule HE - C.

		Check if education is job/skill related	Amounts from 1099 HE line 1
1 First student's name ____________________	Social Security number ____________________		
Name of institution supplying 1099 HE	Institution's EIN		
a ____________________	____________________	☐	$__ , ___
b ____________________	____________________	☐	$__ , ___
c ____________________	____________________	☐	$__ , ___
2 Second student's name ____________________	Social Security number ____________________		
Name of institution supplying 1099 HE	Institution's EIN		
a ____________________	____________________	☐	$__ , ___
b ____________________	____________________	☐	$__ , ___
c ____________________	____________________	☐	$__ , ___
3 Third student's name ____________________	Social Security number ____________________		
Name of institution supplying 1099 HE	Institution's EIN		
a ____________________	____________________	☐	$__ , ___
b ____________________	____________________	☐	$__ , ___
c ____________________	____________________	☐	$__ , ___
4 Fourth student's name ____________________	Social Security number ____________________		
Name of institution supplying 1099 HE	Institution's EIN		
a ____________________	____________________	☐	$__ , ___
b ____________________	____________________	☐	$__ , ___
c ____________________	____________________	☐	$__ , ___
5 Enter the sum of all amounts from lines 1 - 4.			$__ , ___
6 Potential deduction: Enter the lesser of line 5 amount or $10,000.			$__ , ___

Schedule HE-D Deductions for Higher Education

Application of phase-out ratio

7 Adjusted gross income (from line xx, Form 1040) $__,___
8 Income excluded by reason of sections 911, 931, and 933 (see instructions) $__,___
9 Modified adjusted gross income: add lines 6 and 7 $__,___

> If your line 9 amount is $50,000 or less ($80,000 or less for a joint return), enter the amount on line 6 on line zz of your Form 1040 and do not complete the rest of this page.
>
> If your line 9 amount is $70,000 or more ($100,000 or more for a joint return), you are ineligible for any deduction calculated on this Schedule HE-D or any credit calculated on Schedule HE-C.

10 Phase-out ratio
(a) Line 9 amount minus $50,000 (80,000 for joint returns) $__,___
(b) Divide (a) by $20,000 and enter. If greater than 1.00 no deduction may be claimed. __.__
11 Enter amount from line 6. $__,___
12 Multiply line 11 amount by line 10 (b) phase-out ratio. $__,___
13 Allowable deduction: Subtract line 12 from line 11 and enter on line zz of your Form 1040. $__,___

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

Dependency status		Benefit received (proper Pell): None	Tax benefit only	Tax benefit and Pell	Pell only	Total
Dependent	Under $10,000	50,757	159,767	117,394	188,287	516,205
		9.8	31.0	22.7	36.5	100.0
	$10,000 to $19,999	76,685	324,115	165,270	257,496	823,566
		9.3	39.4	20.1	31.3	100.0
	$20,000 to $29,999	66,715	519,285	197,862	152,756	936,618
		7.1	55.4	21.1	16.3	100.0
	$30,000 to $39,999	82,299	903,503	106,774	55,612	1,148,188
		7.2	78.7	9.3	4.8	100.0
	$40,000 to $49,999	92,270	1,274,718	49,050	17,987	1,434,025
		6.4	88.9	3.4	1.3	100.0
	$50,000 to $59,999	78,029	1,146,024	14,445	4,800	1,243,298
		6.3	92.2	1.2	.4	100.0
	$60,000 to $69,999	111,107	759,131	3,827	1,334	875,399
		12.7	86.7	.4	.2	100.0
	$70,000 to $79,999	53,920	338,652	736	1,146	394,454
		13.7	85.9	.2	.3	100.0
	$80,000 to $99,999	149,626	306,422	1,157	782	457,987
		32.7	66.9	.3	.2	100.0
	$100,000 and More	586,867			948	587,815
		99.8			.2	100.0
	Total	1,348,275	5,731,617	656,515	681,148	8,417,555
		16.0	68.1	7.8	8.1	100.0
Independent	Under $10,000	251,917	1,038,008	579,239	837,756	2,706,920
		9.3	38.3	21.4	30.9	100.0
	$10,000 to $19,999	289,068	1,706,822	241,005	291,882	2,528,777
		11.4	67.5	9.5	11.5	100.0
	$20,000 to $29,999	327,111	1,653,828	114,991	123,413	2,219,343
		14.7	74.5	5.2	5.6	100.0
	$30,000 to $39,999	267,796	1,403,996	35,895	26,980	1,734,667
		15.4	80.9	2.1	1.6	100.0
	$40,000 to $49,999	160,271	1,041,689	8,367	5,530	1,215,857
		13.2	85.7	.7	.5	100.0
	$50,000 to $59,999	91,593	517,846	1,972	1,034	612,445
		15.0	84.6	.3	.2	100.0
	$60,000 to $69,999	62,263	327,784	574	1,947	392,568
		15.9	83.5	.1	.5	100.0
	$70,000 to $79,999	27,556	209,970	233	242	238,001
		11.6	88.2	.1	.1	100.0
	$80,000 to $99,999	56,191	161,913	279	305	218,688
		25.7	74.0	.1	.1	100.0
	$100,000 and More	122,009			545	122,554
		99.6			.4	100.0
	Total	1,655,775	8,061,856	982,555	1,289,634	11,989,820
		13.8	67.2	8.2	10.8	100.0

Distribution of Dependent Plus Independent Students Enrolled in Postsecondary Education Institutions by Federal Benefit Received and Total Income

	Benefit received (proper Pell): None	Tax benefit only	Tax benefit and Pell	Pell only	Total
Under $10,000	302,674	1,197,775	696,633	1,026,043	3,223,125
	9.4	37.2	21.6	31.8	100.0
$10,000 to $19,999	365,753	2,030,937	406,275	549,378	3,352,343
	10.9	60.6	12.1	16.4	100.0
$20,000 to $29,999	393,826	2,173,113	312,853	276,169	3,155,961
	12.5	68.9	9.9	8.8	100.0
$30,000 to $39,999	350,095	2,307,499	142,669	82,592	2,882,855
	12.1	80.0	4.9	2.9	100.0
$40,000 to $49,999	252,541	2,316,407	57,417	23,517	2,649,882
	9.5	87.4	2.2	.9	100.0
$50,000 to $59,999	169,622	1,663,870	16,417	5,834	1,855,743
	9.1	89.7	.9	.3	100.0
$60,000 to $69,999	173,370	1,086,915	4,401	3,281	1,267,967
	13.7	85.7	.3	.3	100.0
$70,000 to $79,999	81,476	548,622	969	1,388	632,455
	12.9	86.7	.2	.2	100.0
$80,000 to $99,999	205,817	468,335	1,436	1,087	676,675
	30.4	69.2	.2	.2	100.0
$100,000 and More	708,876			1,493	710,369
	99.8			.2	100.0
Total	3,004,050	13,793,473	1,639,070	1,970,782	20,407,375
	14.7	67.6	8.0	9.7	100.0

Table Caption

FULL-TIME

2

Dependency status		Benefit received (proper Pell): None	Tax benefit only	Tax benefit and Pell	Pell only	Total
Dependent	Under $10,000	18,465	102,260	100,111	155,344	376,180
		4.9	27.2	26.6	41.3	100.0
	$10,000 to $19,999	33,613	169,104	144,406	201,064	548,187
		6.1	30.8	26.3	36.7	100.0
	$20,000 to $29,999	42,842	304,287	174,929	128,599	650,657
		6.6	46.8	26.9	19.8	100.0
	$30,000 to $39,999	51,179	587,129	94,679	44,916	777,903
		6.6	75.5	12.2	5.8	100.0
	$40,000 to $49,999	62,434	750,957	43,627	14,985	872,003
		7.2	86.1	5.0	1.7	100.0
	$50,000 to $59,999	57,324	858,867	14,003	3,747	933,941
		6.1	92.0	1.5	.4	100.0
	$60,000 to $69,999	86,508	587,077	3,827	838	678,250
		12.8	86.6	.6	.1	100.0
	$70,000 to $79,999	41,699	278,097	446	360	320,602
		13.0	86.7	.1	.1	100.0
	$80,000 to $99,999	116,156	235,608	534	484	352,782
		32.9	66.8	.2	.1	100.0
	$100,000 and More	463,167			948	464,115
		99.8			.2	100.0
	Total	973,387	3,873,386	576,562	551,285	5,974,620
		16.3	64.8	9.7	9.2	100.0
Independent	Under $10,000	133,070	532,535	456,635	589,110	1,711,350
		7.8	31.1	26.7	34.4	100.0
	$10,000 to $19,999	134,650	590,689	169,708	153,588	1,048,635
		12.8	56.3	16.2	14.6	100.0
	$20,000 to $29,999	88,634	362,503	68,981	64,689	584,807
		15.2	62.0	11.8	11.1	100.0
	$30,000 to $39,999	51,830	282,370	22,551	15,557	372,308
		13.9	75.8	6.1	4.2	100.0
	$40,000 to $49,999	22,344	172,149	6,890	2,574	203,957
		11.0	84.4	3.4	1.3	100.0
	$50,000 to $59,999	14,736	87,081	1,114	550	103,481
		14.2	84.2	1.1	.5	100.0
	$60,000 to $69,999	6,717	51,371		1,161	59,249
		11.3	86.7		2.0	100.0
	$70,000 to $79,999	4,579	28,151		242	32,972
		13.9	85.4		.7	100.0
	$80,000 to $99,999	9,884	30,638	279	249	41,050
		24.1	74.6	.7	.6	100.0
	$100,000 and More	25,726			304	26,030
		98.8			1.2	100.0
	Total	492,170	2,137,487	726,158	828,024	4,183,839
		11.8	51.1	17.4	19.8	100.0

2

		Benefit received (proper Pell): None	Tax benefit only	Tax benefit and Pell	Pell only	Total
	Under $10,000	151,535	634,795	556,746	744,454	2,087,530
		7.3	30.4	26.7	35.7	100.0
	$10,000 to $19,999	168,263	759,793	314,114	354,652	1,596,822
		10.5	47.6	19.7	22.2	100.0
	$20,000 to $29,999	131,476	666,790	243,910	193,288	1,235,464
		10.6	54.0	19.7	15.6	100.0
	$30,000 to $39,999	103,009	869,499	117,230	60,473	1,150,211
		9.0	75.6	10.2	5.3	100.0
	$40,000 to $49,999	84,778	923,106	50,517	17,559	1,075,960
		7.9	85.8	4.7	1.6	100.0
	$50,000 to $59,999	72,060	945,948	15,117	4,297	1,037,422
		6.9	91.2	1.5	.4	100.0
	$60,000 to $69,999	93,225	638,448	3,827	1,999	737,499
		12.6	86.6	.5	.3	100.0
	$70,000 to $79,999	46,278	306,248	446	602	353,574
		13.1	86.6	.1	.2	100.0
	$80,000 to $99,999	126,040	266,246	813	733	393,832
		32.0	67.6	.2	.2	100.0
	$100,000 and More	488,893			1,252	490,145
		99.7			.3	100.0
Total		1,465,557	6,010,873	1,302,720	1,379,309	10,158,459
		14.4	59.2	12.8	13.6	100.0

PART-TIME, AT LEAST HALF-TIME 3

Dependency status		Benefit received (proper Pell) None	Tax benefit only	Tax benefit and Pell	Pell only	Total
Dependent	Under $10,000	16,242	33,816	12,292	23,308	85,658
		19.0	39.5	14.4	27.2	100.0
	$10,000 to $19,999	20,953	88,011	13,515	36,965	159,444
		13.1	55.2	8.5	23.2	100.0
	$20,000 to $29,999	7,695	123,620	15,082	15,652	162,049
		4.7	76.3	9.3	9.7	100.0
	$30,000 to $39,999	17,537	169,457	8,889	6,798	202,681
		8.7	83.6	4.4	3.4	100.0
	$40,000 to $49,999	16,292	272,460	3,924	2,085	294,761
		5.5	92.4	1.3	.7	100.0
	$50,000 to $59,999	10,580	149,958	442	1,053	162,033
		6.5	92.5	.3	.6	100.0
	$60,000 to $69,999	12,340	90,844		242	103,426
		11.9	87.8		.2	100.0
	$70,000 to $79,999	6,117	41,665	290	488	48,560
		12.6	85.8	.6	1.0	100.0
	$80,000 to $99,999	22,893	38,633	192	298	62,016
		36.9	62.3	.3	.5	100.0
	$100,000 and More	76,269				76,269
		100.0				100.0
	Total	206,918	1,008,464	54,626	86,889	1,356,897
		15.2	74.3	4.0	6.4	100.0
Independent	Under $10,000	60,490	226,702	94,033	202,467	583,692
		10.4	38.8	16.1	34.7	100.0
	$10,000 to $19,999	62,765	458,309	57,788	115,166	694,028
		9.0	66.0	8.3	16.6	100.0
	$20,000 to $29,999	83,967	446,165	34,811	48,643	613,586
		13.7	72.7	5.7	7.9	100.0
	$30,000 to $39,999	69,728	343,701	10,561	9,544	433,534
		16.1	79.3	2.4	2.2	100.0
	$40,000 to $49,999	33,656	253,414	1,477	2,313	290,860
		11.6	87.1	.5	.8	100.0
	$50,000 to $59,999	20,241	129,517	858	484	151,100
		13.4	85.7	.6	.3	100.0
	$60,000 to $69,999	10,713	75,510	574	786	87,583
		12.2	86.2	.7	.9	100.0
	$70,000 to $79,999	7,085	53,754	233		61,072
		11.6	88.0	.4		100.0
	$80,000 to $99,999	13,091	29,316		56	42,463
		30.8	69.0		.1	100.0
	$100,000 and More	26,648			241	26,889
		99.1			.9	100.0
	Total	388,384	2,016,388	200,335	379,700	2,984,807
		13.0	67.6	6.7	12.7	100.0

3

	Benefit received (proper Pell) None	Tax benefit only	Tax benefit and Pell	Pell only	Total
Under $10,000	76,732	260,518	106,325	225,775	669,350
	11.5	38.9	15.9	33.7	100.0
$10,000 to $19,999	83,718	546,320	71,303	152,131	853,472
	9.8	64.0	8.4	17.8	100.0
$20,000 to $29,999	91,662	569,785	49,893	64,295	775,635
	11.8	73.5	6.4	8.3	100.0
$30,000 to $39,999	87,265	513,158	19,450	16,342	636,215
	13.7	80.7	3.1	2.6	100.0
$40,000 to $49,999	49,948	525,874	5,401	4,398	585,621
	8.5	89.8	.9	.8	100.0
$50,000 to $59,999	30,821	279,475	1,300	1,537	313,133
	9.8	89.3	.4	.5	100.0
$60,000 to $69,999	23,053	166,354	574	1,028	191,009
	12.1	87.1	.3	.5	100.0
$70,000 to $79,999	13,202	95,419	523	488	109,632
	12.0	87.0	.5	.4	100.0
$80,000 to $99,999	35,984	67,949	192	354	104,479
	34.4	65.0	.2	.3	100.0
$100,000 and More	102,917			241	103,158
	99.8			.2	100.0
Total	595,302	3,024,852	254,961	466,589	4,341,704
	13.7	69.7	5.9	10.7	100.0

PART-TIME, LESS THAN ½ TIME

4

Dependency status		Benefit received (proper Pell)				
		None	Tax benefit only	Tax benefit and Pell	Pell only	Total
Dependent	Under $10,000	13,860	21,936	1,170	5,129	42,095
		32.9	52.1	2.8	12.2	100.0
	$10,000 to $19,999	19,424	59,195	2,590	10,563	91,772
		21.2	64.5	2.8	11.5	100.0
	$20,000 to $29,999	13,814	72,364	4,146	5,177	95,501
		14.5	75.8	4.3	5.4	100.0
	$30,000 to $39,999	9,962	127,435	1,897	2,441	141,735
		7.0	89.9	1.3	1.7	100.0
	$40,000 to $49,999	9,508	227,312	975	249	238,044
		4.0	95.5	.4	.1	100.0
	$50,000 to $59,999	7,814	113,007			120,821
		6.5	93.5			100.0
	$60,000 to $69,999	11,202	71,525		254	82,981
		13.5	86.2		.3	100.0
	$70,000 to $79,999	5,330	16,788		298	22,416
		23.8	74.9		1.3	100.0
	$80,000 to $99,999	9,950	25,681			35,631
		27.9	72.1			100.0
	$100,000 and More	40,180				40,180
		100.0				100.0
	Total	141,044	735,243	10,778	24,111	911,176
		15.5	80.7	1.2	2.6	100.0
Independent	Under $10,000	47,511	247,064	11,121	32,430	338,126
		14.1	73.1	3.3	9.6	100.0
	$10,000 to $19,999	78,971	574,419	6,789	17,148	677,327
		11.7	84.8	1.0	2.5	100.0
	$20,000 to $29,999	137,175	757,124	8,097	8,784	911,180
		15.1	83.1	.9	1.0	100.0
	$30,000 to $39,999	128,285	674,803	2,083	700	805,871
		15.9	83.7	.3	.1	100.0
	$40,000 to $49,999	92,001	534,041		523	626,565
		14.7	85.2		.1	100.0
	$50,000 to $59,999	49,663	268,369			318,032
		15.6	84.4			100.0
	$60,000 to $69,999	42,183	176,779			218,962
		19.3	80.7			100.0
	$70,000 to $79,999	14,290	108,813			123,103
		11.6	88.4			100.0
	$80,000 to $99,999	28,329	95,389			123,718
		22.9	77.1			100.0
	$100,000 and More	62,371				62,371
		100.0				100.0
	Total	680,779	3,436,801	28,090	59,585	4,205,255
		16.2	81.7	.7	1.4	100.0

4

		Benefit received (proper Pell)				
		None	Tax benefit only	Tax benefit and Pell	Pell only	Total
	Under $10,000	61,371	269,000	12,291	37,559	380,221
		16.1	70.7	3.2	9.9	100.0
	$10,000 to $19,999	98,395	633,614	9,379	27,711	769,099
		12.8	82.4	1.2	3.6	100.0
	$20,000 to $29,999	150,989	829,488	12,243	13,961	1,006,681
		15.0	82.4	1.2	1.4	100.0
	$30,000 to $39,999	138,247	802,238	3,980	3,141	947,606
		14.6	84.7	.4	.3	100.0
	$40,000 to $49,999	101,509	761,353	975	772	864,609
		11.7	88.1	.1	.1	100.0
	$50,000 to $59,999	57,477	381,376			438,853
		13.1	86.9			100.0
	$60,000 to $69,999	53,385	248,304		254	301,943
		17.7	82.2		.1	100.0
	$70,000 to $79,999	19,620	125,601		298	145,519
		13.5	86.3		.2	100.0
	$80,000 to $99,999	38,279	121,070			159,349
		24.0	76.0			100.0
	$100,000 and More	102,551				102,551
		100.0				100.0
Total		821,823	4,172,044	38,868	83,696	5,116,431
		16.1	81.5	.8	1.6	100.0

5

PART-TIME, UNKNOWN

Dependency status		Benefit received (proper Pell): None	Tax benefit only	Tax benefit and Pell	Pell only	Total
Dependent	Under $10,000	197	1,533	1,872	524	4,126
		4.8	37.2	45.4	12.7	100.0
	$10,000 to $19,999	260	6,640	747	1,922	9,569
		2.7	69.4	7.8	20.1	100.0
	$20,000 to $29,999	848	17,521	1,424	631	20,424
		4.2	85.8	7.0	3.1	100.0
	$30,000 to $39,999	190	18,291			18,481
		1.0	99.0			100.0
	$40,000 to $49,999	1,997	22,474			24,471
		8.2	91.8			100.0
	$50,000 to $59,999	412	22,266			22,678
		1.8	98.2			100.0
	$60,000 to $69,999	262	9,139			9,401
		2.8	97.2			100.0
	$70,000 to $79,999		1,708			1,708
			100.0			100.0
	$80,000 to $99,999	475	5,334			5,809
		8.2	91.8			100.0
	$100,000 and More	6,660				6,660
		100.0				100.0
	Total	11,301	104,906	4,043	3,077	123,327
		9.2	85.1	3.3	2.5	100.0
Independent	Under $10,000	4,169	28,842	5,263	2,059	40,333
		10.3	71.5	13.0	5.1	100.0
	$10,000 to $19,999	9,867	77,620	1,768	2,133	91,388
		10.8	84.9	1.9	2.3	100.0
	$20,000 to $29,999	15,601	84,602	1,427	357	101,987
		15.3	83.0	1.4	.4	100.0
	$30,000 to $39,999	15,143	102,372	356	228	118,099
		12.8	86.7	.3	.2	100.0
	$40,000 to $49,999	10,953	81,033		120	92,106
		11.9	88.0		.1	100.0
	$50,000 to $59,999	6,202	32,005			38,207
		16.2	83.8			100.0
	$60,000 to $69,999	2,650	23,383			26,033
		10.2	89.8			100.0
	$70,000 to $79,999	1,602	17,107			18,709
		8.6	91.4			100.0
	$80,000 to $99,999	4,887	6,570			11,457
		42.7	57.3			100.0
	$100,000 and More	7,191				7,191
		100.0				100.0
	Total	78,265	453,534	8,814	4,897	545,510
		14.3	83.1	1.6	.9	100.0

Crosstabs

5

		Benefit received (proper Pell): None	Tax benefit only	Tax benefit and Pell	Pell only	Total
	Under $10,000	4,366	30,375	7,135	2,583	44,459
		9.8	68.3	16.0	5.8	100.0
	$10,000 to $19,999	10,127	84,260	2,515	4,055	100,957
		10.0	83.5	2.5	4.0	100.0
	$20,000 to $29,999	16,449	102,123	2,851	988	122,411
		13.4	83.4	2.3	.8	100.0
	$30,000 to $39,999	15,333	120,663	356	228	136,580
		11.2	88.3	.3	.2	100.0
	$40,000 to $49,999	12,950	103,507		120	116,577
		11.1	88.8		.1	100.0
	$50,000 to $59,999	6,614	54,271			60,885
		10.9	89.1			100.0
	$60,000 to $69,999	2,912	32,522			35,434
		8.2	91.8			100.0
	$70,000 to $79,999	1,602	18,815			20,417
		7.8	92.2			100.0
	$80,000 to $99,999	5,362	11,904			17,266
		31.1	68.9			100.0
	$100,000 and More	13,851				13,851
		100.0				100.0
Total		89,566	558,440	12,857	7,974	668,837
		13.4	83.5	1.9	1.2	100.0

{MISSING, BLANK}

7

Dependency status		None	Tax benefit only	Tax benefit and Pell	Pell only	Total
		Benefit received (proper Pell)				
Dependent	Under $10,000	1,993	222	1,949	3,982	8,146
		24.5	2.7	23.9	48.9	100.0
	$10,000 to $19,999	2,435	1,165	4,012	6,982	14,594
		16.7	8.0	27.5	47.8	100.0
	$20,000 to $29,999	1,516	1,493	2,281	2,697	7,987
		19.0	18.7	28.6	33.8	100.0
	$30,000 to $39,999	3,431	1,191	1,309	1,457	7,388
		46.4	16.1	17.7	19.7	100.0
	$40,000 to $49,999	2,039	1,515	524	668	4,746
		43.0	31.9	11.0	14.1	100.0
	$50,000 to $59,999	1,899	1,926			3,825
		49.6	50.4			100.0
	$60,000 to $69,999	795	546			1,341
		59.3	40.7			100.0
	$70,000 to $79,999	774	394			1,168
		66.3	33.7			100.0
	$80,000 to $99,999	152	1,166	431		1,749
		8.7	66.7	24.6		100.0
	$100,000 and More	591				591
		100.0				100.0
	Total	15,625	9,618	10,506	15,786	51,535
		30.3	18.7	20.4	30.6	100.0
Independent	Under $10,000	6,677	2,865	12,187	11,690	33,419
		20.0	8.6	36.5	35.0	100.0
	$10,000 to $19,999	2,815	5,785	4,952	3,847	17,399
		16.2	33.2	28.5	22.1	100.0
	$20,000 to $29,999	1,734	3,434	1,675	940	7,783
		22.3	44.1	21.5	12.1	100.0
	$30,000 to $39,999	2,810	750	344	951	4,855
		57.9	15.4	7.1	19.6	100.0
	$40,000 to $49,999	1,317	1,052			2,369
		55.6	44.4			100.0
	$50,000 to $59,999	751	874			1,625
		46.2	53.8			100.0
	$60,000 to $69,999		741			741
			100.0			100.0
	$70,000 to $79,999		2,145			2,145
			100.0			100.0
	$100,000 and More	73				73
		100.0				100.0
	Total	16,177	17,646	19,158	17,428	70,409
		23.0	25.1	27.2	24.8	100.0

/

		None	Tax benefit only	Tax benefit and Pell	Pell only	Total
		Benefit received (proper Pell)				
	Under $10,000	8,670	3,087	14,136	15,672	41,565
		20.9	7.4	34.0	37.7	100.0
	$10,000 to $19,999	5,250	6,950	8,964	10,829	31,993
		16.4	21.7	28.0	33.8	100.0
	$20,000 to $29,999	3,250	4,927	3,956	3,637	15,770
		20.6	31.2	25.1	23.1	100.0
	$30,000 to $39,999	6,241	1,941	1,653	2,408	12,243
		51.0	15.9	13.5	19.7	100.0
	$40,000 to $49,999	3,356	2,567	524	668	7,115
		47.2	36.1	7.4	9.4	100.0
	$50,000 to $59,999	2,650	2,800			5,450
		48.6	51.4			100.0
	$60,000 to $69,999	795	1,287			2,082
		38.2	61.8			100.0
	$70,000 to $79,999	774	2,539			3,313
		23.4	76.6			100.0
	$80,000 to $99,999	152	1,166	431		1,749
		8.7	66.7	24.6		100.0
	$100,000 and More	664				664
		100.0				100.0
Total		31,802	27,264	29,664	33,214	121,944
		26.1	22.4	24.3	27.2	100.0

Credit Amt (for eligibles) Pell Amt Received * Total Income by 10

Total Income by 10		Credit Amt (for eligibles)	Pell Amt Received
Under $10,000	N	477,991	1,719,058
	Mean	691	1,757
$10,000 to $19,999	N	708,841	953,930
	Mean	702	1,563
$20,000 to $29,999	N	710,777	588,266
	Mean	685	1,220
$30,000 to $39,999	N	770,844	224,866
	Mean	792	965
$40,000 to $49,999	N	812,505	80,296
	Mean	805	939
$50,000 to $59,999	N	545,581	22,205
	Mean	941	1,098
$60,000 to $69,999	N	341,404	7,440
	Mean	1,028	1,235
$70,000 to $79,999	N	179,609	2,124
	Mean	972	1,448
$80,000 to $99,999	N	115,357	2,331
	Mean	421	1,961
$100,000 and More	N		1,493
	Mean		1,961
Total	N	4,662,909	3,602,009
	Mean	787	1,545

NPSAS Aged Tabs
FR AND SO UNDERGRADUATE STUDENTS WITH POSITIVE CREDIT
INDEPENDENT NON-JOINT W/O DEPENDENTS

STUDENTS IN 1000S

(1997 LEVELS OF INCOME)

	DEPT FULL TIME*	DEPT PART TIME GE HALF	DEPT OTHER	DEPT TOTAL	INDEPT FULL TIME*	INDEPT PART TIME GE HALF	INDEPT OTHER	INDEPT TOTAL	Refundablity Status of student's credit
MISSING					1	0	0	1	
LESS THAN $5,000					68	21	0	89	All
$5,000 - $10,000					75	32	0	106	Most
$10,000 - $15,000					84	78	0	162	Some
$15,000 - $20,000					98	83	0	181	none
$20,000 PLUS					182	283	0	465	none
TOTAL					508	497	0	1005	

FR AND SO UNDERGRADUATE STUDENTS WITH POSITIVE CREDIT
INDEPENDENT JOINT W/O DEPENDENTS
STUB IS 1991 FAMILY INCOME * 1.229
STUDENTS IN 1000S

(1997 LEVELS OF INCOME)

	DEPT FULL TIME*	DEPT PART TIME GE HALF	DEPT OTHER	DEPT TOTAL	INDEPT FULL TIME*	INDEPT PART TIME GE HALF	INDEPT OTHER	INDEPT TOTAL	
MISSING					0	0	0	0	
LESS THAN $5,000					9	4	0	14	
$5,000 - $10,000					11	3	0	14	
$10,000 - $15,000					7	8	0	15	
$15,000 - $20,000					12	9	0	21	
$20,000 PLUS					158	197	0	355	
TOTAL					196	222	0	419	very little refundability

FR AND SO UNDERGRADUATE STUDENTS WITH POSITIVE CREDIT
INDEPENDENT NON-JOINT WITH DEPENDENTS
STUB IS 1991 FAMILY INCOME * 1.229
STUDENTS IN 1000S

(1997 LEVELS OF INCOME)

	DEPT FULL TIME*	DEPT PART TIME GE HALF	DEPT OTHER	DEPT TOTAL	INDEPT FULL TIME*	INDEPT PART TIME GE HALF	INDEPT OTHER	INDEPT TOTAL	
MISSING					0	0	0	0	
LESS THAN $5,000					41	17	0	59	All
$5,000 - $10,000					58	19	0	77	All
$10,000 - $15,000					31	12	0	43	Almost All
$15,000 - $20,000					25	24	0	49	Almost All
$20,000 PLUS					46	79	0	125	small 20-40 otherwise no
TOTAL					202	151	0	353	

FR AND SO UNDERGRADUATE STUDENTS WITH POSITIVE CREDIT
INDEPENDENT JOINT WITH DEPENDENTS
STUB IS 1991 FAMILY INCOME * 1.229
STUDENTS IN 1000S

(1997 LEVELS OF INCOME)

	DEPT FULL TIME*	DEPT PART TIME GE HALF	DEPT OTHER	DEPT TOTAL	INDEPT FULL TIME*	INDEPT PART TIME GE HALF	INDEPT OTHER	INDEPT TOTAL	
MISSING					0	0	0	0	
LESS THAN $5,000					5	1	0	6	All
$5,000 - $10,000					9	9	0	18	All
$10,000 - $15,000					7	9	0	16	All
$15,000 - $20,000					14	16	0	30	All
$20,000 PLUS					200	323	0	523	significant 20-30 otherwise small
TOTAL					235	358	0	593	

Table I

Robert M. Shireman
12/02/96 05:12:07 PM

Record Type: Record

To: Barry White/OMB/EOP, Larry R. Matlack/OMB/EOP

cc: S. A. Noe/OMB/EOP
Subject: Notes from today's meeting

This is where I think we are, and where I think we need to be going, based on today's meeting. Let me know if you disagree (see especially #3).

1. Treasury should go ahead and cost out the simpler approach to the credit (not tracking term-by-term, and prohibiting any mix of credit/deduction in any one year for any one student). ED and DOL should determine whether the effect on part-time students is substantial enough to worry about.

2. ED (with Treasury) needs to complete an analysis of the income distribution of the credit, and particularly the refundable portion of the credit. ED should determine whether Pell Grant changes (increases and/or other formula changes) could benefit the same people who would benefit from refundability (in other words, whether the refundable portion could be shifted into the Pell Grant system).

3. DOL needs to share with ED information about dislocated workers who are not served sufficiently by Pell Grants. Is there any way to address that group within the Pell Grant system? within the tax credit?

GARDNER, CARTON & DOUGLAS

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CHICAGO, ILLINOIS

MEMORANDUM

TO: Sheldon E. Steinbach,
General Counsel for the American Council on Education

FROM: Kathleen M. Nilles KMN
Mildred V. Palmer

DATE: November 26, 1996

SUBJECT: Scholarship for Room and Board as Income to Recipient and Grantor Reporting Requirements

---

Questions Presented:

You have asked us whether an undergraduate scholarship or grant for room and board is includible in the income of the recipient for federal income tax purposes. We have also addressed whether the grantor must file an informational return or perform withholding with regard to the scholarship or grant.

Conclusions:

Scholarships and Grants for Room and Board and Other Incidental Expenses are Treated as Income to Recipient:

Under Section 61(a) of the Internal Revenue Code (Code),[1] gross income includes income from whatever source derived. Code Section 74 indicates that, except as provided in Code Section 117, gross income includes income from prizes and awards. Code Section 117 provides an exclusion from gross income for amounts received as a "qualified scholarship" by an

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[1] Hereinafter all references to Section, §, or Sections, §§, correspond to Sections of the Internal Revenue Code of 1986, as amended, or to the regulations, whether in final, temporary or proposed form promulgated thereunder.

individual who is a candidate for a degree at an educational organization described in Code Section 170(b)(1)(A)(ii).

A "qualified scholarship" is any amount received as a scholarship or fellowship grant to the extent that the individual recipient establishes that, in accordance with the conditions of the grant, such amount was used for "qualified tuition and related expenses." Qualified tuition and related expenses include tuition and fees required for enrollment or attendance, and books, fees, supplies and equipment required for courses of instruction at the educational organization. Qualified tuition and related expenses do not include payments for incidental expenses which are not related expenses. Proposed Treasury Regulation Section 1.117-6(c)(2) indicates that incidental expenses which are not considered to be "related" include room and board, travel, research, clerical help and equipment and other expenses not required for either enrollment of attendance.[2]

Accordingly, amounts received by an undergraduate for room and board are includible in income. However, to the extent that such amounts do not exceed the tax payer's personal exemption and standard deduction, they will not actually be taxed.

Grantors Are Not Currently Required to Report These Payments or Perform Withholding on Non-compensatory Scholarships and Grants for Room and Board:

In Internal Revenue Service ("IRS") Announcement 87-31, 1987-1 C.B. 475 (January 1, 1987), the IRS stated its intention to promulgate regulations to clarify that unless a scholarship or fellowship grant is subject to the provisions of Section 117(c) of the Code (relating to amounts which represent payments for teaching, research or other services by the student as required as a condition of the scholarship or grant), neither the grantor nor the educational organization attended by the recipient (in the case that these entities differ) are required to file an informational return with respect to such grant. To date, final regulations addressing this issue have not been issued. In 1988, the IRS issued Proposed Treasury Regulation Section 1.117-6(g) which, in pertinent part, indicates that information return requirements arising from scholarship payments are covered by Code Section 6041 or the regulations promulgated thereunder.[3]

Code Section 6041 provides that every person engaged in a trade or business and making payments in the course of such trade or business to another person of, among other things,

---

[2] Prior to 1986, both degree students and non degree students receiving scholarships or grants for incidental expenses could also exclude these amounts from income. However, the Tax Reform Act of 1986 limited the Code Section 117 income exclusion to tuition and related expenses. As a result, to the extent that the scholarship or grant may be used for these nonrelated incidental expenses, income will result to the recipient.

[3] This Proposed Treasury Regulation also references the informational reporting requirements of Code Section 6051 related to wage withholding. If Code Section 117(c) applies and the scholarship or grant is made in return for services rendered, the organization would issue a Form W-2 to the recipient and would file Form W-3 with the IRS.

emoluments and incomes of $600 or more in any taxable year must file an informational return setting forth the amount of such payment and the name and address of the recipient of the payment. In this case, the entity would issue a Form 1099 to the recipient. Treasury Regulation Section 1.6041-1(b) indicates that these rules apply to organizations described in Code Section 501(c)(3).

Code Section 6041 and its regulations do not expressly state that a scholarship or grant will be considered a payment subject to Section 6041. However, based on a literal reading of the statute, this result appears likely. Furthermore, Treasury Regulation Section 1.6041-1(d)(3) indicates that prizes and awards that are includible in income under Code Section 74 should be reported on Forms 1099 and 1096. This result appears to conflict with the intention of the IRS as expressed in IRS Announcement 87-31. Nevertheless, this announcement has never been withdrawn. It is possible that the IRS may take a more flexible view on this issue. Should you require, we would be happy to further review this issue for you to determine whether payments which are grants or scholarships should be subject to reporting on Forms 1099.

AMERICAN COUNCIL ON EDUCATION
OFFICE OF THE VICE PRESIDENT & GENERAL COUNSEL

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: 12/2/96

Number of pages: 4

From: ✓ SHELDON ELLIOT STEINBACH

____ WANDA FORD SMITH, Office Manager

____ ROSA M. LOTT-HAWKINS, Administrative Assistant

Message:

____ For SIGN ON by: __________

____ URGENT

✓ Per Our Conversation

____ Per Your Request

____ Your Copy

____ Please Review & Comment

____ For Your Information

9/21/96

☐ Meet w/ Mike on contracts

12/3/96

— Auster 63674

HOPE

- Pell Grants / the poor
- Structure / complexity.

① Design
② Fraud
③ Pell Grant / poor students — increase? mood?
④ 6.5 BPH
⑤ the community

The forms — bad

* Taxpayer's SS#

Positives

* MIT has pass-fail in first year.

Other simplifying ideas:

= Elim. GPA reqt. : "accountability" $2.5 billion / 6 years (out of 42.5)

fine — Credit or deduction — not vary by semester

①

③ on the simpler world. what probs for parents.

- Refundability: Eliminate → P.G. increase...

③ Δ the P.G.

$5.8 of 26 credit ∩ refundability.

* Who are the ones who get refundability

DC: ED/Treasury today?

☐ McPherson agreed over weekend?

Max Chalde

* - Disabled workers have had trouble getting PGs, rehabilitation & supp. Tax may not address w/ a P.G. ?

- All Groups: 3000 + pure
  - adjustments on long on more people...
  - Compare to rehabilitation.

Add'l Issues

- P.G. as mandatory ?
- G.L. bill as a tax credit ? (DOL prefers mand., not tax credit)
  - → Maureen's world - wd. need dramatic restrictions on eligibility.

⇒ w/ Paul on Friday.

⇒ Thurs or Fri

DRAFT

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

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

Notes:

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

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

ED/OPE
26-Nov-96

DRAFT

Robert M. Shireman
11/29/96 10:12:17 AM

Record Type: Record

To:

cc:
Subject: Hope Scholarships - Update

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

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

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

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

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

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

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

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

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

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

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

Simplified Hope Credit Option

$1500 credit for tuition and fees paid during the tax year for *any* half-time-or-more enrollment in a degree or certificate program.

Student is eligible for the first credit if had not completed two years of academic course work prior to the reporting year (the tax filing year).

Student is eligible for the second credit if had not completed two years of academic course work prior to the reporting year, **and** GPA for the first year of course work (or if not completed, whatever courses completed at time of filing) is at least 2.75.[1]

<u>Information that institution would need to provide to student/taxpayer and ED/IRS</u>

- Net[2] tuition and fees paid by the student/family during the year for half-time-or-more enrollment in a degree or certificate program.

- Federal grant aid for half-time-or-more enrollment in a degree or certificate program.

- Did the student complete two years of academic course work prior to the reporting year? (If yes, the student is not eligible for the credit. If the second year was completed during the reporting year, the student is eligible for a first or second credit).

Because the deduction is available for less-than-half-time and non-degree courses (if they improve job skills), reporting would also be needed for:

- Net tuition and fees paid for *all* enrollment in eligible programs.

For confirming grades (in order to get the second credit), there are two choices: (a) institution reports GPA to ED/IRS and student/taxpayer, or (b) student signs declaration of a B- average and maintains records (this option, while reducing demands on the institutions, would have cost implications).

---

[1] In other words, the credit does not need to conform to precise first-year and second-year academic periods. The first and second credits will always precede or include the completion of the second academic year. After the first credit is taken, the grade requirement is triggered. Once the second credit is claimed, in part or in full, no further credits are available.

[2] "Net" equals tuition and fees minus all aid (except loans and work-study).

Simplified Hope Credit Option

$1500 credit for tuition and fees paid during the tax year for *any* half-time-or-more enrollment in a degree or certificate program.

Student is eligible for the first credit if had not completed two years of academic course work prior to the reporting year (the tax filing year).

Student is eligible for the second credit if had not completed two years of academic course work prior to the reporting year, **and** GPA for the first year of course work (or if not completed, whatever courses completed at time of filing) is at least 2.75.[1]

<u>Information that institution would need to provide to student/taxpayer and ED/IRS</u>

- Net[2] tuition and fees paid by the student/family during the year for half-time-or-more enrollment in a degree or certificate program.

- Federal grant aid for half-time-or-more enrollment in a degree or certificate program.

- Did the student complete two years of academic course work prior to the reporting year? (If yes, the student is not eligible for the credit. If the second year was completed during the reporting year, the student is eligible for a first or second credit).

Because the deduction is available for less-than-half-time and non-degree courses (if they improve job skills), reporting would also be needed for:

- Net tuition and fees paid for *all* enrollment in eligible programs.

For confirming grades (in order to get the second credit), there are two choices: (a) institution reports GPA to ED/IRS and student/taxpayer, or (b) student signs declaration of a B- average and maintains records (this option, while reducing demands on the institutions, would have cost implications).

---

[1] In other words, the credit does not need to conform to precise first-year and second-year academic periods. The first and second credits will always precede or include the completion of the second academic year. After the first credit is taken, the grade requirement is triggered. Once the second credit is claimed, in part or in full, no further credits are available.

[2] "Net" equals tuition and fees minus all aid (except loans and work-study).

Form 1099 HE 1999

(a) Student's first academic period beginning in 1999

Name of institution ______________________ EIN ____________________

Taxpayer's Social Security Number ______________________________

Name Address

Student will have to spply SSN to institution

Student's Name (if different from taxpayer's)________________________

Student's Social Security Number ____________________________

1 Enrollment status (F, H or P) [ ]

2 If enrollment is part of a Degree or Certificate program, check box [ ]

3 Payments of tuition and required fees for academic period made during 1999 by, or on behalf of, student from sources other than grants or scholarships or employers.

$__ __ , __ __ __

4 If student's enrollment for this academic period is part of first two years of post-secondary education, check box. [ ]

Complete lines 5 and 6 only if line 4 box has been checked

5 If student has enrolled for one full academic year prior to this academic period, check box. [ ]

6 If line 5 box is checked, check this box if student earned GPA of 2.75 or above, or the equivalent for the first academic year. [ ]

7 Portion of academic year [__.______]

8 Federal grants allocable to academic period. [$__ __ , __ __ __]

(b) **Form 1099 HE 1999**

This four part form would be provided by the institution to the taxpayer by January 31, of the year following the taxable year

Student's second academic period beginning in 1999

Repeat lines 1-8 from above

(c) **Form 1099 HE 1999**

Student's third academic period beginning in 1999

Repeat lines 1-8 from above

(d) **Form 1099 HE 1999**

Student's academic period beginning during the first three months of 2000 for which line 5 payments were made during 1999.

Repeat lines 1-8 from above

Instructions for Form 1099 HE

1 Enrollment Status: F = full-time; H = at least half-time but less than full-time; P = less than half-time. All designations are for the academic period for which the student is enrolled.

if they are not reported as income to the employee.

3 Payments made from the proceeds of loans are included. Payments made by employers are excluded. All grants and scholarships are treated as payment for tuition and required fees, even if nominally designated for another purpose, e.g., room and board.

5 Portion of academic year: See table below for portion of academic year by type of academic period and enrollment status.

Type of academic period	Portion of Academic Year Full-time (F)	Half-time (H)
Semester	0.50	0.25
Trimester	0.50	0.25
Quarter	0.33	0.17
Qualified summer session	0.33	0.17
Programs measured in hours of instruction		
300 but less than 450	0.33	
450 but less than 600	0.50	
600 but less than 750	0.66	
750 but less than 900	0.83	
900 or more	1.00	

6 Pell and SEOG grants are included. Payments for work study are not included. If a single payment from a federal grant is made for more than one academic period, that payment must be allocated to the appropriate academic periods.

Instructions for this 1099 will have to be based on detailed IRS guidance regarding definition of terms and unusual circumstances

Taxpayer name ______________________ Taxpayer Social Security Number______________________

Page 1

Schedule HE -- Tax Credits and Deductions for Higher Education

1999

Use this schedule for calculating allowable credits and deductions for the costs of post-secondary education for the taxpayer, the taxpayer's spouse, and any person claimed as a dependent by the taxpayer. Use a copy of this page 1 for each student for whom a credit or deduction is claimed. Credits and deductions are not allowed for taxpayers with adjusted gross income of more than $100,000 on a joint return or $70,000 on a single or head of household return. Credits and deductions are not allowed on on returns of married persons filing separately or for students who are non-resident aliens or certain drug felons. No student may claim a credit or deduction on a return if the student is eligible to be claimed as a dependent on a parent's return or the return of any other person. Credits may be claimed only with respect to the first two academic years of post-secondary education. In general, credits and deductions can only be claimed with respect to students enrolled at least half-time and who are pursuing a course of study leading to an academic degree or certificate. No credit may be claimed for a student enrolled less than half-time. A deduction may be claimed for a less than half-time student only for courses that are related to the student's job or to enhance the student's job-related skills.

Student's Name ______________________ Social Security Number ______________________

Enter information from Form 1099 HE(s) supplied by educational institution(s)

Attach 1099 HE 1999(s) here

	Academic periods beginning in 1999			Academic period beginning in first 3 mos. of 2000 & paid for in 19
	(a)	(b)	(c)	(d)
1 Name of institution				
2 EIN of institution				

	Academic period reported on 1099 HE			
	(a)	(b)	(c)	(d)
3 Enter enrollment code F, H or P from 1099 HE(s) line 1				
4 Check box if box on 1099 HE(s) line 2 is checked				
5 Enter amount(s) from 1099 HE(s), line 3	$	$	$	$
6 Check box if box on 1099 HE(s)line 4 is checked				
7 For each column copy line 5 amount if box on line 4 is checked and line 3 code is F or H. If line 3 code is P, copy line 5 amount even if box on line 4 is not checked, but only if education is job-related or enhances job-related skills.	$	$	$	$

If claiming a credit for any academic period that is part of the first two years of post-secondary education continue.

If claiming deductions only proceed to page 2.

Do not continue with calculation for any column unless line 3 code is F or H and line 4 and line 6 boxes are checked

Page 1 continued

Calculating credits

8 Enter academic year(s) or portion thereof of post-secondary education completed by student prior to 1999, including any academic period beginning during the first three months of 1999 for which a credit or deduction was claimed by any taxpayer for the 1998 taxable year . This amount is at least equal to the entry on line 10 column d on page 1 of Schedule HE for this student for 1998.

9 Enter amounts from line 7 of 1099 HE(s)

10 Add line 8, column a and line 9, column a.
Add line 10, column a and line 9, column b.
Add line 10, column b and line 9, column c.
Add line 10, column c and line 9, column d.

If line 10 amount in any column is more than 2.00 no credit may be claimed for academic period

11 Check box if box on 1099 HE(s) line 5 is checked

12 Check box if box on 1099 HE(s) line 6 is checked

If line 11 is checked or line 10 amount is more than 1.00, no credit may be claimed unless line 12 is checked

13 Enter federal grants reported on 1099 HE(s) line 8

14 Enter credit amount from table in instructions for portion of academic year reported on line 9 and enrollment status reported on line 5. (see instructions)

15 Enter the lesser of line ~~7~~ 5 or line ~~10~~ 14

16 Enter amounts from line 13

17 Subtract line 16 from line 15. Do not enter if amount is less than zero.

	(a)	(b)	(c)	(d)
8	.			
9	.	.	.	.
10	.	.	.	.
11				
12				
13	$	$	$	$
14	$	$	$	$
15	$	$	$	$
16	$	$	$	$
17	$	$	$	$

Taxpayer name ______________________ Taxpayer Social Security Number______________________

Schedule HE -- Tax Credits and Deductions for Higher Education

1999

TAXPAYER'S SUMMARY OF DEDUCTIONS AND CREDITS FOR POST-SECONDARY EDUCATION

Use this page of Schedule HE to summarize potential deductions and credits for each student for which a page 1 of this schedule has been prepared. For any one student either a credit of a deduction, but not both, may be claimed for a particular academic period. This page is also used to apply the phase-out ratio, if applicable and determine the total deduction and credit amounts you are able to claim on your Form 1040.

	Academic period reported on 1099 HE			
	(a)	(b)	(c)	(d)
Student's name ________________ Social Security Number____________				
18 Potential deduction: copy amounts from line 7, page 1	$	$	$	$
19 Preliminary credits : copy amounts from line 17, page 1	$	$	$	$
Student's name ________________ Social Security Number____________				
20 Potential deduction: copy amounts from line 7, page 1	$	$	$	$
21 Preliminary credits : copy amounts from line 17, page 1	$	$	$	$
Student's name ________________ Social Security Number____________				
22 Potential deduction: copy amounts from line 7, page 1	$	$	$	$
23 Preliminary credits : copy amounts from line 17, page 1	$	$	$	$
Student's name ________________ Social Security Number____________				
24 Potential deduction: copy amounts from line 7, page 1	$	$	$	$
25 Preliminary credits : copy amounts from line 17, page 1	$	$	$	$
26 Potential deductions: add line 18,20,22 and 24 amounts in each column	$	$	$	$
27 Total potential deductions: add 23a, 23b, 23c and 23d	$			
28 Enter the lesser of line 27 or $10,000. (27)	$			
29 Preliminary credits: add line 19,21,23 and 25 amounts in each column	$	$	$	$
30 Total preliminary credits: add 26a, 26b, 26c and 26d	$			

Need additional section to [illegible] from [illegible]

Page 2 continued

APPLICATION OF THE PHASE-OUT RATIO

31	Adjusted gross income (from line xx from Form 1040)	$
32	Income excluded by reason of sections 911, 931, and 933 (see instructions)	$
33	Modified adjusted gross income: add lines 32 and 33.	$

If your line 33 amount is $50,000 or less, $80,000 or less for a joint return, enter the amount on line 28 on line yy of your Form 1040 and the amount on line 30 on line zz of your Form 1040 and do not complete the rest of this page.

If your line 33 amount is more than $70,000, $100,000 for a joint return, you are ineligible for any deductions or credits calculated on this Schedule HE.

34	(a) Phase-out ratio: line 33 amount minus $50,000 ($80,000 for joint returns)	$
	(b) Divide (a) by $20,000 and enter.	___.___

If this ratio is greater than 1.00 no deduction or credit can be claimed.

35	Enter amount from line 28.	$
36	Multiply line 35 amount by line 34 phase-out ratio.	$
37	Allowable deduction: subtract line 36 amount from line 35 amount and enter on line yy of your Form 1040.	$
38	Enter amount from line 30.	$
39	Multiply line 38 amount by line 34 phase-out ratio.	$
40	Allowable credit: subtract line 39 amount from line 38 amount and enter on line zz of your Form 1040.	$

INSTRUCTION FOR SCHEDULE HE

1. Table to be used for claiming credits

Academic period	Full-time enrollment status: Portion of academic year from 1099 EH line 7	Full-time enrollment status: Maximum credit for use on line 14	At least half-time enrollment status: Portion of academic year from 1099 EH line 7	At least half-time enrollment status: Maximum credit for use on line 14
Semester	0.50	$750	0.25	$375
Trimester	0.50	$750	0.25	$375
Quarter	0.33	$500	0.17	$250
Qualified summer session	0.33	$500	0.17	$250
Programs measured in hours of instruction				
300 but < 450	0.33	$500		
450 but < 600	0.50	$750		
600 but < 750	0.66	$1,000		
750 but < 900	0.83	$1,250		
at least 900	1.00	$1,500		

In addition to walking the taxpayer through Schedule HE, line-by-line, the instructions will have to explain at least the following:

1 Reference to Form 1099 HE and how data from that form relate to Schedule HE.

2 Institution has to have indicated on the Form 1099 HE that it is a qualified educational institution

3 Rules about qualified education

a. Must be part of degree or certificate program
b. Cannot be for sports or recreation unless part of a degree program
c. Only job-related or skill enhancing education is eligible for deduction for less than half-time students.

4 What full-time and at least half-time means

5 Eligible students

a. No non-resident aliens
b. No high school students
c. No convicted drug felons
d. B- average rule for second year credits and what to do if institution does not use a 4 point grading scale

6 What payments count for line 2 amounts

a. Loan proceeds do count
b. Grants and scholarships from any source do not count. Work-study payments are not aid for this purpose.
c. What tuition and required fees means
d. Tax-free Savings Bond interest under section 135 does not count
e. Employer-paid tuition and fees under section 127 do not count unless they exceed $5,250
f. Under certain circumstances, payments to foreign educational institutions count
g. What happens of gramdma pays junior's tuition bill. Do Dad and Mom get to count the amount?

7 Explain treatment of Pell grants and other federal assistance

a. What to do if Pell grants in taxable year cover education in another taxable year
b. What the scope of "other federal assistance" is

8 Treatment of insurance reimbursements of tuition for, e.g., sick students

9 Treatment of refunds by institutions, e.g., necessity to file amended returns

10 Definition of qualified summer session

11 Determining on a student by student, academic period by academic period basis whether the credit or the deduction giver the taxpayer a greater tax savings is an extremely complicated problem.

Additional Implementation Measures

1) Certification Form: A form would be prepared for a student to use when providing his/her social security number, the address and social security numbers of the taxpayers who can claim the student as a dependent, and any Privacy Act waivers necessary to allow the school to report academic information about the student.

2) Enrollment year as of effective date: The IRS would have to publish a notice establishing the enrollment year of students who have already had some postsecondary education at the time the legislation went into effect. The notice would contain a detailed table showing how students to convert the type of academic period at an institution into decimals (e.g. a semester is .50) and add them together to establish whether a student had depleted his/her eligibility for the credit.

3) Temporary incompletes, missing grades, pass/fail systems: Regulations would prescribe to institutions how to calculate the GPA of a student who takes a temporary incomplete in a course, has not yet received a grade from a professor or has been graded strictly on a pass/fail system. These rules would be necessary to apply the B- requirement for the second year of the credit.

4) Department of Justice checks drug felony records: The Department of Justice would be asked to determine whether students applying for the credit had drug felony records. The checks would need to be swift so as not to delay taxpayer refunds.

5) Department of Education checks eligibility of institution: The Department of Education would provide a tape of the employer identification numbers of eligible institutions that could be used for compliance purposes.

6) Allocation rule for scholarships and fellowships: The revenue estimate assumes that any scholarships or fellowships received are used first to offset tuition and fees and then for any additional costs of attendance. This assumption would have to be added to the proposed legislation or the legislative history to support a future regulation.

Example 1 - The Browns, a moderate income family

The Brown family has two children, one at the state university and one at the local community college. The state university student is a second-semester freshman in the spring of 1999 and a first-semester sophomore in the fall of 1999. He pays $3,000 in tuition each semester and also receives a $1,000 Pell grant for each semester. He maintained a B average in his freshman year. The community college student is a freshman in the fall of 1999. She pays $1,000 in tuition per semester and receives a $500 Pell grant. The Browns have $30,000 in modified AGI. Their children rely on student loans and some small gifts from their grandparents to pay their tuition.

The Schedule HE shows that the Browns can either deduct $7,000 in tuition expenses (worth $1050 in tax savings) or take a $250 credit for the freshman's expenses and deduct $6,000 of the sophomore's expenses (worth $1150 in tax savings). Their decision will depend upon how much taxable income they have left after personal exemptions and standard deductions. Because the tuition credit is refundable and stacked ahead of the EITC, they will probably prefer the second option.

Form 1099 HE 1999

(a) Student's first academic period beginning in 1999

Name of institution Hometown U EIN 33 - 777 7777

Taxpayer's Social Security Number 123-45-6789

Name Mr Brown
Address

Student will have to supply SSN to institution

Student's Name (if different from taxpayer's) Sophimore Brown ~~123-45-6789~~

Student's Social Security Number 888 - 88 - 8888

1 Enrollment status (F, H or P) $\boxed{F}$

2 If enrollment is part of a Degree or Certificate program, check box $\boxed{\checkmark}$

3 Payments of tuition and required fees for academic period made during 1999 by, or on behalf of, student from sources other than grants or scholarships or employers.

$\boxed{\$\ 3,000}$

4 If student's enrollment for this academic period is part of first two years of post-secondary education, check box. $\boxed{\checkmark}$

Complete lines 5 and 6 only if line 4 box has been checked

5 If student has enrolled for one full academic year prior to this academic period, check box. [ ]

6 If line 5 box is checked, check this box if student earned GPA of 2.75 or above, or the equivalent for the first academic year. [ ]

7 Portion of academic year $\boxed{.50}$

8 Federal grants allocable to academic period. \$ 1,000

(b) **Form 1099 HE 1999**

Student's second academic period beginning in 1999

Repeat lines 1-8 from above

This four part form would be provided by the institution to the taxpayer by January 31, of the year following the taxable year

1. F
2. $\boxed{\checkmark}$
3. \$3,000
4. $\boxed{\checkmark}$
5. $\boxed{\checkmark}$
6. $\boxed{\checkmark}$
7. .50
8. \$1,000

(c) **Form 1099 HE 1999**

Student's third academic period beginning in 1999

Repeat lines 1-8 from above

(d) **Form 1099 HE 1999**

Student's academic period beginning during the first three months of 2000 for which line 3 payments were made during 1999.

Repeat lines 1-8 from above

Form 1099 HE 1999

(a) Student's first academic period beginning in 1999

Name of institution Local Community College EIN 22 - 777-7777

Taxpayer's Social Security Number 123 - 45 - 6789

Name Mr Brown Address

Student will have to supply SSN to institution

Student's Name (if different from taxpayer's) Freshman Brown

Student's Social Security Number 999 - 99 - 9999

1 Enrollment status (F, H or P) F

2 If enrollment is part of a Degree or Certificate program, check box ✓

3 Payments of tuition and required fees for academic period made during 1999 by, or on behalf of, student from sources other than grants or scholarships or employers.

$ 1,000

4 If student's enrollment for this academic period is part of first two years of post-secondary education, check box. ✓

Complete lines 5 and 6 only if line 4 box has been checked

5 If student has enrolled for one full academic year prior to this academic period, check box.

6 If line 5 box is checked, check this box if student earned GPA of 2.75 or above, or the equivalent for the first academic year.

7 Portion of academic year .50

8 Federal grants allocable to academic period. $ 500

(b) **Form 1099 HE 1999**

Student's second academic period beginning in 1999

Repeat lines 1-8 from above

This four part form would be provided by the institution to the taxpayer by January 31, of the year following the taxable year

(c) **Form 1099 HE 1999**

Student's third academic period beginning in 1999

Repeat lines 1-8 from above

(d) **Form 1099 HE 1999**

Student's academic period beginning during the first three months of 2000 for which line 3 payments were made during 1999.

Repeat lines 1-8 from above

Taxpayer name Mr Brown

Taxpayer Social Security Number 123-45-6789

Page 1

Schedule HE -- Tax Credits and Deductions for Higher Education

1999

Use this schedule for calculating allowable credits and deductions for the costs of post-secondary education for the taxpayer, the taxpayer's spouse, and any person claimed as a dependent by the taxpayer. Use a copy of this page 1 for each student for whom a credit or deduction is claimed. Credits and deductions are not allowed for taxpayers with adjusted gross income of more than $100,000 on a joint return or $70,000 on a single or head of household return. Credits and deductions are not allowed on returns of married persons filing separately or for students who are non-resident aliens or certain drug felons. No student may claim a credit or deduction on a return if the student is eligible to be claimed as a dependent on a parent's return or the return of any other person. Credits may be claimed only with respect to the first two academic years of post-secondary education. In general, credits and deductions can only be claimed with respect to students enrolled at least half-time and who are pursuing a course of study leading to an academic degree or certificate. No credit may be claimed for a student enrolled less than half-time. A deduction may be claimed for a less than half-time student only for courses that are related to the student's job or to enhance the student's job-related skills.

Student's Name Freshmen Brown

Social Security Number 999-99-9999

Enter information from Form 1099 HE(s) supplied by educational institution(s)

Attach 1099 HE 1999(s) here

	Academic periods beginning in 1999 (a)	(b)	(c)	Academic period beginning in first 3 mos. of 2000 & paid for in 19 (d)
1 Name of institution	Local Community Col			
2 EIN of institution	22-7777777			

Academic period reported on 1099 HE	(a)	(b)	(c)	(d)
3 Enter enrollment code F, H or P from 1099 HE(s) line 1	F			
4 Check box if box on 1099 HE(s) line 2 is checked	✓			
5 Enter amount(s) from 1099 HE(s), line 3	$ 1000	$	$	$
6 Check box if box on 1099 HE(s)line 4 is checked	✓			
7 For each column copy line 5 amount if box on line 4 is checked and line 3 code is F or H. If line 3 code is P, copy line 5 amount even if box on line 4 is not checked, but only if education is job-related or enhances job-related skills.	$ 1000	$	$	$

If claiming a credit for any academic period that is part of the first two years of post-secondary education continue.

If claiming deductions only proceed to page 2.

Do not continue with calculation for any column unless line 3 code is F or H and line 4 and line 6 boxes are checked

Page 1 continued

Calculating credits

		(a)	(b)	(c)	(d)
8	Enter amount of academic year(s) or portion thereof of post-secondary education completed by student prior to 1999, including any academic period beginning during the first three months of 1999 for which a credit or deduction was claimed by any taxpayer for the 1998 taxable year. This amount is at least equal to the entry on line 10, column d on page 1 of Schedule HE for this student for 1998.	.00			
9	Enter amounts from line 7 of 1099 HE(s)	.50	.	.	.
10	Add line 8, column a and line 9, column a.	.50			
	Add line 10, column a and line 9, column b.		.50		
	Add line 10, column b and line 9, column c.			.50	
	Add line 10, column c and line 9, column d.				.50

If line 10 amount in any column is more than 2.00 no credit may be claimed for academic period

		(a)	(b)	(c)	(d)
11	Check box if box on 1099 HE(s) line 5 is checked				
12	Check box if box on 1099 HE(s) line 6 is checked				

If line 11 is checked or line 10 amount is more than 1.00, no credit may be claimed unless line 12 is checked

		(a)	(b)	(c)	(d)
13	Enter federal grants reported on 1099 HE(s) line 8	$ 500	$	$	$
14	Enter credit amount from table in instructions for portion of academic year reported on line 9 and enrollment status reported on line 5. (see instructions)	$ 750	$	$	$
15	Enter the lesser of line 5 or line 14	$ 750	$	$	$
16	Enter amounts from line 13	$ 500	$	$	$
17	Subtract line 16 from line 15. Do not enter if amount is less than zero.	$ 250	$	$	$

Taxpayer name Mr. Brown Taxpayer Social Security Number 123-45-6789

Schedule HE -- Tax Credits and Deductions for Higher Education

Page 1 1999

Use this schedule for calculating allowable credits and deductions for the costs of post-secondary education for the taxpayer, the taxpayer's spouse and any person claimed as a dependent by the taxpayer. Use a copy of this page 1 for each student for whom a credit or deduction is claimed. Credits and deductions are not allowed for taxpayers with adjusted gross income of more than $100,000 on a joint return or $70,000 on a single or head of household return. Credits and deductions are not allowed on returns of married persons filing separately or for students who are non-resident aliens or certain drug felons. No student may claim a credit or deduction on a return if the student is eligible to be claimed as a dependent on a parent's return or the return of any other person. Credits may be claimed only with respect to the first two academic years of post-secondary education. In general, credits and deductions can only be claimed with respect to students enrolled at least half-time and who are pursuing a course of study leading to an academic degree or certificate. No credit may be claimed for a student enrolled less than half-time. A deduction may be claimed for a less than half-time student only for courses that are related to the student's job or to enhance the student's job-related skills.

Student's Name Saphomore Brown Social Security Number 888-88-8888

Enter information from Form 1099 HE(s) supplied by educational institution(s)

Attach 1099 HE 1999(s) here

	Academic periods beginning in 1999			Academic period beginning in first 3 mos. of 2000 & paid for in 19
	(a)	(b)	(c)	(d)
1 Name of institution	Hometown Univ	Hometown Univer.		
2 EIN of institution	33-7777777	33-7777777		

	Academic period reported on 1099 HE			
	(a)	(b)	(c)	(d)
3 Enter enrollment code F, H or P from 1099 HE(s) line 1	F	F		
4 Check box if box on 1099 HE(s) line 2 is checked	✓	✓		
5 Enter amount(s) from 1099 HE(s), line 3	$ 3000	$ 3000	$	$
6 Check box if box on 1099 HE(s)line 4 is checked	✓	✓		
7 For each column copy line 5 amount if box on line 4 is checked and line 3 code is F or H. If line 3 code is P, copy line 5 amount even if box on line 4 is not checked, but only if education is job-related or enhances job-related skills.	$ 3000	$ 3000	$	$

If claiming a credit for any academic period that is part of the first two years of post-secondary education continue.

If claiming deductions only proceed to page 2.

Do not continue with calculation for any column unless line 3 code is F or H and line 4 and line 6 boxes are checked

Page 1 continued

Calculating credits

	(a)	(b)	(c)	(d)
8 Enter amount of academic year(s) or port on thereof of post-secondary education completed by student prior to 1999, including any academic period beginning during the first three months of 1999 for which a credit or deduction was claimed by any taxpayer for the 1998 taxable year . This amount is at least equal to the entry on line 10, column d on page 1 of Schedule HE for this student for 1998	.50			
9 Enter amounts from line 7 of 1099 HE(s)	.50	.50	.	.
10 Add line 8, column a and line 9, column a.	1.00			
Add line 10, column a and line 9, column b.		1.50		
Add line 10, column b and line 9, column c.			1.50	
Add line 10, column c and line 9, column d.				1.50

If line 10 amount in any column is more than 2.00 no credit may be claimed for academic period

	(a)	(b)	(c)	(d)
11 Check box if box on 1099 HE(s) line 5 is checked		✓		
12 Check box if box on 1099 HE(s) line 6 is checked		✓		

If line 11 is checked or line 10 amount is more than 1.00, no credit may be claimed unless line 12 is checked

	(a)	(b)	(c)	(d)
13 Enter federal grants reported on 1099 HE(s) line 8	$ 1000	$ 1000	$	$
14 Enter credit amount from table in instructions for portion of academic year reported on line 9 and enrollment status reported on line 5. (see instructions)	$ 750	$ 750	$	$
15 Enter the lesser of line 5 or line 14	$ 750	$ 750	$	$
16 Enter amounts from line 13	$ 1000	$ 1000	$	$
17 Subtract line 16 from line 15. Do not enter if amount is less than zero.	$ 0	$ 0	$	$

Taxpayer name Mr Brown   Taxpayer Social Security Number 123-45-6789

Schedule HE -- Tax Credits and Deductions for Higher Education

Page 2

1999

TAXPAYER'S SUMMARY OF DEDUCTIONS AND CREDITS FOR POST-SECONDARY EDUCATION

Use this page of Schedule HE to summarize potential deductions and credits for each student for which a page 1 of this schedule has been prepared. For any one student either a credit of a deduction, but not both, may be claimed for a particular academic period. This page is also used to apply the phase-out ratio, if applicable and determine the total deduction and credit amounts you are able to claim on your Form 1040.

Taxpayer must choose one or other line

	Academic period reported on 1099 HE (a)	(b)	(c)	(d)
Student's name Freshman Brown Social Security Number 999-99-9999				
18 Potential deduction: copy amounts from line 7, page 1	$ 1000	$	$	$
19 Preliminary credits : copy amounts from line 17, page 1	$ 250	$	$	$
Student's name Sophomore Brown Social Security Number 888-88-8888				
20 Potential deduction: copy amounts from line 7, page 1	$ 3000	$ 3000	$	$
21 Preliminary credits : copy amounts from line 17, page 1	$ 0	$ 0	$	$
Student's name ______ Social Security Number ______				
22 Potential deduction: copy amounts from line 7, page 1	$	$	$	$
23 Preliminary credits : copy amounts from line 17, page 1	$	$	$	$
Student's name ______ Social Security Number ______				
24 Potential deduction: copy amounts from line 7, page 1	$	$	$	$
25 Preliminary credits : copy amounts from line 17, page 1	$	$	$	$
26 Potential deductions: add line 18,20,22 and 24 amounts in each column	$ 4000	$ 3000	$	$
27 Total potential deductions: add 23a, 23b, 23c and 23d	$ 7000			
28 Enter the lesser of line 27 or $10,000.	$ 7000			
29 Preliminary credits: add line 19,21,23 and 25 amounts in each column	$ 250	$	$	$
30 Total preliminary credits add 26a, 26b, 26c and 26d	$ 250			

11/25/96 15:42 ☎202 6229260 TAX POLICY ☑009/009

Page 2 continued

APPLICATION OF THE PHASE-OUT RATIO

31	Adjusted gross income (from line xx from Form 1040)	$ 30,000
32	Income excluded by reason of sections 911, 931, and 933 (see instructions)	$
33	Modified adjusted gross income: add lines 32 and 33.	$ 30,000

If your line 33 amount is $50,000 or less, $80,000 or less for a joint return, enter the amount on line 28 on line yy of your Form 1040 and the amount on line 30 on line zz of your Form 1040 and do not complete the rest of this page.

If your line 33 amount is more than $70,000, $100,000 for a joint return, you are ineligible for any deductions or credits calculated on this Schedule HE.

34	(a) Phase-out ratio: line 33 amount minus $50,000 ($80,000 for joint returns)	$
	(b) Divide (a) by $20,000 and enter.	

If this ratio is greater than 1.00 no deduction or credit can be claimed.

35	Enter amount from line 28.	$
36	Multiply line 35 amount by line 34 phase-out ratio.	$
37	Allowable deduction: subtract line 36 amount from line 35 amount and enter on line yy of your Form 1040.	$
38	Enter amount from line 30.	$
39	Multiply line 38 amount by line 34 phase-out ratio.	$
40	Allowable credit: subtract line 39 amount from line 38 amount and enter on line zz of your Form 1040.	$

Example 2: The Greens, an upper income family

The Green family has two children attending college, and Mrs. Green takes a job-related computer class. The family has an adjusted gross income of $85,000 for calendar year 1999.

Student 1 Green is a freshman in college starting August of 1999. The family pays for the entire year of tuition before the end of 1999. Student 1 is enrolled in School 1 full time. The tuition per semester is $6,500, but Student 1 has obtained a non-Federal scholarship that pays $1,000 per semester.

Student 2 Green has attended post-secondary school on an irregular basis. Prior to 1999, Student 2 attended two semesters half time, one semester full time and one quarter half time. Student 2 is enrolled in the fall semester at School 2 full time, but enrolls in the spring semester only half time. Student 2 is enrolled in a degree program. The tuition for the first semester is $6,000, and $3750 for the second semester, all of which is paid in 1999.

Mom Green is taking a computer class to enhance her job skills. The tuition for the class is $750.

The Greens will want to take a combination of tax credits and deductions. Regardless of their tax rate it is likely that the Greens will want to take a tax credit for Student 1's tuition, and take a deduction for Student 2 and Mom. This would result in a tax credit of $1,125 (after the phase-out) and a deduction of $7,500 (also after the phase-out). This is not reflected in the form.

Form 1099 HE 1999

(a) Student's first academic period beginning in 1999

Name of institution School 1 EIN 12 345 1234

Taxpayer's Social Security Number 000-00-0000

Name William Green
Address

Student will have to supply SSN to institution

Student's Name (if different from taxpayer's) Junior Green

Student's Social Security Number 194-76-0000

1 Enrollment status (F, H or P) F

2 If enrollment is part of a Degree or Certificate program, check box ✓

3 Payments of tuition and required fees for academic period made during 1999 by, or on behalf of, student from sources other than grants or scholarships or employers.

$ 5,500

4 If student's enrollment for this academic period is part of first two years of post-secondary education, check box. ✓

Complete lines 5 and 6 only if line 4 box has been checked

5 If student has enrolled for one full academic year prior to this academic period, check box.

6 If line 5 box is checked, check this box if student earned GPA of 2.75 or above, or the equivalent for the first academic year.

7 Portion of academic year .50

8 Federal grants allocable to academic period. $ ——

(b) Form 1099 HE 1999

Student's second academic period beginning in 1999

Repeat lines 1-8 from above

This four part form would be provided by the institution to the taxpayer by January 31, of the year following the taxable year

(c) Form 1099 HE 1999

Student's third academic period beginning in 1999

Repeat lines 1-8 from above

(d) Form 1099 HE 1999

Student's academic period beginning during the first three months of 2000 for which line 3 payments were made during 1999.

Repeat lines 1-8 from above

repeat

Form 1099 HE 1999

(a) Student's first academic period beginning in 1999

Name of institution School Z EIN 12 3457234

Taxpayer's Social Security Number 000-00-0000

Name William Green
Address

Student will have to supply SSN to institution

Student's Name (if different from taxpayer's) Sis Green

Student's Social Security Number 196-74-0000

1 Enrollment status (F, H or P) F

2 If enrollment is part of a Degree or Certificate program, check box ✓

3 Payments of tuition and required fees for academic period made during 1999 by, or on behalf of, student from sources other than grants or scholarships or employers.

$ 6,000

4 If student's enrollment for this academic period is part of first two years of post-secondary education, check box. ✓

Complete lines 5 and 6 only if line 4 box has been checked

5 If student has enrolled for one full academic year prior to this academic period, check box. ✓

6 If line 5 box is checked, check this box if student earned GPA of 2.75 or above, or the equivalent for the first academic year. ✓

7 Portion of academic year .50

8 Federal grants allocable to academic period. $ —

(b) **Form 1099 HE 1999**

Student's second academic period beginning in 1999

Repeat lines 1-8 from above

This four part form would be provided by the institution to the taxpayer by January 31, of the year following the taxable year

repeat but not fully part of first 2 years

(c) **Form 1099 HE 1999**

Student's third academic period beginning in 1999

Repeat lines 1-8 from above

(d) **Form 1099 HE 1999**

Student's academic period beginning during the first three months of 2000 for which line 3 payments were made during 1999.

repeat except not fully part of first 2 years, 1/2 time enrollment

Repeat lines 1-8 from above

Form 1099 HE 1999

(a) Student's first academic period beginning in 1999

Name of institution School 3 EIN 1245-3 7234

Taxpayer's Social Security Number 000-00-0002

Name William Green
Address

Student will have to supply SSN to institution

Student's Name (if different from taxpayer's) Mom Green

Student's Social Security Number 123-00-0000

1 Enrollment status (F, H or P) P

2 If enrollment is part of a Degree or Certificate program, check box

3 Payments of tuition and required fees for academic period made during 1999 by, or on behalf of, student from sources other than grants or scholarships or employers.

$ 750

4 If student's enrollment for this academic period is part of first two years of post-secondary education, check box.

Complete lines 5 and 6 only if line 4 box has been checked

5 If student has enrolled for one full academic year prior to this academic period, check box.

6 If line 5 box is checked, check this box if student earned GPA of 2.75 or above, or the equivalent for the first academic year

7 Portion of academic year .33

8 Federal grants allocable to academic period. $ 0

(b) **Form 1099 HE 1999**

Student's second academic period beginning in 1999

Repeat lines 1-8 from above

This four part form would be provided by the institution to the taxpayer by January 31, of the year following the taxable year

(c) **Form 1099 HE 1999**

Student's third academic period beginning in 1999

Repeat lines 1-8 from above

(d) **Form 1099 HE 1999**

Student's academic period beginning during the first three months of 2000 for which line 3 payments were made during 1999.

Repeat lines 1-8 from above

Taxpayer name William Green Taxpayer Social Security Number 000-00-0000

Schedule HE -- Tax Credits and Deductions for Higher Education

Page 1

1999

Use th s schedu'e for calculating allowable credits and deductions for the costs of post-secondary education for the taxpayer, the taxpayer's spouse, and any person claimed as a dependent by the taxpayer. Use a copy of this page 1 for each student for whom a credit or deduction is claimed. Credits and deductions are not allowed for taxpayers with adjusted gross income of more than $100,000 on a jcint return or $70,000 on a single or head of household return. Credits and deductions are not allowed on returns of married persons filing separately or for students who are non-resident aliens or certain drug felons. No student may claim a credit or deduction on a return if the student is eligible to be claimed as a dependent on a parent's return or the return of any other person. Credits may be claimed only with respect to the first two academic years of post-secondary education. In general, credits and deductions can only be claimed with respect to students enrolled at least half-time and who are pursuing a course of study leading to an academic degree or certificate. No credit may be claimed for a student enrolled less than half-time. A deduction may be claimed for a less than half-time student only for courses that are related to the student's job or to enhance the student's job-related skills.

Student's Name Junior Green Social Security Number 198-76-0000

Enter information from Form 1099 HE(s) supplied by educational institution(s)

Attach 1099 HE 1999(s) here

	Academic periods beginning in 1999			Academic period beginning in first 3 mos. of 2000 & paid for in 19
	(a)	(b)	(c)	(d)
1 Name of institution	School 1			School 1
2 EIN of institution				

	Academic period reported on 1099 HE			
	(a)	(b)	(c)	(d)
3 Enter enrollment code F, H or P from 1099 HE(s) line 1	F			
4 Check box if box on 1099 HE(s) line 2 is checked	✓			✓
5 Enter amount(s) from 1099 HE(s), line 3	$ 5,500	$	$	$ 5,500
6 Check box if box on 1099 HE(s)line 4 is checked	✓			✓
7 For each column copy line 5 amount if box on line 4 is checked and line 3 code is F or H. If line 3 code is P, copy line 5 amount even if box on line 4 is not checked, but only if education is job-related or enhances job-related skills.	$ 5,500	$	$	$ 5,500

If claiming a credit for any academic period that is part of the first two years of post-secondary education continue.

If claiming deductions only proceed to page 2.

Do not continue with calculation for any column unless line 3 code is F or H and line 4 and line 6 boxes are checked

Page 1 continued

Calculating credits

		(a)	(b)	(c)	(d)
8	Enter amount of academic year(s) or portion thereof of post-secondary education completed by student prior to 1999, including any academic period beginning during the first three months of 1999 for which a credit or deduction was claimed by any taxpayer for the 1998 taxable year. This amount is at least equal to the entry on line 10, column d on page 1 of Schedule HE for this student for 1998.	.0			
9	Enter amounts from line 7 of 1099 HE(s)	.5	.	.	.5
10	Add line 8, column a and line 9, column a.	.5			
	Add line 10, column a and line 9, column b.		.5		
	Add line 10, column b and line 9, column c.			.5	
	Add line 10, column c and line 9, column d.				1.00

If line 10 amount in any column is more than 2.00 no credit may be claimed for academic period

11	Check box if box on 1099 HE(s) line 5 is checked				
12	Check box if box on 1099 HE(s) line 6 is checked				

If line 11 is checked or line 10 amount is more than 1.00, no credit may be claimed unless line 12 is checked

13	Enter federal grants reported on 1099 HE(s) line 8	$ —	$ —	$ —	$ —
14	Enter credit amount from table in instructions for portion of academic year reported on line 9 and enrollment status reported on line 5. (see instructions)	$ 750	$	$	$ 750
15	Enter the lesser of line 5 or line 14	$ 750	$	$	$ 750
16	Enter amounts from line 13	$ 0	$	$	$ 0
17	Subtract line 16 from line 15. Do not enter if amount is less than zero.	$ 750	$	$	$ 750

Taxpayer name William Green Taxpayer Social Security Number 000-00-0000

Schedule HE – Tax Credits and Deductions for Higher Education

Page 1

1999

Use this schedule for calculating allowable credits and deductions for the costs of post-secondary education for the taxpayer, the taxpayer's spouse, and any person claimed as a dependent by the taxpayer. Use a copy of this page 1 for each student for whom a credit or deduction is claimed. Credits and deductions are not allowed for taxpayers with adjusted gross income of more than $100,000 on a joint return or $70,000 on a single or head of household return. Credits and deductions are not allowed on returns of married persons filing separately or for students who are non-resident aliens or certain drug felons. No student may claim a credit or deduction on a return if the student is eligible to be claimed as a dependent on a parent's return or the return of any other person. Credits may be claimed only with respect to the first two academic years of post-secondary education. In general, credits and deductions can only be claimed with respect to students enrolled at least half-time and who are pursuing a course of study leading to an academic degree or certificate. No credit may be claimed for a student enrolled less than half-time. A deduction may be claimed for a less than half-time student only for courses that are related to the student's job or to enhance the student's job-related skills.

Student's Name Mom Green Social Security Number 123-00-0000

Enter information from Form 1099 HE(s) supplied by educational institution(s)

Attach 1099 HE 1999(s) here

	Academic periods beginning in 1999 (a)	(b)	(c)	Academic period beginning in first 3 mos. of 2000 & paid for in 19 (d)
1 Name of institution	School 3			
2 EIN of institution	—			

Academic period reported on 1099 HE	(a)	(b)	(c)	(d)
3 Enter enrollment code F, H or P from 1099 HE(s) line 1	P			
4 Check box if box on 1099 HE(s) line 2 is checked				
5 Enter amount(s) from 1099 HE(s), line 3	$ 750	$	$	$
6 Check box if box on 1099 HE(s)line 4 is checked				
7 For each column copy line 5 amount if box on line 4 is checked and line 3 code is F or H. If line 3 code is P, copy line 5 amount even if box on line 4 is not checked, but only if education is job-related or enhances job-related skills.	$ 750	$	$	$

If claiming a credit for any academic period that is part of the first two years of post-secondary education continue.

If claiming deductions only proceed to page 2.

Do not continue with calculation for any column unless line 3 code is F or H and line 4 and line 6 boxes are checked

Taxpayer name William Green

Taxpayer Social Security Number 000-00-0000

Page 1

Schedule HE -- Tax Credits and Deductions for Higher Education

1999

Use this schedule for calculating allowable credits and deductions for the costs of post-secondary education for the taxpayer, the taxpayer's spouse, and any person claimed as a dependent by the taxpayer. Use a copy of this page 1 for each student for whom a credit or deduction is claimed. Credits and deductions are not allowed for taxpayers with adjusted gross income of more than $100,000 on a joint return or $70,000 or a single or head of household return. Credits and deductions are not allowed on returns of married persons filing separately or for students who are non-resident aliens or certain drug felons. No student may claim a credit or deduction on a return if the student is eligible to be claimed as a dependent on a parent's return or the return of any other person. Credits may be claimed only with respect to the first two academic years of post-secondary education. In general, credits and deductions can only be claimed with respect to students enrolled at least half-time and who are pursuing a course of study leading to an academic degree or certificate. No credit may be claimed for a student enrolled less than half-time. A deduction may be claimed for a less than half-time student only for courses that are related to the student's job or to enhance the student's job-related skills.

Student's Name ~~Stephen~~ Sis Green Social Security Number

Enter information from Form 1099 HE(s) supplied by educational institution(s)

Attach 1099 HE 1999(s) here

	Academic periods beginning in 1999 (a)	(b)	(c)	Academic period beginning in first 3 mos. of 2000 & paid for in 19 (d)
1 Name of institution	School 2			School 2
2 EIN of institution				

Academic period reported on 1099 HE	(a)	(b)	(c)	(d)
3 Enter enrollment code F, H or P from 1099 HE(s) line 1	F			H
4 Check box if box on 1099 HE(s) line 2 is checked	✓			
5 Enter amount(s) from 1099 HE(s), line 3	$ 6,000	$	$	$ 3750
6 Check box if box on 1099 HE(s) line 4 is checked	✓			
7 For each column copy line 5 amount if box on line 4 is checked and line 3 code is F or H. If line 3 code is P, copy line 5 amount even if box on line 4 is not checked, but only if education is job-related or enhances job-related skills.	$ 6,000	$	$	$ 3,750

If claiming a credit for any academic period that is part of the first two years of post-secondary education continue.

If claiming deductions only proceed to page 2.

Do not continue with calculation for any column unless line 3 code is F or H and line 4 and line 6 boxes are checked

Page 1 continued

Calculating credits

		(a)	(b)	(c)	(d)
8	Enter amount of academic year(s) or portion thereof of post-secondary education completed by student prior to 1999, including any academic period beginning during the first three months of 1999 for which a credit or deduction was claimed by any taxpayer for the 1998 taxable year. This amount is at least equal to the entry on line 10, column d on page 1 of Schedule HE for this student for 1998.	1.33			
9	Enter amounts from line 7 of 1099 HE(s)	.5			.25
10	Add line 8, column a and line 9, column a.	1.83			
	Add line 10, column a and line 9, column b.		1.83		
	Add line 10, column b and line 9, column c.			1.83	
	Add line 10, column c and line 9, column d.				2.08

If line 10 amount in any column is more than 2.00 no credit may be claimed for academic period

		(a)	(b)	(c)	(d)
11	Check box if box on 1099 HE(s) line 5 is checked	✓	✓	✓	✓
12	Check box if box on 1099 HE(s) line 6 is checked	✓	✓	✓	✓

If line 11 is checked or line 10 amount is more than 1.00, no credit may be claimed unless line 12 is checked

		(a)	(b)	(c)	(d)
13	Enter federal grants reported on 1099 HE(s) line 8	$ 0	$	$	$ 0
14	Enter credit amount from table in instructions for portion of academic year reported on line 9 and enrollment status reported on line 5. (see instructions)	$ 750	$	$	$
15	Enter the lesser of line 5 or line 14	$ 750	$	$	$
16	Enter amounts from line 13	$ 0	$	$	$
17	Subtract line 16 from line 15. Do not enter if amount is less than zero.	$ 750	$	$	$

Taxpayer name William Green Taxpayer Social Security Number 000-00-0000

Page 2

Schedule HE -- Tax Credits and Deductions for Higher Education

1999

TAXPAYER'S SUMMARY OF DEDUCTIONS AND CREDITS FOR POST-SECONDARY EDUCATION

Use this page of Schedule HE to summarize potential deductions and credits for each student for which a page 1 of this schedule has been prepared. For any one student either a credit of a deduction, but not both, may be claimed for a particular academic period. This page is also used to apply the phase-out ratio, if applicable and determine the total deduction and credit amounts you are able to claim on your Form 1040.

Taxpayer has to chose one or the other at each of these point

	Academic period reported on 1099 HE (a)	(b)	(c)	(d)
Student's name Junior Green Social Security Number ______				
18 Potential deduction: copy amounts from line 7, page 1	$ 5,500	$	$	$ 5500
19 Preliminary credits : copy amounts from line 17, page 1	$ 750	$	$	$ 750
Student's name Sis Green Social Security Number ______				
20 Potential deduction: copy amounts from line 7, page 1	$ 6,000	$	$	$ 3,750
21 Preliminary credits : copy amounts from line 17, page 1	$ 750	$	$	$ 0
Student's name Mom Green Social Security Number ______				
22 Potential deduction: copy amounts from line 7, page 1	$ 750	$	$	$
23 Preliminary credits : copy amounts from line 17, page 1	$ 0	$	$	$
Student's name ______ Social Security Number ______				
24 Potential deduction: copy amounts from line 7, page 1	$ [redacted]	$	$	$ [redacted]
25 Preliminary credits : copy amounts from line 17, page 1	$ [redacted]	$	$	$
26 Potential deductions: add line 18,20,22 and 24 amounts in each column	$ 12,250	$	$	$ 11,500
27 Total potential deductions: add 23a, 23b, 23c and 23d	$ 23,750			
28 Enter the lesser of line 27 or $10,000.	$ 10,000			
29 Preliminary credits: add line 19,21,23 and 25 amounts in each column	$ 1500	$	$	$ 750
30 Total preliminary credits: add 26a, 26b, 26c and 26d	$ 2250			

Page 2 continued

APPLICATION OF THE PHASE-OUT RATIO

31 Adjusted gross income (from line xx from Form 1040) $ 85,000

32 Income excluded by reason of sections 911, 931, and 933 (see instructions) $ 0

33 Modified adjusted gross income: add lines 32 and 33. $85,000

If your line 33 amount is $50,000 or less, $80,000 or less for a joint return, enter the amount on line 28 on line yy of your Form 1040 and the amount on line 30 on line zz of your Form 1040 and do not complete the rest of this page.

If your line 33 amount is more than $70,000, $100,000 for a joint return, you are ineligible for any deductions or credits calculated on this Schedule HE.

34 (a) Phase-out ratio: line 33 amount minus $50,000 ($80,000 for joint returns) $ 5000

(b) Divide (a) by $20,000 and enter. .25

If this ratio is greater than 1.00 no deduction or credit can be claimed.

35 Enter amount from line 28. $ 10,000

36 Multiply line 35 amount by line 34 phase-out ratio. $ 2500

37 Allowable deduction: subtract line 36 amount from line 35 amount and enter on line yy of your Form 1040. $ 7500

38 Enter amount from line 30. $ 2250

39 Multiply line 38 amount by line 34 phase-out ratio. $ 562.50

40 Allowable credit: subtract line 39 amount from line 38 amount and enter on line zz of your Form 1040. $ 1687.50

Bruce at Treasury

Comments on: Simplified Hope Credit Option

1. Limiting students to two taxable years of credits simplifies and eliminates the need for academic period by academic period calculations. This option also eliminated the necessity to make a distinction be tween full-time and at least half-time students. A further rule is probably necessary to keep such a regime simple: For any one student either a credit or a deduction may be claimed in any one taxable year, but not both.

2. The drawback to this approach is that it disadvantages the half-time student who may be both working and going to school. If limited to two years of credits she may not be able to use the full $3000 when two academic years have not been completed by the end of the second taxable year.

3. If institutions are not going to be required to put GPAs on 1099 HEs we might as well simply have taxpayer check a box indicating that he has evidence from transcripts or other sources that the B- requirement has been met and that the records are being maintained. The IRS doesn't want to collect all the paper transcripts and can't afford the resources to verify that info from transcripts. In a significant number of cases transcripts form more than one institution would be involved. If the simple check the box and maintain records rule without institutional reporting is adopted we would have to revise the revenue estimate for the proposal upward.

4. We don't think institutions will have to report all scholarships and grants received by the student, only amounts paid by or on behalf or student from "family" funds, using a rule that attributes all scholarships and grants to tuition and required fees even if nominally designated for room and board. They will also have to report federal assistance, but only for students who have not passed the two-year threshold.

5. Since institution will not be asked to judge whether education enhances students job skills, it will have to issue 1099 HEs for payments by or on behalf of students (net of all scholarships and grants) to any non-degree program student except payments for sport and hobby courses not part of a degree program.

Possible variation on this theme: Allow a "lifetime" limit of $3000 for each student. The amount would be indexed on the basis of the year in which post-secondary education began. This would achieve the same simplification (as long as there is an either/or rule for choosing credits or deductions for a particular student for a particular taxable year) in terms of not having to separately account for each academic period. This would not disadvantage the working student who spends four academic years finishing the first two years of post-secondary education.

We may want to think about an effective date rule that does not disadvantage the student who paid for the spring semester the December prior to the first taxable year for which credits/deductions can be claimed. The rule could be effective for education beginning on or after July 1 of the first taxable year to which the proposal applies.

Dan at ED

COMMENTS ON LATEST PROPOSAL

1. This proposal resembles frontloading of grants. Frontloading raises concerns about potential disincentives for persistence. Also, this effect would increase the cost of the program.

2. This proposal reduces benefits for people going less than full-time at inexpensive schools. Their expenses will not be enough to claim entire credit in any year, but after 2 years they are no longer eligible for the credit.

3. This is somewhat less burdensome on institutions. They still are required to provide information about program that the student is enrolled in. Accounting systems usually prepare IRS reports. With this system, schools have to keep track of what type of program a student was enrolled in and their enrollment intensity. This could be difficult, especially at a community college where all types of students attend all types of programs.

4. Attaching an academic transcript to the tax form is nontrivial for taxpayers and schools. Schools would have to generate transcripts for all their students claiming the 2nd year credit. Taxpayers would have to gather these in time for filing tax forms. It might be easier for schools to put this data element on the IRS 1099-like form, which may also be too burdensome.

Simplified Hope Credit Option

$1500 credit for tuition and fees paid during the tax year for *any* half-time-or-more enrollment in a degree or certificate program.

Student is eligible for the first credit if had not completed two years of academic course work prior to the reporting year (the tax filing year).

Student is eligible for the second credit if had not completed two years of academic course work prior to the reporting year, **and** GPA for the first year of course work (or if not completed, whatever courses completed at time of filing) is at least 2.75. (In other words, in order to claim the second $1500 credit, the student does not need to have completed the entire first academic year of course work. But once the second credit is claimed, in part or in full, no further credits are available).

<u>Information that institution would need to provide to student/taxpayer and ED/IRS</u>

- Tuition and fees paid during the year for half-time-or-more enrollment in a degree or certificate program.

- Federal grant aid for half-time-or-more enrollment in a degree or certificate program.

- Non-taxable aid for half-time-or-more enrollment in degree or certificate program.

- Did the student complete two years of academic course work prior to the reporting year? (If yes, the student is not eligible for the credit. If the second year was completed during the reporting year, the student is eligible for a first or second credit).

Because the deduction is available for less-than-half-time and non-degree courses (if they improve job skills), reporting would also be needed for:

- Total tuition and fees paid for all enrollment in eligible programs.

- Total grant aid.

For confirming grades (in order to get the second credit), student would sign declaration of a B-average and attach copies of grade reports or transcript.

DRAFT

Current Location of and Reporting Frequency for Information Needed to Calculate the HOPE Scholarship Tax Credit and Middle-Class Bill of Rights Tax Deduction

The following information items are required with respect to each academic period for which a student is enrolled during the taxable year. The table indicates the current location of each item (that is, the potential reporting entity), and the frequency with which each item would need to be reported to the IRS and/or the student.

It must be noted that in order to ensure an acceptable level of taxpayer compliance, postsecondary institutions will be responsible to report small sets of individual-level data to the IRS and the student.

In the table below, annual reporting means that the IRS would receive a single tape or other machine-readable formatted data from an institution at the time appropriate to ensure effective compliance (most likely in January or February following the close of the tax/calendar year). The annual institution-provided information would include student-level data for each enrollment period attended during the tax year. ED could funnel data from institutions to the IRS.

The articulated HOPE Scholarship policy is to provide a tax credit for the first two years of postsecondary education while allowing less than full-time attendance, so it is necessary to track the accumulating value of the credit. Because the credit amount would be indexed to inflation, this tracking must use a non-dollar measure. The proposed approach, indicated on the following table as "periodic" reporting, requires institutions to provide information to their students for each enrollment period (e.g. semester, trimester, quarter) attended. This approach also accommodates the mismatch between tax (calendar) and academic (July through June) years.

	Credit			Deduction		
	Current Location	Reported to		Current Location	Reported to	
Information Item	(Reported by)	IRS	Student	(Reported by)	IRS	Student
Name and SSN of student(s)	Institution, ED[1]	Annual[2]	n/a[3]	Institution, ED[1]	Annual[2]	n/a
Name and SSN of taxpayer(s)	NONE	Annual[2]	n/a	NONE	Annual[2]	n/a
Name and EIN of institution(s) attended	ED, Institution[4]	Annual[2]	Periodic	ED, Institution[4]	Annual[2]	Periodic
Tuition and fees charged	Institution, student	Annual	Periodic	Institution, student	Annual	Periodic
Tuition and fees paid (i.e. less refunds etc.)	Institution,[5] student	Annual[6]	Periodic	Institution,[5] student	Annual[6]	Periodic

Federal grant aid	Institution, ED[7]	Annual[2]	Periodic	not required	n/a	n/a
Non-federal grant aid	Institution[8]	Annual[7]	Periodic	not required	n/a	n/a
Total grant aid	not required	n/a	n/a	Institution[8]	Annual[2]	Periodic
Attendance status (full-/part-time)	Institution, ED[7]	Annual[2]	Periodic	Institution, ED[7]	Annual[2]	Periodic
Year in school	Institution, student	Annual[2]	Periodic	not required	n/a	n/a
Eligible program	Institution, student[9]	n/a	Periodic	Institution, student[9]	n/a	Periodic
Skill acquisition course	not required	n/a	n/a	Institution, student[9]	n/a	Periodic
Grade point average	Institution, student	n/a	Periodic	not required	n/a	n/a
Drug-free certification	Student, ED[1]	Annual	Periodic	not required	n/a	n/a
Non-resident alien	ED[1]	Annual	Periodic	ED[1]	Annual	Periodic
Prior year allowable tax credits	IRS	n/a	n/a	not required	n/a	n/a

Student-reported information, while readily available, may be unreliable.
ED's program databases are not currently configured to facilitate periodic reporting.

1. Title IV Federal financial aid applicants only.
2. Anticipated minimum IRS reporting requirement.
3. Not applicable.
4. ED would annually provide a list of eligible institutions to IRS. Institutions could provide their EIN to their students.
5. May be unaware of insurance reimbursements.
6. IRS might accept net tuition paid in lieu of separate data items for tuition paid and grant aid received by source.
7. Pell grant recipients only.
8. Assumes institution is aware of all private aid sources.
9. If properly informed by institution.

ED/OPE
November 21, 1996

• Tuition & fees - periods of ½-time & above/[illegible]:

• Aid

Net (periods of ½ time
Fed. Aid

• Tuition & fees - all enrollment

• Aid
Net

11/15/96

- Alex Barclay

- Bill
- Skill
- Hope

Comprise
&
Eventually - EITC error rates

- calendar / school yr.

- Don Lubick
- Treasury

* dave bryant QC/DU activities

Talk to Larry

- Refundability scholarship grant, etc ? ?
max
- $1.3 billion / year - dislocated workers ...
* job search req't.

- EITC confusion, etc.

- Larry Summers, Don
Refundability:
- Tradeoff - EITC type fraud /
burdensome w/v. req'ts

PC:
- burdens
- perception
~~[illegible]~~

Q:
- sending checks
- B day

* How does it look to taxpayer?

• Wkg group (B day) — How much does it save us?
- annual??
- Car insurance - honor roll
- what else: grade inflation?
⇒ Impl. plan

X • How many honestly qualify for valedictory??

meet mtg. D Figure the $ - P.G. as cur. - 2 cur year

Drugs: now: only if judge decides to put on all the child's record.

November 6, 1995

Note for Gene Sperling

From: Ken Apfel

Subject: Tuition Tax Credit Options

Attached please find the summary of alternative tuition tax credit options which were requested by the NEC. This package has been coordinated by my staff with input from Education, Labor, Treasury, and CEA.

CEA is concurrently circulating additional options for an education credit. These options, when further specified in response to comments, may also prove useful to consider when the NEC meets again on this subject.

Please let me know if there is anything further you would like us to do with this material. I am distributing it simultaneously to the agency and White House staff who worked on it with us.

c: Mark Mazur, CEA
Eric Toder, Treasury
Ann Lewis, Labor
Maureen McLaughlin, Education
Paul Dimond, NEC

November 6, 1995

Proposal to use tuition tax benefits to guarantee some college education for every American

SUMMARY OF OPTIONS

The idea has been advanced that a tax credit/deduction could be devised to support a policy of a "guarantee" of two years of postsecondary education to all Americans, at the average tuition of community college, and provide tax relief for undergraduate tuition payments beyond the second year. The guarantee proposal would replace the education/training tax deduction proposal of the Middle Class Bill of Rights (MCBR).

At the NEC meeting on October 26, principals agreed that an interagency staff group would explore a variety of approaches to the initial guarantee proposal. Those suggested approaches were: modifying the initial guarantee proposal to reduce cost or meet other design concerns, truncating any of the three modified options to reduce cost, and re-packaging of current policy.

This packet compares the MCBR, the guarantee proposal, and the options along the dimensions of cost, student coverage, tax administration, reactions from the higher education community, effect on current student financial aid policies, school pricing, and enrollment effect.

A summary chart is provided plus a page on each option.

Comparisons of MCBR, Guarantee, and Other Options

	Cost	Tax Credit	Tax Deduction	Coverage	Best Feature	Tax Adm.	Higher Ed Community Reactions	Effect on Student Aid Policies	School Pricing
Middle Class Bill of Rights (MCBR) **and Option 5, Repackage Current Policies**	$ 38.8 billion over 7 years $ 23.5 billion over 5 years (Option 4)	NO	Tuition paid, net of federal and non-federal grants, up to a max deduction of $10,000 per tax filing unit	Post-secondary students, regardless of institution and program, including grad students (Full- and part-time) Incumbent workers and those needing skill enhancement 16.5 million students	Rewards spending on higher education, which can lead to a better qualified workforce Also with current student loan, Pell grant, etc. guarantees financial access, albeit with loans for non-needy	Student information verification very difficult Creates a new burden on higher-education institutions Same potential for abuses as in ED programs by including non-degree granting institutions, especially for profits	Not very supportive	Seen as major change in Administration's student financial policy by providing new cash benefits to non-needy	May lead to tuition increase
Guarantee Proposal	$ 54.2 billion over 7 years $ 33 billion over 5 years (Option 4)	Tuition paid, net of <u>federal and non-federal grants</u>, up to a max credit of $1,200 for 1st- and 2nd-year students	Same as MCBR for 3rd-, 4th-, and 5th-year undergraduate students	Degree-seeking undergraduates enrolled at least half-time 8.9 million students Community college students in 17 states not fully covered because tuition is higher than $1,200.	Provides guarantee to degree-seeking students of access to at least a 2-year degree without borrowings, as well as a tax deduction to upper level students	More burden on schools and IRS to verify student information than under MCBR by changing eligibility from credit to deduction at the 2nd year	Less supportive than MCBR	Same as MCBR and excerbated by tax credit	100% credit could have more severe effects on school pricing than MCBR
Option 1 **Modified $1,200 Tax Credit plus Deduction**	$ 48.1 billion over 7 years $ 29.3 billion over 5 years (Option 4)	Same basis, but if Pell grant is $1,200 or more, no tax credit	Max deduction of $5,000 per tax filing unit	Same types of students as the guarantee proposal 8.5 million students Community college students in 17 states not fully covered because tuition is higher than $1,200.	Provides the benefit of the guarantee proposal at lower cost. Focuses the new benefit on the middle class.	Same as the guarantee proposal	Same as the guarantee proposal	Same as the guarantee proposal	Same as the guarantee proposal
Option 2 **$1,600 Tax Credit for 2 Years of College**	$ 47 billion over 7 years $ 28 billion over 5 years (Option 4)	Same as Option 1.(no credit if Pell grant covers the guarantee level) but max is $1,600	NO	1st- and 2nd-year degree-seeking undergraduates enrolled at least half-time students 5.4 million students Community college students in 8 states not fully covered because tuition is higher than $1,600	Same as Option 1 Covers community college tuition in more high-tuition states	Same as the guarantee proposal	Same as the guarantee proposal	Same as the guarantee proposal	Same as the guarantee proposal
Option 3 **$1,200 Tax Credit for 1 Year of College, All Students**	$ 37.3 billion over 7 years $ 22.1 billion over 5 years (opt. 4)	Same basis and cap as Option 1 but for one year only	NO	Same as the MCBR, but only one year of coverage 8.0 million students Community college students in 17 states not fully covered because tuition is higher than $1,200.	Reduces the cost of the guarantee proposal, while broadening first-year coverage to include non-degree vocational training	Same as the guarantee proposal As in MCB and current law, including non-degree granting institutions may expand potential for fraud.	Same as the guarantee proposal Community may prefer this to the guarantee proposal, Option 1 or Option 2, because of broad student coverage	Same as the guarantee proposal	Same as the guarantee proposal

Middle Class Bill of Rights

The pending education tax deduction in the Middle Class Bill of Rights (MCBR) provides a phased-in tax deduction for tuition and fees paid, net of Federal and non-Federal grants, up to a maximum deduction of $10,000 per tax filing unit for all postsecondary students, regardless of institution and program. The deduction phases out for single tax filers with AGI between $70,000 and $90,000, and for joint filers with AGI between $100,000 and $120,000. The AGI phase-out ranges are indexed beginning in year 2000.

Best Feature: This proposal would reward spending on higher education, which leads to a better qualified workforce. This proposal would support the Adminsitration's lifelong learning agenda.

Cost: This proposal would cost $38.8 billion over 7 years (and 23.5 billion over 5 years).

Revenue Estimates (in billions of dollars)

Year	1	2	3	4	5	6	7	Total
MCBR cost	0.7	4.7	4.9	5.7	7.5	7.5	7.8	38.8

Coverage: This proposal would cover all the postsecondary students (that is, full- and part-time students in degree- or non-degree programs, including graduate students). Because many low-income students and their families have low tax liabilities, however, this proposal would primarily benefit middle-income students, particularly those who are attending relatively more expensive schools.

Total Number of Potential Recipients: 16.5 million students

Tax Administration: To verify student information the Federal government would have to require schools to provide such information to the IRS, placing a major new administrative burden on higher-education institutions.

Higher Education Community Reactions: (a) Because they viewed this proposal as a shift away from need-based aid, the higher education community gave it only lukewarm support; (b) The higher education community was concerned that this proposal would disproportionately reduce costs for attending public institutions, compared to attending private institutions; and (c) Higher priced schools would get more "benefit" because of higher deduction for their students and families.

Effect on Student Aid Policies: Expanding tax benefits to the non-needy was seen as a major change in Federal student financial aid policies, which have emphasized means-tested assistance for higher education, except for certain loans.

School Pricing: Tuition tax benefits could provide an incentive for States and private institutions to increase their tuition and fees, or to mask cost increases for room and board as tuition and fee increases.

Guarantee Proposal

This proposal would provide tax credits for a student's first two years of college and tax deductions for the later years of undergraduate study. For 1st- and 2nd-year degree-seeking undergraduates, this proposal would provide a refundable tax credit for tuition paid, net of Federal and non-Federal grants a student receives, up to a maximum credit of $1,200 for each student; and for 3rd-, 4th-, and 5th-year students, this proposal would provide a tax deduction for tuition paid, net of Federal and non-Federal grants a student receives, up to a maximum of $10,000 per tax filing unit.

Best Feature: This proposal would provide guarantee to degree-seeking students, to ensure access to at least a 2-year degree, as well as a tax deduction to upper-level students.

Cost: This proposal would cost $54.2 billion over 7 years, which exceeds MCBR by $15.4 billion.

Revenue Estimates (in billions of dollars)

Year	1	2	3	4	5	6	7	Total
Guarantee	1.0	7.0	7.6	8.2	9.1	10.5	10.7	54.2

Coverage: This proposal would target degree-seeking undergraduates enrolled at least half- time. It excludes all students in non-degree programs, part-time students enrolled less than half-time, and all graduate students, all of whom are covered under MCBR. In 18 states, there are, however, no community college with tuition less than $1,200. (Those states include MA, MD, MN, NH, NY, and OH.) About 40% of community college students, paid more than $1,200 in tuition in 1994.

Total Number of Potential Recipients: 8.9 million students

Tax Administration: (a) Under this proposal, schools would have to provide more student information (including a student's status and the amount of tuition and fees s/he paid) than under MCBR; and (b) A 100% refundable credit may increase the potential for fraud, relative to MCBR.

Higher Education Community Reactions: (a) For the reasons discussed in MCBR, the higher education community will probably oppose it or give it only lukewarm support; and (b) The higher education community will also fear the reporting burdens and administrative costs resulting from the Federal government's efforts to verify student, tuition and aid information.

Effect on Student Aid Policies: This proposal raises the same concern described in MCBR. In addition, this proposal would raise much greater concerns on the part of foundations, schools, and state governments offering non-federal aid because any dollar of student aid up to the credit limit would be viewed as saving the federal government a dollar of tax credits.

School Pricing: The potential impact might be more severe than MCBR because of the tax credit. Colleges will have limited incentive to compete on price at tuition levels below $1,200.

Option 1: Modified $1,200 Tax Credit Plus Deduction

This option is the same as the guarantee except: (1) the $1,200 guarantee can be satisfied by the Pell grant; an individual can not get a $1,200 Pell grant plus the tax credit, regardless of how high tuition may be; (2) the tax deduction for tuition paid, net of non-Federal grants, would be up to a maximum of $5,000 per tax filing unit, not $10,000.

Best Feature: This option would provide the benefit of the guarantee proposal at lower cost. It would also focus the new benefit on the middle class.

Cost: This option would cost a total of $ 48.1 billion over the next seven years, $9.3 billion more than MCBR, and $6.1 billion less than the guarantee proposal.

Revenue Estimates (in billions of dollars)

Year	1	2	3	4	5	6	7	Total
Option1 cost	0.9	6.1	6.7	7.4	8.2	9.3	9.6	48.1

Total Number of Potential Recipients: 8.5 million students

Coverage: Same as the guarantee proposal. In addition, by guaranteeing $1,200 through the sum of the Pell grant or the tax credit, this option would primarily benefit those who receive a Pell grant less than $1,200 or do not at all a Pell grant.

Tax Administration: Same as the guarantee proposal.

Higher Education Community Reactions: Same as the guarantee proposal.

Effect on Student Aid Policies: Same as the guarantee proposal.

School Pricing: Same as the guarantee proposal.

Option 2: $1,600 Tax Credit for Two Years of College

This option would change the guarantee to $1,600, treating Pell grants the same as in Option 1. This option excludes the deduction portion from the guarantee proposal.

Best Feature: This option would provide the benefit of the guarantee at lower cost and focus new benefit on the middle class. It would also better cover community college tuition in high tuition states.

Cost: This option would cost a total of $ 47 billion over the next seven years, $8.2 billion more than MCBR and $7.2 billion less than the guarantee proposal.

Revenue Estimates (in billions of dollars)

Year	1	2	3	4	5	6	7	Total
Option2 cost	0.8	5.7	6.4	7.1	8.0	9.3	9.7	47.0

Coverage: This option would benefit 1st- and 2nd-year degree-seeking undergraduates enrolled at least half-time. Unlike the guarantee proposal and Option 1, this option would not cover 3rd-, 4th-, and 5th-year undergraduates enrolled at least half-time in degree programs. In contrast to MCBR, this option would exclude all part-time students, non-degree students as well as graduate students. By raising the guaranteed amount to $1,600, this option would address, to some extent, the community college student issue described in the guarantee proposal. About 81% of community college students paid $1,600 or less in tuition and fees in 1994-95, and in only nine states (including MA, NH, and NY) do all community colleges charge more than $1,600 in tuition and fees. Unlike the guarantee proposal, this option would primarily benefit those who do not receive a Pell grant or receive less than $1,600.

Total Number of Potential Recipients: 5.4 million students

Tax Administration: Generally the same as the guarantee proposal except the verification burden may be lighter due to the smaller number of students affected and simpler because there is no switching to a deduction after the second year.

Higher Education Community Reactions: Same as prior options. The higher education community may be concerned however that tax benefits are limited only to first two years.

Effect on Student Aid Policies: Same as the guarantee proposal.

School Pricing: Same as prior options except the problem may be less serious than under the guarantee proposal, at least in case of 4-year schools.

Option 3: $1,200 Tax Credit for One Year of College, All Students

This option would retain the guarantee of $1,200 but only for the first year of postsecondary education through the sum of the Pell and the tax credit.

Best Feature: This option would further reduce the cost of the guarantee proposal while broadening the types of students covered, namely, to include non-degree, technical education programs and students enrolled less than half-time.

Cost: This option would cost a total of $ 37.3 billion over the next seven years, $1.5 billion less than MCBR, and $16.9 billion less than the guarantee proposal.

Revenue Estimates (in billions of dollars)

Year	1	2	3	4	5	6	7	Total
Option3 cost	0.7	4.5	5.0	5.6	6.3	7.5	7.8	37.3

Coverage: This option would cover the same broad range of populations (excluding graduate students) as the MCBR but for only one year. As in the case of the guarantee proposal, however, this option would not provide total support for community college students in those states with community college tuition and fees that are much higher than $1,200. Like Options 1 and 2, this option would primarily benefit those who do not receive a Pell grant or those who receive a Pell grant of less than $1,200.

Total Number of Potential Recipients: 8.0 million students.

Tax Administration: The problems identified under the guarantee proposal would apply to this option. Although the verification burden might be slightly lighter due to the smaller number of students, the inclusion of non-degree students might add to the overall burden. The inclusion of non-degree granting institutions will expand potential for fraud, because proprietary vocational schools already have higher rates of default and fraud and are more difficult to monitor.

Higher Education Community Reactions: Same as prior options. (Community Colleges would prefer this option to Options 1 and 2, however, due to their enrollment of non-degree or sub-AA degree students.)

Effect on Student Aid Policies: Same as in Options 1 and 2. (But this option is consistent with the President's emphasis on lifelong learning.)

School Pricing: Option 3 will affect the prices of proprietary schools, which are not included in Options 1 and 2, but have less effect on the prices of degree-granting schools than Options 1 and 2 would.

Option 4: Truncating number of years

This option would modify any of the previous options to cut costs. There could be criticism of the Administration's commitment if benefits are limited to four years.

Costs
($ in billions)

	7 yr.	5 yr.
MCBR	38.8	23.5
Guarantee	54.2	33.0
Option 1	48.1	29.3
Option 2	47.0	28.0
Option 3	37.3	22.1

Option 5: Repackage current policy

Current Federal student aid programs already guarantee financial access to more than a community college degree. If cost and other aspects of previous options make these unacceptable, this option explains how current policy can be repackaged to achieve a comparable rhetorical position.

- o Federal Pell grant funds are awarded on an entitlement-like basis in amounts adequate to cover community college tuition and some portion of living expenses for the 3.7 million neediest undergraduate students. The maximum award would be $2,620 in FY96 (it is $2,340 now) for the poorest student under the President's policy, and the minimum award for middle-income students is $400. Students enrolled less than half time are eligible as well as those enrolled half time or more, although the grants to part-time students are prorated. The so-called "campus-based" student aid programs provide additional need-based supplemental grant funds (SEOGs), college work-study, and Perkins loans.

- o Undergraduate and graduate students (6 million annually) pursuing a credential are entitled to student loans if enrolled half time or more, irrespective of financial need. Students can receive sufficient funding under the loan programs to finance tuition in a community college or higher-priced vocational or collegiate institution, and/or residential college living expenses.

- o Income-contingent repayment in effect converts loans to grants for people who cannot afford to repay. In the direct loan program, borrowers can choose to have their payments based on a reasonable percentage of their income so they can choose to take low-paying jobs in the community without fear of default.

Under the President's June Balanced Budget plan and the MCBR, students' families are guaranteed $2625 for student loans in the first year of postsecondary education, plus if poor, a maximum of $2620 in Pell Grants, plus up to $10,000 in tax deductions, plus up to the full cost of attendance (e.g., at the average community college $6,850) in parent loans. The Administration could communicate much more effectively the availability of these sources of support, with the President taking special credit for high Pell levels and income-contingent repayment.

Note: A further option for middle and upper income families might be a tax benefit based on interest on loan payments, benefiting those who have already incurred substantial debt as well as new borrowers. The Senate reconciliation package has a provision allows parents and students a tax credit of $500 for interest on college loans, phased out as income rises; cost: $1 billion over 7 years. This is supported by the higher education community. Something like this could be a low-cost supplement to the current package.

DRAFT DRAFT DRAFT DRAFT

May 31, 1996

MEMORANDUM FOR

FROM:

RE: Tuition tax proposal

There is wide agreement among your economic team and White House staff that the concept of making two years of college as expected as 11th and 12th grade is an important and powerful concept. Yet there are serious concerns and some disagreement over what policy best delivers this message. This memo has four sections:

Section I. Responses to Basic Timing and Idea

Section II. Five General Options

Section III. General Concerns

Section IV. Pro and Con on Each Option

SECTION I. RESPONSES TO BASIC TIMING AND IDEA: While the majority of this memo will deal with the specific options and the pros and cons of each, it is important to note that among your economic and education team and political advisors in the White House, there is still some basic disagreements as to the overall approach.

> **Differences: Need to Take Risks to Offer a New Bold Idea:** Some of your advisors believe that it is important to go forward with some idea of free 13th and 14th grade because it represents an idea and second term agenda that is bolder and stronger than any of your existing proposals, and therefore, would make more clear what your overall agenda is for the second term. Those who feel strongest about this need, feel strongly that you should push forward on a free 13th and 14th grade proposal, with the understanding that all ideas have problems that have to be ironed out and that such details should not hamper us going forward with the program. Others feel, there is not a basic need for such a new proposal, and that any new proposal will receive considerable scrutiny during the long campaign months, and that we should be relatively risk-adverse in offering new ideas where all of the mechanics have not been worked out. Clearly, many feel the answer to this issue lies in our ability to iron out the tough spots that will be discussed below.

Agreement: Completely Paid for and Balance in the Year 2002: One issue where there is near unanimous agreement is the notion that any extra costs must be specifically and clearly paid for in a way that makes clear we are still in balance in the year 2002.

Differences: Perception of Starting a Bidding War: While all agree that this new proposal is consistent with your targeted education tax strategy, some are concerned that even if we pay for this tax cut, the timing will lead many to claim that we have started the bidding war and that this will hurt our overall credibility. For some of your top economic advisors, this concern is very strong and would argue against doing a proposal even if most of the details could be worked out. Others feel that it is important to make such a proposal now, because if you wait, you may later be seen as reacting to a large across-the-board tax cut proposal.

Difference: Concern About the Message of "Free:" Secretary Reich and Secretary Riley agree with those who feel that the notion that "free" 13th and 14th grade tuition is central to making this a bold idea that will receive considerable attention. Secretary Kantor and others are concerned that despite the attractiveness of the notion of "free" 13th and 14th grade, the concept of "free" goes against the message of responsibility and opportunity, and of no more something for nothing. The response to this concern could be that if it is only tuition that is free, and students and families still have to take responsibility for room, board, transportation and books.

SECTION II. FIVE GENERAL OPTIONS

OPTION 1: Repackage Policies and Proposals As Guaranteed Access Accounts

This option would show that our existing policies and proposals together provide every American a guaranteed access to college and more. We could describe these benefits as "Individual Education Accounts" or "Individual Learning Accounts." They would guarantee every American $7,000 (or some equivalent amount) for their first two years through a combination of policies:

- Increased Pell Grants
- Increased work study
- $10,000 tuition deduction
- Loans — with pay-as-you can repayment
- Skill Grants
- Expanded IRAs to save tax-free for education and training

OPTION 1A: Option 1 With Sweetener: e.g., Pre-Paid Tuition Savings Option

Under this option, we would give the package in Option 1 a new bite by adding a relatively inexpensive sweetener. For example, we could expand subsidized loans or the Treasury could encourage pre-paid tuition savings plans.

NOTE ON PACKAGING AS "ACCOUNTS": All of the following options could be packaged as part of an Individual Learning/Education Account which include all of the benefits we offer. These options below could be seen as Education Accounts that

- Guarantee free tuition at an average community college
- Guarantee $6000-7000 a year in overall financing
- allow people to save for education
- pay back on income-contingent basis

NOTE ON PELL GRANTS: Any of the options below and above could include our announcing what we have already budgeted for the increase in Pell Grant awards in our 7 year balance budgets. This would make clear that our plan does help lower - income students (now, some will say that most Pell Grant recipients do not benefit from our additional credit) and will help get a sounder validator reaction from the higher education community.

OPTION 2: **Tax Credit for 13th and 14th Grade Combined with $10,000 Deduction**

- $1,500 for 13th and 14th Grade Full-Time
- $750 for 13th and 14th Grade Part-Time
- $10,000 Deduction (yet only at 15% bracket)

$1500, Full-Time: Full-time students in degree programs would be guaranteed $1,500 for tuition from either a refundable tax credit or a Pell Grant. In other words, if someone had a $1,500 Pell Grant they would not get a tax credit, and if they received a $1,000 Pell Grant they would get a $500 tax credit. This ensures that every young person is guaranteed a "free tuition" at an average priced community college. It would be enough to cover the average tuition for community colleges in 34 states, which include 67% of community college students.

Up To $750, Part-Time: Part-time students in a degree program could get a credit of up to $750 per year for four years for up to half-time enrollment.

$10,000 Deduction (15% Limit): About 70% of taxpayers are in the 15% brackets. Under our current proposal, a family in the 28% bracket could get a $2800 tax cut. Under this option, the deduction would be taken in the 15% bracket, so the most a family could receive would be $1,500 (15% of $10,000).

OPTION 2B: **Same as Option 2 But Without The $750 Credit for Part-Time Students**

OPTION 2C: **Same as Option 2 But The Credit Would Be Available to Students in Non-Degree Programs.** This would cost about $1 billion more per year.

OPTION 3: **Ensure Free College Tuition by Offering to Match 75% of Tuition for Community College (up to $1000-$1500)**

This option could have the same general benefits as Option 2, but the credit would take a different form, and would vary based on each state's tuition. The residents of each state would be eligible for a tax credit worth 75% of tuition if the state agreed to pay the other 25% -- up to $1200. For example, a state with a $1000 tuition, would have to agree to pay $250 for everyone in their state to be eligible for a $750 refundable tax credit.

OPTION 4: Give a Set National Credit Directly to Eligible Students Regardless of the Costs of Tuition in Their State

Under this model, a credit equal to the national average community college tuition would be given to each student directly -- regardless of the tuition costs in their state. Therefore, each full-time student would receive a $1200 or $1500 tax credit — enough for full-time tuition at an average community college. If the state were high-priced, the $1200 or $1500 amount would not be enough for "free"community college, but that would be the fault of the state. For states that subsidized more than the national average -- so that community college tuition was only $900 — the student could keep the difference and apply the rest ($300 if the credit were $1,200) for books, room and board.

OPTION 5: Expand Pell Grants To Guarantee All Students a Minimum of $1200-$1500. This option would offer an expanded Pell Grant approach in which all students would receive a minimum benefit to go to college, while poorer students could receive more. This proposal would implement this on the outlay side and not as a new tax cut proposal.

SECTION II. GENERAL CONCERNS: There are a few major concerns and questions that have to considered as we look at each of the options below or craft new options?

1. Costs: As there is a strong feeling that any proposal we put forward should be specifically paid for and solidly within a balanced budget plan for 2002, cost matters and offsets are critical. Therefore, as we consider each proposal we have to do a cost-benefit calculation for each new benefit or population covered in light of the difficulty of finding the necessary offset. This is compounded by the fact that the Administration already has supported new proposals such as the adoption tax credit and Kassebaum-Kennedy that add costs. Some of these proposals have become law and we have to account for them. Others are current proposal and we could limit what we are calling for:(for example, we could trigger off or limit the years of the Section 127 extension even though our preference is to extend it permanently.) Some feel that if we are offering a new benefit, we should very clearly show how it does cost more funds and how we going to pay for it, so that no one can accuse us of playing a shell game.

Current Cost Estimates:

- $1,500 for 13th and 14th Grade Full-Time degree-seeking only
- $750 for 13th and 14th Grade Part-Time
- $10,000 Deduction (yet only at 15% bracket) -.4 -6.6 7.6 9.2

Current Income Limits: (FY97-2002) $46.1 < 32.9 / 13.2 (FY2002) $11.8 10.6 11.8
100,000-120,000
70,000-90,000
Lower Income Limits: (FY97-2002) $38.5 < 27.5 / 11 (FY2002) $9.9 .3 5.5 6.3 7.7
$80,000-$100,000 Joint 8.8 9.9
$50,000-$70000 Individual

Current $10,000 Deduction (FY96-2002) $41.2 (FY2002) $8.0
97-2002 6 yrs 35 B

If Payment is made in the current fiscal year -- through immediate voucher, it will increase the costs $7-8 billion over FY97-2002, but only marginally in FY2002

Note: The numbers appear to be working out better than expected because of the savings from limiting the $10,000 deduction to 15% for all filers.

Note: The main reason why the numbers are lower than our current proposal, is that our current proposal is a seven year estimate and the new proposal are six years.

H net
tax 2004
- spending cut
lower income
1,500-71,000
% will affect

families
vs. MCBR

2C - $ 1000 Credit for 13th / 14th Grade (Everyone)
- lower income limit or current income

2. **Can We Say It Is 'Free'?** One of the main features of the proposal is the promise of "free 13th and 14th grade." We need a claim that is clear and yet does not overstate our case and leave us vulnerable to later critiques. First, that means making clear that we are speaking of tuition — not all costs including room and board. Second, it means ensuring that we are clear that the promise is "free tuition at the average community college" or "free tuition for states that are near the national average" or allows every state to offer free tuition for 13th and 14th grade." If we simply say we "promise every student free 13th grade and 14th grade" — it likely that the media will spend considerable time trying to find any conceivable hole in that promise.

State Control of Tuition and State Variation: One of the reasons it is difficult to ensure "free tuition for everyone" is that community college tuition varies by state and is controlled ~~by state~~ legislatures. The cost of community college averages close to $5000–$6000 a year. State legislatures subsidize the majority of those costs, and the rest ($1200 on average) is paid for by tuition. *Therefore, while our proposal is indexed for CPI,* it is still in the hands of each state legislature to determine how much they will subsidize education and therefore how much they will charge for tuition, and therefore, whether or not our credit does or doesn't ensure that tuition is "free."

- *Every student could be guaranteed free tuition at an average community college:* A $1,500 credit would ensure that 67% of full-time community college students would get free tuition at the average community college in their state. We have analyzed two figures: $1200, the national average community college tuition, and $1500, an amount that ensures free tuition for 67% of students and 34 states. 59% of students in community college pay less than $1200 and 81% of students pay less than $1600.

- *We could state that we are proposing a credit that allows every state to offer "free tuition;"* By showing that we are paying for a credit that is above the national average ($1500), we can state that we are making it possible for every state to offer free tuition for community college and that if it is not free, the finger should point to the state legislature. Option 3 is an attempt to tie the funding specifically to a state match to make full-time community college education free.

3. **The Issue of States Raising Their Tuition In Response to the Credit.**

The single hardest problem in the "free 13th and 14th grade proposal" is the problem of states' raising tuition.

- **States Above the Average:** If states charge tuition above the national average -- for example $2000 — some would argue that a guarantee of $1500 would cause them to raise tuition under the premise that students now owe only $500 and could certainly pay more. The opposing argument, would be that if the President of the United States highlighted that states that were above the $1200 national average were denying their students free education, state legislatures would feel political pressure to not push up their costs. Some at CEA would reply that as the spotlight wore off, states would gradually raise tuition or find other ways -- such as lab fees -- to raise costs.

- **States Below the National Average:** While the behavior in states above the average is subject to some dispute -- though most economists would argue prices would rise -- everyone agrees that states below the "award amount" would have a strong incentive to raise costs. In other words, if Montana charges $800 for full-time tuition, and we guarantee a full credit up to $1500, most believe that Montana would have a strong incentive to raise tuition to $1500. This may be the toughest conceptual problem with our proposal.

Possible Solutions:

- **Tuition Index Controls or Maintenance of Effort:** Requiring states not to raise tuition above CPI or to maintain their current level of subsidy would punish states like California who have significantly subsidized community college education. Everyone on your economic team opposes this.

- **State Match Requirement:** One could look for a state-match requirement that ensures free 13th and 14th grade conditioned on states doing their part.

- **Consumer Pressure:** One could also give funds directly to consumers and let them use extra funds for room and books (Option 4). This would create strong political pressure not to raise tuition.

- **Funds Must Supplement State Education Spending, Not Supplant It:** We could acknowledge that states that subsidized education beyond the national average, might choose to change their tuition, but only if the additional revenue from the difference between their current tuition and the credit is used to *supplement* other forms of scholarship funds for education in their state.

4. **Who would benefit? Another key issue -- directly related to the cost constraint -- is who would benefit from each proposal.** All of the proposals would clearly help those who go to two years of full-time college. For many going to community college, it would mean "free tuition," for those going to more expensive colleges it would mean a $1500 downpayment. The question as we go through is the people who don't fit into those categories: older workers, working single parents etc. The options include -- if we can afford it -- a $750 credit for half time students for to ensure that this proposal includes as many people as possible. The Labor Department has suggested that the credit apply to students in non-degree technical schools. This would costs as much as $1 billion more a year. The credit would not cover the following:

- attending a non-degree program, such as some technical and vocational schools
- attending a degree program <u>less</u> than half-time (or perhaps less than full time)
- who have already had two years of post-secondary school and are honest about it (students could get the credit if the school considers them a freshman or sophomore)

Nevertheless, these students and workers would still benefit from our proposal even though they may not qualify for the credit. *All of these students would be eligible for the $10,000 tax deduction for an unlimited number of years*, with the exception of those taking classes less than part-time that are not related to their career. Many would also be eligible for Pell Grants (which now average $1,600), Skill Grants (up to $2600) to pursue training in the program of their choice, student loans, work-study, or a combination of them. They or their families would also be eligible to save tax-free for their education under your IRA proposal.

5. **Administration and Implementation:** Most advisors believe it is important for the tax credit to be seen as immediately tangible for people going to school. Therefore, Treasury Department is devising ideas for how to allow the funds to go immediately and directly to the school so that the proposal is not seen as telling people to borrow for 12 months and then later get tax relief for tuition. Delivering the credit when tuition is due rather than when taxes are filed would make tuition seem more free, might encourage even more students to enroll, and would reduce the IRS's involvement with the credit. It could be done by sending the student or the school a voucher-like check for tuition. One problem is that as this voucher approach is developed in more detail, Republicans may seek to portray it as a spending program -- especially since they already portray refundable EITC credits as outlays. Furthermore, it would increase the overall costs of the program by $7 billion over 6-7 years. One option is to suggest administration ideas and make clear that we will work with state officials and colleges to devise a system that works best for everyone.

(Spending proposal is easier to administer)

SECTION IV. PROS AND CONS

Pros and Cons on Specific Options.

Option 1: Repackage Policies and Proposals As Guaranteed Access Accounts

Pros:

- Shows consistency by staying with the Middle Class Bill of Rights proposals
- Highlights the impressive proposals we have
- College access is now guaranteed and we should stress that
- Does not leave us open to "bidding" war critiques
- Speeches and paid media can help get this message out

Cons:

- Unlikely to get news. The press will ask what proposals are new and if it is not significant, it is unlikely to get major bounce.
- Without new proposal showing "free 13th and 14th grade," we will not get the news hook that would allow us to get the message out that all college access is guaranteed.
- Does not set out a bold enough new vision of our major goals for the second term.

Comments On Option 1a — Option 1 with a Sweetener: If there is a less expensive "sweetener" it would have to be something of news value. Perhaps, a strong move on clarifying and encouraging state pre-paid tuition savings plans would have that kind of bounce.

Option 2: Tax Credit for 13th and 14th Grade Combined with $10,000 Deduction 46.1 B

$1500 for 13th and 14th Grade Full-Time
$750 for 13th and 14th Grade Part-Time
$10,000 Deduction (yet only at 15% bracket)

Pros:

- Allows for claim that we are providing "free 13th and 14th grade" for average and above average community colleges.

- Keeps the $10,000 deduction from Middle Class Bill of Rights, and reduces the costs by limiting the deduction to 15% -- even for those in the 28% bracket.

- $750 half-time credit ensures that young parents as well as older workers switching jobs can take advantage of the new tax credit. Along with the $10,000 deduction, skill grants, IRAs, and Pell Grants, this would provide a strong life-long learning program.

Cons:

- There is strong argument to assume that states with lower than average tuition would raise their tuition for full-time students to $1500 and half-time students to $750. Thus many follow-up stories on the proposal may be on the likelihood of tuition being raised.

- If only full-time students were covered, part-time students may pressure the state and the schools not to raise tuition because it might affect their costs. If part-time students receive a credit, there may be very little incentive for below average tuition states to raise tuition to $1500.

- One-third of community college students -- who are in 16 states — would not get "free tuition" and some might contest our "free" claim, even though we called it "free tuition at an average priced community college."

Option 2 b: **Option 2 without the credit for part-time students.**

Pros:

- Reduces the expense

- Leads to more constraint on state legislatures to not raise tuition

- Older Americans would still be eligible for $10,000 deduction, skill grants, IRAs and Pell Grants

- Encourages more people to go full-time, which is highly correlated with successfully graduating

Cons:

- The main attraction of the new proposal -- the tax credit — would not reach many part-time students and people going to school while working.

- Would not be as strong in appealing to our message of helping working parents and worker anxiety.

Option 2c: **Same as Option 2 But The Credit Would Be Available to Students in Non-Degree Programs.**

Pros:

- More inclusive and deals more with helping existing workers get new skills and earn more income.

- Covers students out of high school going to vocational schools with one year length.

Cons:

- Would cost about $1 billion more per year than Option 2. No official estimate yet.

Option 3: **Ensure Free College Tuition by Offering to Match 75% of Tuition for Community College (up to $1000–$1500)**

public vs. private

state resident vs. state college attendant

Pros:

- Allows Administration to claim that we have done our part to make tuition free for 2 years of community college, and puts the burden on states if it does not happen.

- Gives states more incentive to keep tuition down. With no state match, a state that charges $1000 has a strong incentive to simply raise tuition. Under this proposal, the state would now get $750 per full-time student if it chipped in $250. If it raises tuition to $1500, its students would get $1125, but the state would have to pay another $375 –– an additional $125. So while there would still be an incentive to raise tuition, it would be modified.

Need to include more costs

let states pay but

Cons:

- Would lead tax credit to be different in every state and would increase complexity.

- Makes it seem less like a tax credit, though could still be described as a state–specific tax credit

Option 4: **Give a Set National Credit Directly to Eligible Students Regardless of the Costs of Tuition in Their State**

full-time

Pros:

- Can be described as allowing the $1500 to be used for room, board and books for states that subsidize beyond the national average.

- If a student in an $800 state believes he or she will have $700 in cash, they will apply political pressure to their state officials not to raise tuition.

Cons:

- Some might find it unseemly for students to get a check they use for outside expenses simply for going to community college.

cost

<u>Option 5</u>: **Expand Pell Grants To Guarantee All Students a Minimum of $1200–$1500.** This option does not include a new tax proposal.

Pros:

- Builds off an existing program and would be easy to deliver directly to schools.
- Simple and clear idea: everyone gets at least $1500 and poorer students get more.

Cons:

- Defeats the whole purpose of proposing a targeted *tax cut* for education.
- Changes Pell Grant to a middle class entitlement.

5/31/96

ADDITIONAL ALTERNATIVES TO GUARANTEE ACCESS TO HIGHER EDUCATION

- The MCBR would provide a tax deduction for tuition paid up to a maximum deduction of $10,000 per year for all postsecondary students. Current 6-year cost: $36 billion

- The current proposal under consideration is to provide a "free" tuition for the first two years of college through a $1,500 tax credit and deduction for all other postsecondary students. Current 6-year cost estimate: $54 billion

  -- "Free" means covering at least the average tuition cost of community college.

Problems with the Current Proposal

- Exceeds available resources by $18 billion

- Constraining costs by academic grades or requiring tests would sharply reduce eligible populations and would have negative impacts on other education policies.

- Focusing solely on credits for tuition alone ignores much higher true cost of attendance and much greater resources which the President can promise will be guaranteed.

Additional Alternative

- A powerful presidential message would couple a new credit/grant for tuition with guarantee of sufficient fund to pay <u>the average full cost of community college attendance: $6,850.</u>

  -- Composition: New credit/grant, and/or Pell grant; subsidized or unsubsidized loans to students and/or parents.
  -- Additional funds are available from Work-Study, Merit Scholarships, access to IRAs for education, employer-assisted education benefits, and state prepaid tuition programs
  -- Tax deduction would be also available for those who are not eligible for basic credits/ grants.

Sizing Credit/Grant To Fit Cost Parameters

1. $1,500 credit or grant with a lower income phase-out

- the MCBR phases out at $70,000-$90,000 for single tax filers and $100,000-$120,000 for joint filers; and this would phase out at xxxxx, which would allow the program within the cost of xxx and eliminating xxxx students vs. MCBR.

2. Smaller credit or grant (e.g., $1,000)

- o Retain student coverage but with a small credit/grant to fit cost parameters. If the message structure is the "guarantee of full cost" vs. "free" tuition, the lower credit/grant is still a bold new element within the cost limit.

Administratively Simpler Alternatives to a Refundable Individual Tax Credit

1. School voucher program

- o Schools would credit student accounts with $1,500/$1,000 and submit vouchers for payment to the IRS. This has an advantage of eliminating the use of tax returns, but requires a substantial administrative burden, and requires schools to carry costs until reimbursement.

2. New entitlement based on Pell system

- o Provides a base credit/grant through the Pell administrative system. Greatly simplified administration by eliminating credits through IRS, and requires no new administrative structure.
- o Could increase a pressure to convert the now-discretionary Pell program into an entitlement program.

PROVIDE GUARANTEE THROUGH THE PELL GRANT SYSTEM

Students could be guaranteed a free education for the first two years of college through an expansion of the Pell Grant program rather than the creation of a new tax credit. The proposed tax credit amount--$1,500 for full-time degree-seeking students and $750 for part-time students--would be provided to the same students through direct grants when they enroll in college rather than through a tax credit after they pay tuition.

The Pell Grant program already provides grants to more than 3.5 million students, with another 6.5 million students applying for student aid, but not receiving Pell Grants. This program and its delivery system can easily expand to provide aid to all eligible students. Pell Grants would be calculated for students according to the current award formulas currently in the statute; if a student's award was less than $1500 (including no award) their grant would be increased to $1500. The benefit would phase out for higher income students according to the income cutoffs in the President's IRA proposal.

50-70 ?-100

This proposal would increase Pell Grant costs from roughly $5.5 to $6 billion per year to $-- billion per year at full implementation (without any assumptions regarding behavioral changes that would increase full-time enrollments). Students would receive benefits more quickly in the Pell Grant program than under the tax credit because many are already applying for aid.

The benefits to this proposal are:

- students receive their grants at the time they pay their tuition,
- a simpler system with one large grant program rather than a grant program and tax credit,
- simple expansion of the existing delivery system for Pell Grants and student loans,

Concerns about this proposal relate to targeting and budget issues:

- Pell Grants are now highly targeted on needy students. This proposal would significantly restructure the program to provide aid to more middle income students. Many will fear that this expansion in Pell Grant eligibility will reduce aid for lower-income students.
- The Pell Grant program is a discretionary program subject to annual appropriations; a significant increase in Pell funding will be difficult to achieve under the current budget agreement. Figuring out a way to put the increased costs on the mandatory side of the budget (where the tax credit would appear) could address this problem.

The tax deduction proposal would provide lifelong learning opportunities for all other students.

OG, MM, DM 11/19/96

- "Taxable" portion of grants - part that goes to room & bd is not taxable...

*

- Pell - credit

Portion of fees - Pell

- Treasury alone or Ed ?? Regs by both?

- Fin. Asst. - 540

- pull out section on fin. asst. stats

- new area stds data first came in.

Proprietary?

- Can't get ded. if got crd. for that semester

~~- Pell Grant~~

- ED or inst'n send the info to student.

- 6103 - taxpayer info are used for third party reporter
  - e.g. can't use it for other purposes.

- [illegible]

- Student:

- ED rules - can be used

- Student pays costs but is dependent

- Timing: lag behind pmt
  Must be after paid - cash transactions
  - pay & complete ed. period.

Also: same as! reduce withholding - & can't get self-help

~~Alts~~

- Can get a P.G. in May for period of study that began previous July.

- For inst'n: diff students pay for diff #s of acad. periods

Big probs

- Mismatch bet. years
- Covered years

EFC?

- $3000

Cost: If no offset from credit

- those going to expensive schools and get it.

Ann: - Ed higher: Ben Lebrock

Refundability - because deduction is of value to them - no tax liability

Other ideas

- Student loan interest deduction

+ Bruce: Concept like $500 children (age 13) - not refundable
for dep. & F-T students (18-24)
→ bigger credit?
(stacked pre- or post- EITC)

(- Student loan defaulters?)

- Savings Incentive - income limits on front end...
  - IRA - penalty-free withdrawals
  "back-loaded IRA"

→ increase

-

Non Arzoan

- Income distribution of people who would get
  - who would get the credit?
    - full-time, part-time
    - types of college

Would we like to be able to say ...

~~Credit for Being~~

- Up to $3000 credit

(1) - Ac. vs. tax year
- where you are in ac. progress
- Credit and deduction

$ outlay program - midsession
(2) Credit: 1997-2002 $5.8 billion
refundable
$28.1

(2) Actual tuition + fees paid,
coordinate w/ aid

[but aid + tax credit]

- How much money are given them. -

- Cost of Attendance: - can't verify

- attribute only part to tuition & fees, other part to room & board.

→ tax issue -

- A.P. credits

"Junior year status" -

- summer schools ?

- schedule
- examples
- data (BG)

Schedule HOPE

NOTE: Separate schedule must be completed for each student for whom you are claiming a HOPE credit or deduction.

1. Full name and TIN of individual for whom credit/deduction is being claimed:

______________________________ ___ ___ ____.

2. Will the individual be claimed as a dependent by someone else for the relevant tax year? If yes, you are not eligible for HOPE.

deduction + credit

3. Were the tuition and fees for which you are seeking a HOPE credit/deduction for enrollment during the tax year in either (a) at least half-time in a postsecondary certificate or degree program, or (b) courses to acquire or improve job skills? If no, you are not eligible for the HOPE credit or ~~deduction~~. deduction

MET

4. Tuition ~~and~~ fees paid, as reported on W-HOPE form (attach): __________
(For students who didn't fill out FAFSAs, school would have to provide a form?)

5. Amount of any refund or insurance reimbursements of amount above: __________
?

6. Subtract line 5 from line 4 and enter result here: __________

DEDUCTION

7. Complete worksheet to determine allowable deduction. Result: __________

8. Insert the lesser of the previous two lines. __________

9. Subtract any HOPE credit being claimed for this student (line -- below). Result: __________

CREDIT:

10. ATTESTATION OF NO DRUG CONVICTION (must be completed by student):

Have you ever been convicted of a drug offense? If yes, the filer is not eligible for the credit. I certify that I am not a liar.

11. Has the student completed two academic years of postsecondary education? If yes, then you

are not eligible for the credit.

12. Has the student completed one full academic year? If yes, did the student achieve at least a 2.75 grade point average during that year? If no, you are not eligible for the credit. If yes, the student must complete this box:

ATTESTATION OF GOOD GRADES:

"If I didn't get at least a B- average, then so help me."

13. If your income (refer to a line on 1040?) is less than $50,000 (or $80,000 in the case of a joint return) then enter $1500 on this line. If your income is higher, then complete the worksheet to determine your allowable credit. Insert amount: __________

14. If the tuition and fees paid for the equivalent of a full year of school (but not including any periods beyond the first two years of postsecondary education), then insert the amount from line above. If part-time or partial years, then see worksheet 3. __________

15. Insert amount of Federal aid from line -- on the student's W-HOPE form: __________

16. Subtract (insert zero if less than zero). CREDIT: __________

NOTES AND PROBLEMS

1. If a family has multiple eligible students, a schedule would be filled out for each. For the deduction, they could be added (not to exceed the allowable amount for that taxpayer depending on income). For the credit, they would be added. (On the 1040 form?)

2. Data match problem: The FAFSA definition of "dependent" is not consistent with IRS policy.

3. Does this address the "hobby and sports" provision, or does that need to be more specific? ED info? Or just the filer?

4. The big question is where does this form come from? Can ED gather enough data to provide it, or must this be a new requirement of institutions? What percentage of students already fill out a FAFSA and get some type of aid? (How much of an additional burden for colleges to provide this info for all students in their dealings with ED). Note that "net" for this purpose would subtract grants and the like, but not work-study type awards.

TIMING of the payment of tuition and fees is a problem: A parent might pay the Spring bill in December the first year, but in January the following year. Or maybe that's not a problem. Just need to make sure nobody ends up taking credit for the same credit twice due to the confusion of academic versus calendar years. Could most schools track it on a calendar year basis? Or should we reconsider a shift to academic years?

5.

6.

7. The taxpayer needs to add various deductions back into AGI to determine if there needs to be a ratable reduction of the allowable deduction. Would this number appear on one of the lines on the tax form? It would be best to be able to ask, "If line 15 is less than $50,000, then insert $5,000. If line 15 is $50,000 or more, then complete the worksheet to determine if you are eligible for a deduction."

8.

9. Is that right? What about credits claimed for other dependents. Doesn't matter, I think.

10. If this turns out to be the only part of the schedule that must be completed by the student (rather than the parent/taxpayer), it may make sense to consider placing this on the FAFSA.

11.

12. If schools balk at providing grades, we could do it this way (without any real verification, of course). One problem: Some students will have completed their first year of school in the middle of the period for which a credit is being taken. If they don't have the grades, I assume they could still take the credit for the first term in the tax year? (Might require another worksheet!)

13. The worksheet would weed out those who are less than half-time, reduce the amount for those who are less than full-time but more than half-time (and deal with hobby and sports credits, I guess).

14. This will be complicated for some. If a Freshman on the quarter system, then the parents would have paid for the fall and winter quarters in the tax year, but not the spring quarter. So the credit would be 2/3 of the income-determined amount. If the student didn't take a full load one of those quarters, then the parent gets ½ of 1/3 of the credit for that quarter, and a third of the credit for the other quarter (which adds to 1/2).

15.

16.

Below is a list of data elements that IRS needs to have in administering the tax credit and deduction proposals. Treasury made this list last summer. ED thought this list is too extensive.

Information Required to Determine
Refundable Tuition Tax Credit and Above-the-line Deduction

The following information items are required with respect to each academic period for which a student is enrolled during the taxable year. With respect to the credit, once allowable credit is determined, the usual tax rules regarding offsets for outstanding tax liabilities, etc. apply.

Item	Credit	Deduction
Student name	x	x
Student TIN (i.e., social security number)	x	x
Taxpayer name	x	x
Taxpayer TIN	x	x
Institution name	x	x
Institution EIN	x	x
Tuition and fees charged	$	$
Non-federal grants	$	
Federal grants	$	
All grants		$
Tuition and fees paid less refunds and insurance reimbursements	$	$
Prior year allowable credits by student	$	
Student status		
13th year	Y/N	
14th year	Y/N	
enrolled in qualified program	Y/N	
at least half-time	Y/N	Y/N
full-time	Y/N	
job/skill related course		Y/N
hobby, etc. - related course	Y/N	Y/N
B- average in 13th year	Y/N	
drug-related felon	Y/N	
non-resident alien	Y/N	Y/N
high school student	Y/N	Y/N

- Do we really need it

- How much will it cost to eliminate it.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MEMORANDUM

To: Mike Smith
Larry Summers
David Longanecker
Don Lubick

From: Bob Shireman
Chief, Education Branch

Date: November 15, 1996

Re: Follow up on today's meeting: Next steps on Hope Scholarships

OMB, Education and Treasury staff will meet on Tuesday or Wednesday (November 19 or 20). In order to make sure that we progress further than today's meeting, please make sure that participants *bring* to the meeting their own answers to these two questions.

1. Assuming there is no change in the basic design of the tax credit and deduction proposal, what are the *implementation* questions that need to be addressed? For example:

    --How can taxpayers have easy access to data needed to determine their credit and deduction?
    --Which data elements, for which students, does the Education Department already have access to?
    --How can the IRS be provided with data to check the claims of tax filers?
    --Should we allow people who have defaulted on student loans to receive the tax credit?

2. What are some possible answers to those questions?

It is critical that participants also bring with them details about the assumptions that went into the current cost estimate (for example, the number of individuals who are not expected to have enough tax liability to offset the credit and who would not be expected to receive a Pell Grant exceeding $1500).

I expect to finish the meeting with:

1. A list of issues for which we have reasonable solutions or options.

2. A short list of issues that require further information or reconsideration.

We will then have Thursday to prepare a briefing paper and gather additional information necessary to make a presentation on Friday to the participants of today's meeting. The goal of the Friday meeting will be for the principals to make decisions so that Education and Treasury can have detailed option papers ready immediately after Thanksgiving.

If there are any questions, please call me at 395-3429.

Schedule HOPE

NOTE: Separate schedule must be completed for each student for whom you are claiming a HOPE credit or deduction.

FAFSA and need for parent's #

1. Full name and TIN of individual for whom credit/deduction is being claimed:

______________________________ ___ ___ ___.

2. Will the individual be claimed as a dependent by someone else for the relevant tax year? If yes, you are not eligible for HOPE.

deduction & credit

3. Were the tuition and fees for which you are seeking a HOPE credit/deduction for enrollment during the tax year in either (a) at least half-time in a postsecondary certificate or degree program, or (b) courses to acquire or improve job skills? If no, you are not eligible for the HOPE credit or ~~deduction~~.

deduction only

MET

4. Tuition ~~and~~ fees paid, as reported on W-HOPE form (attach): ________
(For students who didn't fill out FAFSAs, school would have to provide a form?)

5. Amount of any refund or insurance reimbursements of amount above: ________
?

6. Subtract line 5 from line 4 and enter result here: ________

DEDUCTION

7. Complete worksheet to determine allowable deduction. Result: ________

8. Insert the lesser of the previous two lines. ________

9. Subtract any HOPE credit being claimed for this student (line -- below). Result: ________

CREDIT:

10. ATTESTATION OF NO DRUG CONVICTION (must be completed by student)

Have you ever been convicted of a drug offense? If yes, the filer is not eligible for the credit. I certify that I am not a liar.

11. Has the student completed two academic years of postsecondary education? If yes, then you

are not eligible for the credit.

12. Has the student completed one full academic year? If yes, did the student achieve at least a 2.75 grade point average during that year? If no, you are not eligible for the credit. If yes, the student must complete this box:

ATTESTATION OF GOOD GRADES:

If I didn't get at least a B- average, then so help me...

13. If your income (refer to a line on 1040?) is less than $50,000 (or $80,000 in the case of a joint return) then enter $1500 on this line. If your income is higher, then complete the worksheet to determine your allowable credit. Insert amount: ____________

14. If the tuition and fees paid for the equivalent of a full year of school (but not including any periods beyond the first two years of postsecondary education), then insert the amount from line above. If part-time or partial years, then see worksheet 3. ____________

15. Insert amount of Federal aid from line -- on the student's W-HOPE form: ____________

16. Subtract (insert zero if less than zero). CREDIT: ____________

NOTES AND PROBLEMS

1. If a family has multiple eligible students, a schedule would be filled out for each. For the deduction, they could be added (not to exceed the allowable amount for that taxpayer depending on income). For the credit, they would be added. (On the 1040 form?)

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3. Does this address the "hobby and sports" provision, or does that need to be more specific? ED info? Or just the filer?

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9. Is that right? What about credits claimed for other dependents. Doesn't matter, I think.

10. If this turns out to be the only part of the schedule that must be completed by the student (rather than the parent/taxpayer), it may make sense to consider placing this on the FAFSA.

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14. This will be complicated for some. If a Freshman on the quarter system, then the parents would have paid for the fall and winter quarters in the tax year, but not the spring quarter. So the credit would be 2/3 of the income-determined amount. If the student didn't take a full load one of those quarters, then the parent gets ½ of 1/3 of the credit for that quarter, and a third of the credit for the other quarter (which adds to 1/2).

15.

16.

DRAFT

Location of Information Needed to Calculate the HOPE Tax Credit and MCBR Tax Deduction

The following information items are required with respect to each academic period for which a student is enrolled during the taxable year.

Information Item	Credit	Deduction
Name and SSN of student(s)	Institution, ED[1]	Institution, ED[1]
Name and SSN of taxpayer(s)		
Name and EIN of institution(s) attended	ED	ED
Tuition and fees charged	Institution, student	Institution, student
Tuition and fees paid (i.e. less refunds etc.)	Institution,[2] student	Institution,[2] student
Federal grant aid	Institution, ED[3]	not required
Non-federal grant aid	Institution[4]	not required
Total grant aid	not required	Institution[4]
Attendance status (full-/part-time)	Institution, ED[3]	Institution, ED[3]
Year in school	Institution, student	not required
Eligible program	Institution, student[5]	Institution, student[5]
Skill acquisition course	not required	Institution, student[5]
Grade point average	Institution, student	not required
Drug-free certification	Student, ED[1]	not required
Non-resident alien	ED[1]	ED[1]
Prior year allowable tax credits	IRS	not required

Note that student-reported information, while readily available, may be unreliable.

---

[1] Title IV Federal financial aid applicants only.

[2] May be unaware of insurance reimbursements.

[3] Pell grant recipients only.

[4] Assumes institution is aware of all private aid sources.

[5] If properly informed by institution.

ED/OPE
Nov. 19, 1996

INSTRUCTIONS FOR SCHEDULE HE

1. Table

Academic period	Full–time status: Portion of academic year	Full–time status: Maximum credit	At least half–time status: Portion of academic year	At least half–time status: Maximum credit
Semester	0.50	$750	0.25	$375
Trimester	0.50	$750	0.25	$375
Quarter	0.33	$500	0.17	$250
Qualified summer session	???????????????????	??????????	????????????????????????	??????????
Programs measured in hours of instruction				
300 but < 450	0.33	$500		
450 but < 600	0.50	$750		
600 but < 750	0.66	$1,000		
750 but < 900	0.83	$1,250		
at least 900	1.00	$1,500		

$3000

– why? 2 yrs of credit
only 2 yrs of school...
– 2 + 3 ded

2. Explain basic concepts and walk taxpayer through schedule.

3. Reference to Form 1099 HE, the information form from qualified institutions of higher education. Must be attached to Schedule HE.

4. Explain rule about sports and hobbies. deductions

5. Explain drug felon rule. DOJ database. – not a $ problem. *Why not for deduction?

6. Explain rules about attendance at foreign educational institution. – study abroad

7. Explain that amounts paid for by student or taxpayer out of loan proceeds count. – can still deduct * Need clarification

8. Explain interaction with federal and non–federal grants and scholarships. Need reporting.

9. Explain interaction with Savings Bond interest used to pay for higher education, i.e., exluded interest is treated like a non–federal scholarship. – Not customized now – virtually unutilized – income limited – [illegible]

10. Explain interaction with section 127, i.e., no credit or deduction allowed for expenses paid by employer unless such expenses were taken into income because they were for graduate education or exceeded $5,250.

11. Explain B– average rule. — Needs to be added in draft? (Any paid by non-taxable income)

* – federal "non-taxable aid" = the cost for tuition & fees

suddenly the IRS will have this info...

→ If student eligible to be claimed, then parent dist...

– could use calendar for ac. periods

Schedule HE
Credits and Deductions for Post-Secondary Education

1997

Taxpayer's Name____________________ Social Security Number___________

(Prepare a separate schedule for each student for whom a credit or deduction is claimed on this return)

(1) Name of Student___________________ Social Security No. ______________________

(2) First academic period beginning in 1997. Type: Semester/qtr. Portion of full academic year __.____
(3) Enrollment status (check one): full-time __; at least half-time __; or less than half-time__.
Note: If less than half-time, no credit may be claimed with respect to this academic period and education must be related to student's job or acquisition of employment-related skills.
(4) Name of institution ____________________ EIN ______________________
(5) Amount of tuition and required fees paid by student or taxpayer during 1997 from sources other than scholarships or grants for this academic period (see instructions). $________
If a deduction is being claimed with respect to the line 5 amount check here [ ] and go to line 11.
(6) Pell grant and other Federal assistance received for or allocable to this academic period (see instructions). $________
(7) Add lines (5) and (6) $________
(8) Maximum credit for this enrollment period and status (see table in instructions) $________
(9) Preliminary credit: the lesser of line (7) or line (8) $________
(10) Tentative credit for academic period: line (9) less line (6), but not less than zero. $________

(11 Second academic period beginning in 1997. Type:____________________ Portion of full academic year __.____
(12) Enrollment status (check one): Full-time __; at least half-time __; or less than half-time.
Note: If less than half-time, no credit may be claimed with respect to this academic period and education must be related to student's job or acquisition of employment-related skills.
(13) Name of institution ____________________________ EIN ____________________
(14) Amount of tuition and required fees paid by student or taxpayer during 1997 from sources other than scholarships or grants for this academic period (see instructions). $________
If a deduction is being claimed with respect to the line 14 amount check here [ ] and go to line 20.
(15) Pell grant and other Federal assistance received for or allocable to this academic period (see instructions). $________
(16) Add lines (14) and (15) $________
(17) Maximum credit for this enrollment period and status (see table in instructions) $________
(18) Preliminary credit: the lesser of line (16) or line (17) $________
(19) Tentative credit for academic period: line (18) less line (15), but not less than zero. $________

(20 Third academic period beginning in 1997. Type:____________________ Portion of full academic year ___.____
(21) Enrollment status (check one): Full-time __; at least half-time __; or less than half-time__.
Note: If less than half-time, no credit may be claimed with respect to this academic period and education must be related to student's job or acquisition of employment-related skills.
(22) Name of institution ____________________ EIN ____________________
(23) Amount of tuition and required fees paid by student or taxpayer during 1997 from sources other than scholarships or grants for this academic period (see instructions). $________
If a deduction is being claimed with respect to the line 23 amount check here [ ] and go to line 11.
(24) Pell grant and other Federal assistance received for or allocable to this academic period (see instructions). $________
(25) Add lines (23) and (24) $________
(26) Maximum credit for this enrollment period and status (see table in instructions) $________
(27) Preliminary credit: the lesser of line (25) or line (26) $________
(28) Tentative credit for academic period: line (27) less line (25), but not less than zero. $________

Credits and Deductions for Post-Secondary Education

Taxpayer's Name__________________ Social Security Number___________

(Prepare a separate schedule for each student for whom a credit or deduction is claimed on this return)

(1) Name of Student__________________ Social Security No. __________________

if paid in

(29 Academic period beginning during first three months of 1998. Type:__________ Portion of full academic year __.___

(30) Enrollment status (check one): Full-time __; at least half-time __; or less than half-time__.
Note: If less than half-time, no credit may be claimed with respect to this academic period and education must be related to student's job or acquisition of employment-related skills.

(31) Name of institution __________________ EIN __________________

(32) Amount of tuition and required fees paid by student or taxpayer during 1997 from sources other than scholarships or grants for this academic period (see instructions). $________
If a deduction is being claimed with respect to the line 32 amount check here [ ] and go to line 11. ________

(33) Pell grant and other Federal assistance received for or allocable to this academic period (see instructions). $________

not straightforward

(34) Add lines (32) and (33) $________

(35) Maximum credit for this enrollment period and status (see table in instructions) $________

(36) Preliminary credit: the lesser of line (35) or line (34) $________

(37) Tentative credit for academic period: line (27) less line (25) , but not less than zero. $________

CREDIT SUMMARY. Note: Credit may only be claimed for academic periods that are a part of student's first two academic years of post-secondary education. Credits may not be claimed for students who have, prior to the enrollment period, earned an AA, BA, or equivalent academic degree or whose enrollment status is less than half-time.
Note: No credit may be claimed for any enrollment period which is part of the student's second year of post-secondary education unless taxpayer possesses and retains records indicating that the student achieved a 2.75 grade point average, or above, (or the equivalent for enrollment in institutions not using a four-point grading scale, see instructions) for those enrollment periods constituting the student's first year of post-secondary education.

(38 Years, including portions thereof, of post-secondary education completed prior to the first academic period reported on this schedule including any academic period for which a deduction or credit was claimed last year by the student, the taxpayer, or any other taxpayer. (Line 42, column A from Schedule HE for this student for last year.) 1.2 \[\]

	A Portion of academic year	B Dollar amount
(39) First academic period: Add line 2 amount to line 38 amount and enter in column A. If column A amount in this line is 2.00 or less, enter line 10 amount in column B.	__.___	$_______
(40) Second academic period: Add line 11 amount to line 39 amount and enter in column A. If column A amount in this line is 2.00 or less, enter line 19 amount in column B.	__.___	$_______
(41) Third academic period: Add line 20 amount to line 40 amount and enter in column A. If column A amount in this line is 2.00 or less, enter line 28 amount in column B.	__.___	$_______
(42) Academic period beginning in the first three months of 1988 and for which payments were made in 1997: Add line 29 amount for portion of academic year to the line 41 column A amount and enter in column A. If the column A amount in this line is 2.00 or less, enter line 37 amount in column B.	__.___	$_______
(43 Total of column B amounts in lines 39-42 , but no more than $1,~~50~~0.		$_______

when cross 2 yrs, no longer eligible.

-All of this for each student.

Schedule HE
Credits and Deductions for Post–Secondary Education

Taxpayer's Name_________________ Social Security Number_________

TAXPAYER'S SUMMARY OF DEDUCTIONS FOR POST–SECONDARY EDUCATION

Note: No deduction may be claimed with respect to any one student for an academic period for which a credit is being claimed. No credit may be claimed with respect to any one student for an academic period for which a deduction is being claimed.

	Student's name	Student's Social Security Number	Deductions Sum of line 5, 14, 23, and 32	Credits Amounts from line 43
a			$	$
b			$	$
c			$	$
d			$	$
e			$	$
(44)Total lines a–e			$	$

(45)Possible deduction: The lesser of line 44 or $10,000 $________

APPLICATION OF PHASE–OUT RATIO

(46)Adjusted gross income (line xx from form 1040)

(47)Income excluded by reason of sections 911, 931, and 933 (see instructions) – MAGI

(48)Modified adjusted gross income –– add lines 45 and 46.

(49)Phase–out ratio: line 47 amount minus $50,000 ($80,000 in the case of a joint return) divided by $20,000. If ratio is greater than 1.00 no deduction or credit may be claimed. [ ]

(50)Multiply line 45 amount of deductions by line 48 phase–out ratio. $________

(51)Allowable deduction: Subtract line 50 from line 45 and transfer amount to line yy on form 1040. $________

(52)Multiply line 44 amount of credits by line 48 phase–out ratio.

(53)Allowable credit: Subtract line 52 from the line 44 amount of credits and transfer amount to line zz on form 1040. $________

Student Certification for Calendar Year 19__

Student's name __________________
Student's social security number ________________________________

I can/cannot be claimed as a dependent for federal tax purposes

If I can be claimed as a dependent for tax purposes:
Name of taxpayer _____________________
Taxpayer's social security number _______________________

I am a citizen or resident of the United States.

INSTRUCTIONS FOR SCHEDULE HE

1. Table

Academic period	Full-time status: Portion of academic year	Full-time status: Maximum credit	At least half-time status: Portion of academic year	At least half-time status: Maximum credit
Semester	0.50	$750	0.25	$375
Trimester	0.50	$750	0.25	$375
Quarter	0.33	$500	0.17	$250
Qualified summer session	???????????????????	??????????	??????????????????????????	??????????
Programs measured in hours of instruction				
300 but < 450	0.33	$500		
450 but < 600	0.50	$750		
600 but < 750	0.66	$1,000		
750 but < 900	0.83	$1,250		
at least 900	1.00	$1,500		

2. Explain basic concepts and walk taxpayer through schedule.

3. Reference to Form 1099 HE, the information form from qualified institutions of higher education. Must be attached to Schedule HE.

4. Explain rule about sports and hobbies.

5. Explain drug felon rule.

6. Explain rules about attendance at foreign educational institution.

7. Explain that amounts paid for by student or taxpayer out of loan proceeds count.

8. Explain interaction with federal and non-federal grants and scholarships.

9. Explain interaction with Savings Bond interest used to pay for higher education, i.e., exluded interest is treated like a non-federal acholarship.

10. Explain interaction with section 127, i.e., no credit or deduction allowed for expenses paid by employer unless such expenses were taken into income because they were for graduate education or exceeded $5,250.

11. Explain B- average rule.

Schedule HE
Credits and Deductions for Post-Secondary Education

1997

Taxpayer's Name____________________ Social Security Number___________

(Prepare a separate schedule for each student for whom a credit or deduction is claimed on this return)

(1) Name of Student____________________ Social Security No. ________________________

(2) First academic period beginning in 1997. Type:____________________ Portion of full academic year __.____
(3) Enrollment status (check one): full-time __; at least half-time __; or less than half-time__.
Note: If less than half-time, no credit may be claimed with respect to this academic period and education must be related to student's job or acquisition of employment-related skills.
(4) Name of institution ____________________ EIN ____________________
(5) Amount of tuition and required fees paid by student or taxpayer during 1997 from sources other than scholarships or grants for this academic period (see instructions). $ ________
If a deduction is being claimed with respect to the line 5 amount check here [ ] and go to line 11.
(6) Pell grant and other Federal assistance received for or allocable to this academic period (see instructions). $ ________
(7) Add lines (5) and (6) $ ________
(8) Maximum credit for this enrollment period and status (see table in instructions) $ ________
(9) Preliminary credit: the lesser of line (7) or line (8) $ ________
(10) Tentative credit for academic period: line (9) less line (6) , but not less than zero. $ ________

(11 Second academic period beginning in 1997. Type:____________________ Portion of full academic year __.____
(12) Enrollment status (check one): Full-time __; at least half-time __; or less than half-time.
Note: If less than half-time, no credit may be claimed with respect to this academic period and education must be related to student's job or acquisition of employment-related skills.
(13) Name of institution ______________________________ EIN ____________________
(14) Amount of tuition and required fees paid by student or taxpayer during 1997 from sources other than scholarships or grants for this academic period (see instructions). $ ________
If a deduction is being claimed with respect to the line 14 amount check here [ ] and go to line 20.
(15) Pell grant and other Federal assistance received for or allocable to this academic period (see instructions). $ ________
(16) Add lines (14) and (15) $ ________
(17) Maximum credit for this enrollment period and status (see table in instructions) $ ________
(18) Preliminary credit: the lesser of line (16) or line (17) $ ________
(19) Tentative credit for academic period: line (18) less line (15) , but not less than zero. $ ________

(20 Third academic period beginning in 1997. Type:____________________ Portion of full academic year ___.____
(21) Enrollment status (check one): Full-time __; at least half-time __; or less than half-time__.
Note: If less than half-time, no credit may be claimed with respect to this academic period and education must be related to student's job or acquisition of employment-related skills.
(22) Name of institution ____________________ EIN ____________________
(23) Amount of tuition and required fees paid by student or taxpayer during 1997 from sources other than scholarships or grants for this academic period (see instructions). $ ________
If a deduction is being claimed with respect to the line 23 amount check here [ ] and go to line 11.
(24) Pell grant and other Federal assistance received for or allocable to this academic period (see instructions). $ ________
(25) Add lines (23) and (24) $ ________
(26) Maximum credit for this enrollment period and status (see table in instructions) $ ________
(27) Preliminary credit: the lesser of line (25) or line (26) $ ________
(28) Tentative credit for academic period: line (27) less line (25) , but not less than zero. $ ________

Credits and Deductions for Post-Secondary Education

Taxpayer's Name____________________ Social Security Number___________

(Prepare a separate schedule for each student for whom a credit or deduction is claimed on this return)

(1) Name of Student____________________ Social Security No. ________________________

(29 Academic period beginning during first three months of 1998. Type:__________ Portion of full academic year __.___

(30) Enrollment status (check one): Full-time __; at least half-time __; or less than half-time__.
Note: If less than half-time, no credit may be claimed with respect to this academic period and education must be related to student's job or acquisition of employment-related skills.

(31) Name of institution ____________________ EIN ________________________

(32) Amount of tuition and required fees paid by student or taxpayer during 1997 from sources other than scholarships or grants for this academic period (see instructions). $ ________
If a deduction is being claimed with respect to the line 32 amount check here [ ] and go to line 11. ________

(33) Pell grant and other Federal assistance received for or allocable to this academic period (see instructions). $ ________

(34) Add lines (32) and (33) $ ________

(35) Maximum credit for this enrollment period and status (see table in instructions) $ ________

(36) Preliminary credit: the lesser of line (35) or line (34) $ ________

(37) Tentative credit for academic period: line (27) less line (25) , but not less than zero. $ ________

CREDIT SUMMARY. Note: Credit may only be claimed for academic periods that are a part of student's first two academic years of post-secondary education. Credits may not be claimed for students who have, prior to the enrollment period, earned an AA, BA, or equivalent academic degree or whose enrollment status is less than half-time.
Note: No credit may be claimed for any enrollment period which is part of the student's second year of post-secondary education unless taxpayer possesses and retains records indicating that the student achieved a 2.75 grade point average, or above, (or the equivalent for enrollment in institutions not using a four-point grading scale, see instructions) for those enrollment periods constituting the student's first year of post-secondary education.

(38 Years, including portions thereof, of post-secondary education completed prior to the first academic period reported on this schedule including any academic period for which a deduction or credit was claimed last year by the student, the taxpayer, or any other taxpayer. (Line 42, column A from Schedule HE for this student for last year.) [ ]

	A	B
	Portion of academic year	Dollar amount
(39) First academic period: Add line 2 amount to line 38 amount and enter in column A. If column A amount in this line is 2.00 or less, enter line 10 amount in column B.	__.____	$_______
(40) Second academic period: Add line 11 amount to line 39 amount and enter in column A. If column A amount in this line is 2.00 or less, enter line 19 amount in column B.	__.____	$_______
(41) Third academic period: Add line 20 amount to line 40 amount and enter in column A. If column A amount in this line is 2.00 or less, enter line 28 amount in column B.	__.____	$_______
(42) Academic period beginning in the first three months of 1988 and for which payments were made in 1997: Add line 29 amount for portion of academic year to the line 41 column A amount and enter in column A. If the column A amount in this line is 2.00 or less, enter line 37 amount in column B.	__.____	$_______
(43 Total of column B amounts in lines 39-42 , but no more than $1,500.		$_______

Schedule HE
Credits and Deductions for Post–Secondary Education

Taxpayer's Name________________ Social Security Number_________

TAXPAYER'S SUMMARY OF DEDUCTIONS FOR POST–SECONDARY EDUCATION

Note: No deduction may be claimed with respect to any one student for an academic period for which a credit is being claimed. No credit may be claimed with respect to any one student for an academic period for which a deduction is being claimed.

			Deductions	Credits
	Student's name	Student's Social Security Number	Sum of line 5, 14, 23, and 32	Amounts from line 43
a			$	$
b			$	$
c			$	$
d			$	$
e			$	$
(44) Total lines a–e			$	$
(45) Possible deduction: The lesser of line 44 or $10,000			$________	

APPLICATION OF PHASE–OUT RATIO

(46) Adjusted gross income (line xx from form 1040)

(47) Income excluded by reason of sections 911, 931, and 933 (see instructions)

(48) Modified adjusted gross income –– add lines 45 and 46.

(49) Phase–out ratio: line 47 amount minus $50,000 ($80,000 in the case of a joint return) divided by $20,000. If ratio is greater than 1.00 no deduction or credit may be claimed. [ ]

(50) Multiply line 45 amount of deductions by line 48 phase–out ratio. $________

(51) Allowable deduction: Subtract line 50 from line 45 and transfer amount to line yy on form 1040. $________

(52) Multiply line 44 amount of credits by line 48 phase–out ratio.

(53) Allowable credit: Subtract line 52 from the line 44 amount of credits and transfer amount to line zz on form 1040. $________

What are the primary implementation issues?

Treasury's HOPE/MCBR revenue estimate assumes adequate measures to ensure compliance, especially considering the level of fraud and abuse associated with other refundable tax credits (e.g. EITC). Also, because this proposal requires individuals (students) to satisfy a number of requirements before claiming the credit, taxpayers must be provided with information adequate to ensure accurate calculation(s) of their tax benefit(s).

In providing for compliance with the rules for claiming the credit/deduction, the appropriate use of the tax benefit without placing an unreasonable burden on participants while maintaining the principles of the Paperwork Reduction Act and acknowledging the Unfunded Mandates Act (for State-supported institutions) must be ensured.

Why use third-party information reporting?

IRS cannot determine taxpayer eligibility for the credit/deduction unilaterally. There would be a huge potential for fraud and abuse if the tax benefits were provided solely on the basis of the taxpayers' claims of eligibility.

Has a deterrent effect that is hard to measure. Requiring interest and dividend income *reporting* but not *withholding* (Form 1099) has worked very well.

"Face-to-face" audits are inefficient and the least productive compliance mechanism. IRS would be exposed to a high level of risk if the reporting requirements were implemented as an audit requirement because of the small dollar amounts involved (that is, IRS would not aggressively pursue suspect tax returns). Even a "no paper/no credit" approach which is used, for example, with charitable deductions, would only shorten, but not eliminate, the audit.

The calculation of the credit/deduction is complicated. Absent third-party reporting, taxpayers would be required to accomplish a complex calculation. Oddly, this approach would likely result in less fraud than simple erroneous reporting because taxpayers would be unable to understand the look-up tables. However, third-party reporting could result in providing personal information or calculations for individuals who might decline the tax benefit.

Most "above-the-line" deductions are third-party reported. For example, tax-deductible contributions to retirement funds (IRA/Keogh) are reported by the financial entity receiving the contributions. Also, the (expired) "residential mortgage interest tax credit" required a certification from the mortgager in order for the taxpayer to claim that benefit.

Why is information reporting so difficult?

People are resistant.

It is burdensome to provide information to anyone.

Institutional administrators have privacy concerns. While the unauthorized disclosure of *academic* information is clearly prohibited, State laws as well as the Federal Family Educational Rights and Privacy Act may inhibit the release of certain other information, such as felony drug convictions, by colleges and universities.

What information is needed for good compliance?

There are two "primary-level/must-have" information items. Ideally, institutions would forward (1) Social Security Numbers for the student and the person claiming the tax benefit (usually the parent) and (2) net tuition paid (which assumes the institution is aware of all private sources of aid that would be included in the credit calculation) to the IRS once annually in a machine-readable format.

The "secondary-level" items include student's academic year, attendance status and grade point average, and whether the student is enrolled in an eligible program. Institutions would provide this information to taxpayers who would retain for audits.

Institutions should be willing to provide some information to the IRS. If reporting is implemented as a "face-to-face" audit requirement only, then institutions would inevitably be included in the audit process because the IRS would need to verify certain taxpayer-reported information.

IRS needs the SSN of the person claiming the tax benefit for matching purposes. This issue is analogous to information reporting under the Uniform Gifts to Minors Act.

Potential double counting of tax benefits must be identified. For example, taxpayers might claim section 127 employer-provided benefits as their own out-of-pocket tuition expenses.

Requiring institutional reporting has an "unfunded mandate" potential. The IRS does not allow payees (colleges and universities) to charge fees to payers (students or taxpayers) for any IRS-required reporting.

IRS typically requires taxpayers to provide "up front" information to support claimed tax credits. However, this is not an issue for deductions.

Any "Drug-free" self-certification cannot be enforced.

What information is needed to make the effort worthwhile?

The IRS needs "identification plus certification" of the person claiming the benefit. SSN/TIN and name needs to be certified (like the W-9 request for taxpayer identification number and certification to avoid withholding on interest and dividend income).

ED would provide a listing of HEA Title IV eligible institutions, by name and employer identification number, to the IRS.

The institution would identify a student as credit/deduction or deduction-only eligible.

The institution would provide the IRS with attendance status and year in school.

Where is the potential for fraud?

A refundable credit has a greater fraud likelihood (though in theory it should be the same as a non-refundable credit) because of the incentive to file a tax return by those who otherwise would not. That is, few would fraudulently, or even legitimately, show a tax liability in order to reduce it to zero.

A taxpayer need not show income in order to earn the credit. Thus, would anticipate many $1,500 tax returns given the current college population and the very low taxpayer risk (but a very high risk to the IRS).

A minimal level of information reporting would eliminates the "blatant fakes," but does little to identify those who are claiming tax credits that are too large.

Could have a problem similar to ED's default problem if proprietary schools mislead their students that schools are credit-eligible and then the IRS pursues the student when the fraud/discrepancy is discovered.

Hartle

Hope concerns: technical q's:
- School elig. stds. - same as student aid
- Years for deduction - limited?
(what $ was made on ded. when credit was added)
- Part-time?
- when do grades matter

* - The poor: eliminate it all? becomes less impt?
. Ken: not before introduction.
. ED says poor will get bec. they're in low-cost schools
. If poor, grades don't matter...
. Equity prob.

Jon Madrelou

* - Cost of attendance vs. tuition & fees.
(room & bd, commuting ??)

- Can deduct amts taken in loans
- Senate bill closed that 'loophole'

check
Scott UTM

☐ Tell us who we can work w/ on cost @ Treasury

Ken: Cost estimate ~~changes~~
- Treasury, self-help answer, max answer.

#1 concern

Get info.

- Grades - precedent is frightening
  - Effect on GSP ?? What are assumptions.
    vs. S.A.P. ?

  ☐ Ga. - how do they do it ??
    No grade inflation prob. (spoke w/ [illegible] there)
    Senior yr H.S. → incentive for easy classes → core ac. courses

  → Secy regs - no more than x% of any school can be above avg. ?? How many do we assume B-avg. (→ someone will put in all students dead ?)

  - Grade inflation: profs don't usually know who is freshman in their classes...
    (helps that it's one year)

- Other policies, ... Finance / wealth over the traditional ed lugs
  - Flexible IRAs
  - deduct. of int. on st. loans
  } Families first part of platform.

- College prices - reg'n ?
  - hard for Republicans to argue for 'price controls'

  ED's answer
  ED has asked that the ask to / [illegible] moral suasion
  Experience before, then reimb. (so
  No evidence that aid leads to ↑ - [illegible] increase
  - STATES, esp. - when fiscal crunch comes

· How much price inflation built into cost ?

Larry Summers
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fax 622-0081

Don Lubick
fax 622-0646

Treasury

Barry White
11/12/96 09:15:41 AM

Record Type: Record

To: Larry R. Matlack/OMB/EOP, Keith J. Fontenot/OMB/EOP, Robert M. Shireman/OMB/EOP

cc:
Subject: Initiatives follow up

We definitely need a WTW meeting this week, with whatever we have. Keith and Larry: let's discuss what's here and what to do. We have to extend the invitation to Ken to attend, and possibly Gene and Bruce (after consultation with Ken). Paul will not be back until Thursday, I think, so maybe Thursday's the day.

We also need a discussion on HOPE, this one, I would say chaired by Ken, with Treasury and Education and Sperling and Reed. We need to talk through the three big issues I'm aware of -- can we make the money available at time of costs incurred; is there any way to not have to offset for Pell to satisfy the 1 Dupont types; what is the plan for administration. I am especially worried about the 3rd, since I haven't heard that there is any work going on at ED on it. Bob: discuss with me. -- Call Danni Loyacono

America Reads also needs the session on legislative design. This should happen this week. Ken needn't be there, but if Smith is coming, Ken should be scheduled for it or at least asked. We need paper in advance. Larry and Bob: let's discuss.

I am assuming that we are in a holding pattern on WOTC until final director's decisions and passback. When we do WOTC passback, we need to involve Treasury, HHS and Labor. Larry/Keith: let's discuss how to do this.

Bob: are there any outstanding design issues in other Education initiatives? I know Sperling is holding ED Tech announcement. What about leg for work study? I don't need to be involved in these unless you need me, but do keep me regularly updated on progress/problems.

Hanging over all the GI Bill related stuff is the Dimond approach, but I don't see what we can do about that until (if) it happens. Larry/Bob: pls pursue his issues as time permits and shoot for product by the end of this week.

Keith: I assume you are tracking the welfare implementation regs and guidance things (SSA, HHS, Ag) to be sure all that needs to be out before the budget goes up gets out. Anything here I need to be especially aware of?

Any others I should be worried about?

Schedule HOPE

NOTE: Separate schedule must be completed for each student for whom you are claiming a HOPE credit or deduction.

1. Full name and TIN of individual for whom credit/deduction is being claimed:

_______________________________ ___ ___ ____.

2. Will the individual be claimed as a dependent by someone else for the relevant tax year? If yes, you are not eligible for HOPE.

3. Were the tuition and fees for which you are seeking a HOPE credit/deduction for enrollment during the tax year in either (a) at least half-time in a postsecondary certificate or degree program, or (b) courses to acquire or improve job skills? If no, you are not eligible for the HOPE credit or deduction.

4. Tuition and fees paid, as reported on W-HOPE form (attach): __________
(For students who didn't fill out FAFSAs, school would have to provide a form?)

5. Amount of any refund or insurance reimbursements of amount above: __________

6. Subtract line 5 from line 4 and enter result here: __________

DEDUCTION

7. Complete worksheet to determine allowable deduction. Result: __________

8. Insert the lesser of the previous two lines. __________

9. Subtract any HOPE credit being claimed for this student (line -- below). Result: __________

CREDIT:

10. ATTESTATION OF NO DRUG CONVICTION (must be completed by student):

Have you ever been convicted of a drug offense? If yes, the filer is not eligible for the credit. I certify that I am not a liar.

____

11. Has the student completed two academic years of postsecondary education? If yes, then you

are not eligible for the credit.

12. Has the student completed one full academic year? If yes, did the student achieve at least a 2.75 grade point average during that year? If no, you are not eligible for the credit. If yes, the student must complete this box:

ATTESTATION OF GOOD GRADES:

If I didn't get at least a B- average, then so help me.

13. If your income (refer to a line on 1040?) is less than $50,000 (or $80,000 in the case of a joint return) then enter $1500 on this line. If your income is higher, then complete the worksheet to determine your allowable credit. Insert amount: ____________

14. If the tuition and fees paid for the equivalent of a full year of school (but not including any periods beyond the first two years of postsecondary education), then insert the amount from line above. If part-time or partial years, then see worksheet 3. __________

15. Insert amount of Federal aid from line -- on the student's W-HOPE form: __________

16. Subtract (insert zero if less than zero). CREDIT: __________

NOTES AND PROBLEMS

1. If a family has multiple eligible students, a schedule would be filled out for each. For the deduction, they could be added (not to exceed the allowable amount for that taxpayer depending on income). For the credit, they would be added. (On the 1040 form?)

2. Data match problem: The FAFSA definition of "dependent" is not consistent with IRS policy.

3. Does this address the "hobby and sports" provision, or does that need to be more specific? ED info? Or just the filer?

4. The big question is where does this form come from? Can ED gather enough data to provide it, or must this be a new requirement of institutions? What percentage of students already fill out a FAFSA and get some type of aid? (How much of an additional burden for colleges to provide this info for all students in their dealings with ED). Note that "net" for this purpose would subtract grants and the like, but not work-study type awards.

TIMING of the payment of tuition and fees is a problem: A parent might pay the Spring bill in December the first year, but in January the following year. Or maybe that's not a problem. Just need to make sure nobody ends up taking credit for the same credit twice due to the confusion of academic versus calendar years. Could most schools track it on a calendar year basis? Or should we reconsider a shift to academic years?

5.

6.

7. The taxpayer needs to add various deductions back into AGI to determine if there needs to be a ratable reduction of the allowable deduction. Would this number appear on one of the lines on the tax form? It would be best to be able to ask, "If line 15 is less than $50,000, then insert $5,000. If line 15 is $50,000 or more, then complete the worksheet to determine if you are eligible for a deduction."

8.

9. Is that right? What about credits claimed for other dependents. Doesn't matter, I think.

10. If this turns out to be the only part of the schedule that must be completed by the student (rather than the parent/taxpayer), it may make sense to consider placing this on the FAFSA.

11.

12. If schools balk at providing grades, we could do it this way (without any real verification, of course). One problem: Some students will have completed their first year of school in the middle of the period for which a credit is being taken. If they don't have the grades, I assume they could still take the credit for the first term in the tax year? (Might require another worksheet!)

13. The worksheet would weed out those who are less than half-time, reduce the amount for those who are less than full-time but more than half-time (and deal with hobby and sports credits, I guess).

14. This will be complicated for some. If a Freshman on the quarter system, then the parents would have paid for the fall and winter quarters in the tax year, but not the spring quarter. So the credit would be 2/3 of the income-determined amount. If the student didn't take a full load one of those quarters, then the parent gets ½ of 1/3 of the credit for that quarter, and a third of the credit for the other quarter (which adds to 1/2).

15.

16.

S. A. Noe

11/14/96 11:26:07 AM

Record Type: Record

To: Kenneth S. Apfel/OMB/EOP, Barry White/OMB/EOP

cc: Robert M. Shireman/OMB/EOP
Subject: FYI -- update on HOPE Scholarships

Below is a brief status report on the President's HOPE scholarship initiative.

Draft bill: In September, ED and Treasury completed a draft bill on the HOPE scholarship initiative. The draft bill lays out the basic features of the initiative, but it is deliberately not explicit about how to implement the initiative. The draft bill states that many implementation issues would be dealt with through regulations proposed jointly by the Secretaries of Treasury and Education after the legislation is passed.

Changes in cost estimate: In the summer of 1996, assuming that the (credit and deduction) initiative would take effect on January 1, 1997, Treasury estimated that the two proposals would cost a total of $42.9 billion over FYs 1997-2002, including $10.6 billion in FY2002. Enactment of the initiative in the next Congress with an effective date of January 1, 1998, would however reduce the initial estimates: $900 million less in FY2002, and $10.6 billion less for the whole period. With new economic assumptions, Treasury will again update the cost estimate this month.

Implementation issues: Since September, Treasury and ED have done very little to address implementation issues. At Treasury, there has reportedly been no further discussion of these issues, although a few individual staffers have continued to think through them. ED also has not formally or informally discussed the implementation issues with higher education groups. Several recent meetings ED had with the higher education groups to talk about HEA reauthorization issues reportedly turned into discussions of the HOPE scholarship initiative. But in these talks, the higher education community groups complained mostly about the initiative being poorly targeted, and ED was not able to move the groups to discuss the implementation issues. (For your information, attached is a list of data elements that IRS needs (or wants) to collect in administering the initiative.)

Scheduled meeting with ED and Treasury: Barry called for a meeting with ED and Treasury staffers to check what they have done to address implementation issues. OMB plans to pressure the agency folks to come up with feasible implementation plans. The meeting is scheduled for next Wednesday, November 20.

Issues to consider for tomorrow's meeting: Although we have assumed that the bill drafted in last September would submit to Congress along with the FY98 Budget, it seems necessary to check whether our assumption is correct. You may want the meeting participants to decide whether to change any of proposed features of the initiative and when or how to submit legislation to Congress.

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Attachment 1

PREPARER/EXT: Aromie Noe/5-7765

Information Paper 2
Department of Education

ITEM: Presidential Mandatory Proposal -- HOPE Scholarships (Tuition Tax Credit and Deduction)

DESCRIPTION OF ISSUE:

Last June the President announced a tax relief proposal called "America's Hope Scholarship." This proposal consists of his tuition tax deduction proposal from the FY1996 Budget and the Middle Class Bill of Rights, together with a new refundable tax credit for tuition for the first two years of college. The tax deduction proposal is intended to encourage lifelong learning and investment in higher education generally; the tax credit proposal, to make 2 years of college (or community college) as universal as high school. Together, the two proposals would provide a combination of an income tax credit for the first two years of undergraduate education and a tax deduction for subsequent years (including graduate education) and for certain short-term vocation/occupational training programs and courses.

Basic Features of Tax Credit and Deduction Proposals

	TAX CREDIT	TAX DEDUCTION
Maximum Benefit	A tax credit of up to $1,500 for full-time students ($750 for half-time students) is available for tuition and fees paid for the first two years of postsecondary education.	A tax deduction of up to $10,000 per year ($5,000 in 1997 and 1998) is available for tuition and fees paid for any year of postsecondary education or for courses that enable the student to acquire or improve job skills.
Attendance Eligibility	Degree- and non-degree-seeking students enrolled at least half-time.	Degree- and non-degree-seeking students enrolled at least half-time; and any part-time students taking courses that would acquire or improve their job skills.

Basic Features of Tax Credit and Deduction Proposals (continued)

	TAX CREDIT	TAX DEDUCTION
Special requirement	Students must have not been convicted of drug-related felonies; To be eligible in the second year, a student must maintain a 2.75 grade point average in his/her first year of college.	None.
Benefit calculation	The tax credit is reduced by the amount of any Pell grant or other Federal education grants the student is receiving; Tuition expenses that are eligible for the credit are reduced by any tax-exempt scholarships or non-Federal grants the student is receiving.	Tuition expenses that are eligible for the deduction are reduced by the amount of any Pell grant or other federal educational grants and any tax-exempt scholarships or grants the student is receiving.
Income phase-out	For married joint filers, AGIs between $80,000 and $100,000; For individual filers, AGIs between $50,000 and $70,000.	Same as in the credit proposal.
Benefit availability	On a per-student basis.	On a per-tax-filing-unit basis.

Coordinating the Deduction and the Credit

- For the tuition expenses of students in their first two years of college who are eligible for the credit, taxpayers are free to choose whichever form of assistance -- credit or deduction -- produces a better tax result for them.

- A family with multiple students may take only credits, only deductions that sum to $10,000, or a combination of a credit and a deduction totaling up to $10,000. However, a taxpayer may not take both the credit and the deduction for the tuition expenses of any single student.

Cost of the Tax Credit and Deduction Proposals

In the summer of 1996, Treasury estimated that the two proposals would cost a total of $42.9 billion over fiscal years 1997-2002. Treasury's estimate assumed that the two proposals would take effect on January 1, 1997.

(In millions of dollars)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	Total
Tax Credit	0	3,700	4,100	4,900	5,800	6,600	25,100
Tax Deduction	400	2,700	3,000	3,800	3,900	4,000	17,800
Total	400	6,400	7,100	8,700	9,700	10,600	42,900

Enactment of these proposals in the nextCongress with an effective date of January 1, 1998, would reduce these estimates: $900 million less in FY2002, and $10.6 billion less for the whole period.

(In millions of dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	Total
Tax Credit	0	3,700	4,100	4,900	5,800	18,500
Tax Deduction	400	2,700	3,000	3,800	3,900	13,800
Total	400	6,400	7,100	8,700	9,700	32,300

Drafting legislation

The Departments of Treasury and Education (and the Senate Legislative Counsel's Office) worked together to come up with a draft bill in mid-September. The draft bill lays out the basic features of the proposals, but it is deliberately not explicit about how to implement these proposals. The draft bill states that many implementation issues would be dealt with through regulations proposed jointly by the Secretaries of Treasury and Education after the legislation is passed.

Reactions and Concerns

Two years ago, when the tax deduction proposal was initially announced, the higher education community showed lukewarm support. Compared to the tax deduction proposal, the tax credit proposal seems to have gotten a more positive response, together with some serious criticisms and concerns. Community college groups, in particular, appear to be pleased with the $1,500 maximum credit level, $300 above the average annual community college tuition, that would make tuition at two-thirds of community colleges free.

However, the critics of the tax relief proposals raise three major concerns, which are analyzed briefly here.

(1) *These tax proposals are not targeted sufficiently for low-income students. In particular, subtracting Pell grants out of the tax-credit eligibility would result in benefiting very few needy students.* Not subtracting Pell grants from the tax-credit eligibility would definitely help low-income students, but it would also increase the cost of the tax-credit proposal significantly. ED estimates that leaving Pell grants intact in the tax-credit eligibility would increase the total cost of the credit proposal by 40 percent. The higher costs of this expansion could be offset by lowering the income phase-out range; however, given the President's stated intention of assisting the middle class, changing the often-announced phase-out range is probably not an option.

(2) *Many (including Robert Reischauer, former CBO director) believe that with the vast majority of students receiving tax relief, colleges would have less incentive to hold down tuition increases.* Because the Administration was well aware of this criticism in introducing the tax relief proposals, the President challenged colleges and universities this summer to hold down tuition. This bully pulpit approach seems unlikely to succeed in the long run, however. In fact, some tuition inflation is built in to the cost estimates. In the upcoming reauthorization of the Higher Education Act, the Administration might need to explore providing States and schools with some incentives to restrain tuition growth or increase their support for student financial aid.

(3) *The higher education community fears that schools may have to bear a heavy new reporting burden in implementing the proposals.* This third concern has the most practical and immediate implications for the President's proposals. The IRS has argued that for adequate tax administration, it would need to collect and be able to verify various types of information -- for example, social security numbers of the taxpayer and student (if the student is dependent), enrollment status (full-time or half-time), grade point average, the amount of tuition and fees paid, and drug conviction records. Ideally, the IRS wants a third-party reporting system, with schools providing all the necessary student information. But schools would very likely (and strongly) oppose taking on such new reporting burdens even though they are the ultimate beneficiaries of this huge new revenue source. In coming months, ED, Treasury, and the higher education community groups will need to work together to determine who will provide which and how much student information.

S. A. Noe

11/14/96 11:26:07 AM

Record Type: Record

To: Kenneth S. Apfel/OMB/EOP, Barry White/OMB/EOP

cc: Robert M. Shireman/OMB/EOP

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- -

Attachment 1

Below is a list of data elements that IRS needs to have in administering the tax credit and deduction proposals. Treasury made this list last summer. ED thought this list is too extensive.

Information Required to Determine
Refundable Tuition Tax Credit and Above-the-line Deduction

The following information items are required with respect to each academic period for which a student is enrolled during the taxable year. With respect to the credit, once allowable credit is determined, the usual tax rules regarding offsets for outstanding tax liabilities, etc. apply.

Item	Credit (continuing & degree)	Deduction (upgrading job skills)
Student name	x	x
Student TIN (i.e., social security number)	x	x
Taxpayer name - parent(s)	x	x
Taxpayer TIN	x	x
Institution name	x	x
Institution EIN	x	x
Tuition and fees charged ??	$	$
Non-federal grants	$	
Federal grants	$	
All grants		$
Tuition and fees paid less refunds and insurance reimbursements	$	$
Prior year allowable credits by student	$	
Student status		
13th year	Y/N	
14th year	Y/N	
enrolled in qualified program	Y/N	
at least half-time	Y/N	Y/N
full-time	Y/N	
job/skill related course		Y/N
hobby, etc. - related course	Y/N	Y/N
B- average in 13th year	Y/N	
drug-related felon	Y/N	
non-resident alien	Y/N	Y/N
high school student	Y/N	Y/N

Cost of Att. v. [illegible]

- Work-Study

November 12, 1996

MEMORANDUM FOR LAURA TYSON
GENE SPERLING

FROM: PAUL DIMOND PD

SUBJECT: SEPARATING G.I. BILL PROVISIONS?

CC: BRUCE REED

If you do not think it is possible to achieve a single, integrated education and training account to achieve the President's goal of putting good information and increased purchasing power in the hands of individuals and families, Part I elaborates an alternative approach that retains the several funding streams but coordinates their implementation. The major issues are: (a) the amount of budget resources you want to place in each stream, the total education and training budget and the extent to which you want to place these funding streams on the mandatory side of the budget, including as refundable tax credits; (b) the extent of the coordination between funding streams, both in terms of the users and the administration and gatekeeping; and (c) whether you wish to add non-degree programs as permissible uses of these funding streams. The purpose of this analysis is to raise key issues so that the President is not blind-sided by the current budget proposals of DoED and DoL that fail to implement the key principles of individual empowerment, market accountability, and rewards for performance.

Part II proposes a workable alternative to bring the youth programs in line with the President's basic principles.

The premise underlying both parts is that we cannot and should not again propose a single G.I. Bill for America's Workers authorizing legislation that seeks to tie all DoEd and DoL youth and adult education training and job search programs together. That approach did not work in the last Congress and will not work in this Congress: it will only invite unnecessary battles with the Republican Right Wing about School-to-Work and Republican centrists about devolving all education and training to the states.

I. Adults

Hope scholarship -- refundable tax credit for education and training, degree and 1-year certificate programs. $1500 for two years, including 1-year certificate. [Issues: raise to $2500 per year? Include non-degree programs? Information include percentage and time for students to achieve degree or certificate (and, if include non-degree programs, job and income results for students in non-degree programs)? Gatekeeping? Administer through DoEd student financial assistance, with advance payment of refundable portion credit? How coordinate with IRS?]

Education tax deduction -- for education and training, degree and 1-year certificate $10,000. [Issues: include non-degree?]

Dislocated Worker Skill Hope Credits -- after 12 weeks of job search, refundable tax credit. Total of $2500 [including $1500 Hope Scholarship]. [Issues: how relate to portable health care? Raise amount to $3000? DoEd student financial assistance administer, with UI/ES confirming 12 weeks of job search? Include non-degree?]

Pell Grant for degree and 1-year certificate, [Issues: mandatory or discretionary? increase to $3000 or $3500, perhaps in exchange for limiting to first two years? Add non-degree? gate-keeping and information?]

Student loans, with Pay-As-You Earn and 25-year sliding scale repayment plans [Issues: include non-degree? how set bar and conditions of GSL and Direct Lending to make loans more affordable and convenient to students, with better information, gate-keeping, and collection?]

[Issue=$250 refundable credit for job-search? or rely on interactive job banks and counseling/placement from the search firms that represent employers?]

[Workforce Development Act -- if omit non-degree from Hope Scholarship, Pell Grants and Student Loans, then go with principle of devolving DoL programs to states, with states having flexibility to design individual grants for job search and training, with sign-off by local labor market workforce boards made-up of majority of private employers and by county-city executives; approval by Secretary of DoL in consultation with Secretary of Education]

[Welfare-to-Work Jobs Challenge based on principle of state-local design to connect welfare-to-work participants to real jobs in expanding local labor markets]

2. Youth Education and Training

DoL: performance incentive awards to states and localities that put per pupil K-12 resources behind students 17-24 without high school diplomas to learn to earn high school diploma, workplace skill and (a)job or (b)access to post-secondary education. E.g., $1000 per student with $500 to state-locality for each student they get back into learning program that meets conditions and another $500 for each such student earning a high school diploma, workplace skill certified by local workforce board and (a) job with 1500 hours work per year or (b) access to post-secondary education. [Issue: need authorization? if so, don't tie in any way to School-to-Work so that R's don't have to face issue of right-wing attack on STW. Also: assume that keep summer jobs, Job Corps; small fund for experiments, demos?]

Vocational Education/ACE Graduation Challenge: incentive awards for retaining more students in "school" until earn high school diploma that means something to employers and colleges. Use bully pulpit to encourage range of choices, apprenticeships, experienced base learning, charter schools, etc.

continue to fund and implement STW, but use bully pulpit to coordinate with new DoL incentive awards and DoEd graduation challenge.

Table 306.—Average undergraduate tuition and fees and room and board rates paid by students in institutions of higher education, by type and control of institution: 1964–65 to 1994–95—Continued

Year and control of institution	Total tuition, room, and board					Tuition and required fees (in-state)					Dormitory rooms					Board (7-day basis)[1]				
	All institutions	4-year institutions			2-year	All institutions	4-year institutions			2-year	All institutions	4-year institutions			2-year	All institutions	4-year institutions			2-year
		All 4-year	Universities	Other 4-year			All 4-year	Universities	Other 4-year			All 4-year	Universities	Other 4-year			All 4-year	Universities	Other 4-year	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1991–92	5,135	5,695	6,051	5,459	3,623	1,624	2,119	2,410	1,933	937	1,731	1,785	1,789	1,782	1,074	1,780	1,792	1,852	1,745	1,612
1992–93	5,379	6,020	6,442	5,740	3,799	1,782	2,349	2,604	2,192	1,025	1,756	1,816	1,856	1,787	1,106	1,841	1,854	1,982	1,761	1,668
1993–94	5,694	6,365	6,710	6,146	3,996	1,942	2,537	2,820	2,360	1,125	1,873	1,934	1,897	1,958	1,190	1,880	1,895	1,993	1,828	1,681
1994–95[4]	5,962	6,674	7,082	6,411	4,149	2,057	2,689	2,982	2,507	1,194	1,959	2,021	1,993	2,041	1,239	1,947	1,964	2,107	1,863	1,716
Private institutions																				
1964–65	1,907	—	2,202	1,810	1,455	1,088	—	1,297	1,023	702	331	—	390	308	289	488	—	515	479	464
1965–66	2,005	—	2,316	1,899	1,557	1,154	—	1,369	1,086	768	356	—	418	330	316	495	—	529	483	473
1966–67	2,124	—	2,456	2,007	1,679	1,233	—	1,456	1,162	845	385	—	452	355	347	506	—	548	490	487
1967–68	2,205	—	2,545	2,104	1,762	1,297	—	1,534	1,237	892	392	—	455	366	366	516	—	556	501	504
1968–69	2,321	—	2,673	2,237	1,876	1,383	—	1,638	1,335	956	404	—	463	382	391	534	—	572	520	529
1969–70	2,530	—	2,920	2,420	1,993	1,533	—	1,809	1,468	1,034	436	—	503	409	413	561	—	608	543	546
1970–71	2,738	—	3,163	2,599	2,103	1,684	—	1,980	1,603	1,109	468	—	542	434	434	586	—	641	562	560
1971–72	2,917	—	3,375	2,748	2,186	1,820	—	2,133	1,721	1,172	494	—	576	454	449	603	—	666	573	565
1972–73	3,038	—	3,512	2,934	2,273	1,898	—	2,226	1,846	1,221	524	—	622	490	457	616	—	664	598	595
1973–74	3,164	—	3,717	3,040	2,410	1,989	—	2,375	1,925	1,303	533	—	622	502	483	642	—	720	613	624
1974–75	3,403	—	4,076	3,156	2,591	2,117	—	2,614	1,954	1,367	586	—	691	536	564	700	—	771	666	660
1975–76	3,663	—	4,467	3,385	2,711	2,272	—	2,881	2,084	1,427	636	—	753	583	572	755	—	833	718	712
1976–77	3,906	3,977	4,715	3,714	2,971	2,467	2,534	3,051	2,351	1,592	649	651	783	604	607	790	791	882	759	772
1977–78	4,158	4,240	5,033	3,967	3,148	2,624	2,700	3,240	2,520	1,706	698	702	850	648	631	836	838	943	800	811
1978–79	4,514	4,609	5,403	4,327	3,389	2,867	2,958	3,487	2,771	1,831	758	761	916	704	700	889	890	1,000	851	858
1979–80	4,912	5,013	5,891	4,700	3,751	3,130	3,225	3,811	3,020	2,062	827	831	1,001	768	766	955	957	1,078	912	923
1980–81	5,470	5,594	6,569	5,249	4,303	3,498	3,617	4,275	3,390	2,413	918	921	1,086	859	871	1,054	1,056	1,209	1,000	1,019
1981–82	6,166	6,330	7,443	5,947	4,746	3,953	4,113	4,887	3,853	2,605	1,038	1,039	1,229	970	1,022	1,175	1,178	1,327	1,124	1,119
1982–83	6,920	7,126	8,536	6,646	5,364	4,439	4,639	5,583	4,329	3,008	1,181	1,181	1,453	1,083	1,177	1,300	1,306	1,501	1,234	1,179
1983–84	7,508	7,759	9,308	7,244	5,571	4,851	5,093	6,217	4,726	3,099	1,278	1,279	1,531	1,191	1,253	1,380	1,387	1,559	1,327	1,219
1984–85	8,202	8,451	10,243	7,849	6,203	5,315	5,556	6,843	5,135	3,485	1,426	1,426	1,753	1,309	1,424	1,462	1,469	1,647	1,405	1,294
1985–86[2]	8,885	9,228	11,034	8,551	6,512	5,789	6,121	7,374	5,641	3,672	1,553	1,557	1,940	1,420	1,500	1,542	1,551	1,720	1,490	1,340
1986–87[3]	9,676	10,039	12,278	9,276	6,384	6,316	6,658	8,118	6,171	3,684	1,658	1,673	2,097	1,518	1,266	1,702	1,708	2,063	1,587	1,434
1987–88	10,512	10,659	13,075	9,854	7,078	6,988	7,116	8,771	6,574	4,161	1,748	1,760	2,244	1,593	1,380	1,775	1,783	2,060	1,687	1,537
1988–89	11,189	11,474	14,073	10,620	7,967	7,461	7,722	9,451	7,172	4,817	1,849	1,863	2,353	1,686	1,540	1,880	1,889	2,269	1,762	1,609
1989–90	12,018	12,284	15,098	11,374	8,670	8,147	8,396	10,348	7,778	5,196	1,923	1,935	2,411	1,774	1,663	1,948	1,953	2,339	1,823	1,811
1990–91	12,910	13,237	16,503	12,220	9,302	8,772	9,083	11,379	8,389	5,570	2,063	2,077	2,654	1,889	1,744	2,074	2,077	2,470	1,943	1,989
1991–92	13,907	14,273	17,779	13,189	9,631	9,434	9,775	12,192	9,053	5,752	2,221	2,241	2,860	2,038	1,789	2,252	2,257	2,727	2,098	2,090
1992–93	14,634	15,009	18,898	13,882	9,903	9,942	10,294	13,055	9,533	6,059	2,348	2,362	3,018	2,151	1,970	2,344	2,354	2,825	2,197	1,875
1993–94	15,496	15,904	20,097	14,640	10,406	10,572	10,952	13,874	10,100	6,370	2,490	2,506	3,277	2,261	2,067	2,434	2,445	2,946	2,278	1,970
1994–95[4]	16,222	16,645	21,010	15,410	11,059	11,128	11,522	14,510	10,698	6,865	2,586	2,604	3,468	2,350	2,166	2,508	2,520	3,032	2,363	2,028

[1] Data for 1986–87 and later years reflect 20 meals per week rather than meals 7 days per week.

[2] Room and board data are estimated.

[3] Because of revisions in data collection procedures, figures are not entirely comparable with those for previous years. In particular, data on board rates are somewhat higher than earlier years because they reflect a basis of 20 meals per week rather than meals served 7 days per week. Since many institutions serve fewer than 3 meals each day, the 1986–87 and later data reflect a more accurate accounting of total board costs. Because of their low response rate, data for private 2-year colleges must be interpreted with caution.

[4] Preliminary data based on fall 1993 enrollment weights.

—Data not available.

NOTE.—Data are for the entire academic year and are average charges paid by students. Tuition and fees were weighted by the number of full-time-equivalent undergraduates but were not adjusted to reflect student residency. Room and board were based on full-time students. The data have not been adjusted for changes in the purchasing power of the dollar. Some data have been revised from previously published figures. Because of rounding, details may not add to totals.

SOURCE: U.S. Department of Education, National Center for Education Statistics, "Institutional Characteristics of Colleges and Universities" and "Fall Enrollment in Institutions of Higher Education" surveys; Integrated Postsecondary Education Data System (IPEDS), "Fall Enrollment" and "Institutional Characteristics" surveys. (This table was prepared August 1995.)

Table 307.—Average undergraduate tuition and fees and room and board rates paid by students in institutions of higher education, by control of institution and by state: 1993–94 and 1994–95

State or other area	Public 4-year, 1993–94		Public 4-year, 1994–95 [1]				Private 4-year, 1993–94		Private 4-year, 1994–95 [1]				Public 2-year, tuition only (in-state)	
	Total	Tuition (in-state)	Total	Tuition (in-state)	Room	Board	Total	Tuition	Total	Tuition (in-state)	Room	Board	1993–94	1994–95 [1]
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
United States	**$6,365**	**$2,537**	**$6,674**	**$2,689**	**$2,021**	**$1,964**	**$15,904**	**$10,952**	**$16,645**	**$11,522**	**$2,604**	**$2,520**	**$1,125**	**$1,194**
Alabama	5,295	1,986	5,432	2,106	1,674	1,652	10,551	6,905	11,321	7,404	1,699	2,219	1,107	1,123
Alaska	5,978	1,909	6,156	2,045	2,227	1,884	12,134	7,637	12,448	7,950	1,835	2,662	1,268	1,320
Arizona	5,463	1,819	5,829	1,894	1,956	1,979	9,406	5,716	10,179	6,076	1,990	2,113	727	734
Arkansas	5,296	1,805	4,926	1,955	1,584	1,387	8,866	5,721	9,577	6,162	1,419	1,997	842	888
California	7,524	2,388	7,922	2,703	2,881	2,338	19,277	13,249	18,631	12,748	2,980	2,903	345	365
Colorado	6,190	2,267	6,523	2,377	1,887	2,259	15,960	11,007	16,908	11,710	2,590	2,608	1,201	1,279
Connecticut	7,915	3,476	8,505	3,746	2,526	2,234	20,740	14,785	21,923	15,704	3,461	2,757	1,398	1,520
Delaware	7,790	3,663	8,131	3,817	2,290	2,023	10,595	6,817	11,356	7,187	2,710	1,458	—	1,266
District of Columbia	—	974	—	1,046	—	—	18,581	12,573	19,637	13,367	3,706	2,565	—	—
Florida	5,861	1,784	6,192	1,786	2,112	2,294	13,778	9,422	14,480	9,941	2,316	2,223	1,074	1,112
Georgia	5,063	1,886	5,381	1,965	1,590	1,826	13,696	9,040	14,369	9,571	2,522	2,276	974	1,015
Hawaii	1,452	1,452	—	1,508	—	—	10,185	5,578	11,000	5,951	2,920	2,129	480	500
Idaho	4,977	1,497	5,205	1,583	1,507	2,115	14,176	10,103	14,583	11,246	1,330	2,007	914	990
Illinois	6,999	3,031	7,482	3,197	1,972	2,312	15,242	10,471	15,986	11,070	2,609	2,307	1,134	1,194
Indiana	6,640	2,621	6,921	2,864	1,757	2,300	14,974	11,094	15,923	11,848	1,879	2,195	1,743	1,854
Iowa	5,439	2,352	5,699	2,462	1,513	1,623	14,499	10,820	15,274	11,430	1,789	2,054	1,615	1,699
Kansas	5,137	1,890	5,442	2,019	1,656	1,767	11,138	7,602	11,736	8,079	1,517	2,140	982	1,044
Kentucky	5,027	1,914	5,324	2,056	1,465	1,802	10,019	6,519	10,665	7,038	1,680	1,948	966	1,080
Louisiana	5,214	2,177	5,275	2,214	1,470	1,591	16,150	11,179	16,764	11,769	2,601	2,394	955	1,027
Maine	7,503	3,131	7,794	3,319	2,247	2,229	19,827	14,421	20,853	15,383	2,679	2,791	1,907	2,137
Maryland	8,147	3,111	8,297	3,318	2,531	2,348	18,962	12,847	20,053	13,762	3,342	2,949	1,676	1,848
Massachusetts	8,503	4,163	8,536	4,131	2,331	2,073	21,384	14,826	22,322	15,685	3,526	3,112	2,344	2,441
Michigan	7,668	3,492	7,949	3,729	2,041	2,178	12,253	8,362	12,815	8,739	1,926	2,150	1,357	1,432
Minnesota	5,929	2,783	6,182	2,919	1,818	1,445	15,594	11,637	16,348	12,233	1,975	2,141	1,845	1,928
Mississippi	5,088	2,368	5,248	2,448	1,350	1,451	8,763	5,960	9,179	6,289	1,458	1,433	937	935
Missouri	5,833	2,476	6,326	2,787	1,908	1,632	13,005	8,722	14,069	9,607	2,165	2,297	1,138	1,203
Montana	5,668	1,889	5,996	2,110	1,745	2,141	9,446	6,084	10,406	6,993	1,315	2,098	1,162	1,329
Nebraska	4,925	1,936	5,186	2,058	1,340	1,788	11,811	8,338	12,573	8,897	1,709	1,966	1,088	1,097
Nevada	6,379	1,532	6,908	1,601	3,009	2,298	9,773	7,173	—	7,494	3,050	—	817	842
New Hampshire	7,801	3,835	8,145	4,003	2,478	1,665	18,738	13,359	17,162	12,143	2,530	2,490	2,259	2,316
New Jersey	8,251	3,517	8,714	3,773	2,945	1,997	18,208	12,375	18,983	12,951	3,124	2,909	1,540	1,755
New Mexico	5,062	1,726	5,373	1,836	1,631	1,906	14,637	10,261	16,004	11,549	2,226	2,228	620	678
New York	7,721	2,920	7,952	2,957	2,780	2,215	18,364	12,161	19,481	12,892	3,484	3,106	2,112	2,152
North Carolina	4,706	1,408	4,858	1,503	1,686	1,670	13,543	9,635	14,544	10,406	1,963	2,176	578	582
North Dakota	5,253	2,124	5,513	2,245	967	2,301	9,194	6,437	9,505	6,653	1,229	1,623	1,637	1,689
Ohio	6,992	3,265	7,733	3,405	2,262	2,066	15,396	11,055	16,334	11,782	2,253	2,299	2,088	2,164
Oklahoma	4,027	1,643	4,205	1,675	964	1,566	10,706	7,126	11,859	8,078	1,731	2,049	1,107	1,153
Oregon	6,630	2,831	6,929	3,063	1,557	2,309	16,617	12,311	17,577	12,969	2,028	2,580	1,185	1,324
Pennsylvania	8,277	4,316	8,665	4,512	2,152	2,000	18,137	12,710	19,035	13,457	2,823	2,755	1,672	1,751
Rhode Island	8,604	3,404	9,080	3,718	2,849	2,513	19,695	13,617	20,799	14,445	3,417	2,937	1,546	1,686
South Carolina	6,206	2,895	6,758	3,021	1,904	1,833	12,138	8,570	12,709	9,122	1,741	1,847	1,058	1,048
South Dakota	4,917	2,338	5,319	2,557	1,123	1,639	11,652	8,019	12,385	8,574	1,482	2,329	2,640	3,430
Tennessee	5,019	1,796	5,130	1,897	1,553	1,680	11,967	8,579	13,176	9,210	2,036	1,930	950	975
Texas	4,934	1,504	5,175	1,608	1,838	1,729	11,847	7,936	12,417	8,410	1,860	2,147	625	680
Utah	5,125	1,868	5,349	1,960	1,390	2,000	6,796	2,679	7,112	2,814	1,340	2,959	1,289	1,340
Vermont	10,054	5,532	10,401	5,752	2,998	1,652	19,555	14,263	20,675	15,032	3,172	2,471	2,726	2,877
Virginia	7,725	3,645	7,951	3,769	2,221	1,961	13,852	9,679	14,519	10,309	2,018	2,192	1,332	1,384
Washington	6,476	2,334	7,070	2,686	1,930	2,454	16,108	11,713	16,996	12,412	2,483	2,101	1,143	1,314
West Virginia	5,687	1,875	5,912	1,963	1,908	2,042	13,179	9,284	13,835	9,889	1,681	2,265	1,237	1,312
Wisconsin	5,249	2,316	5,615	2,470	1,681	1,464	13,872	10,160	14,766	10,835	1,668	2,263	1,527	1,649
Wyoming	4,900	1,648	5,237	1,908	1,462	1,867	—	—	—	—	—	—	874	893

[1] Preliminary data based on fall 1993 enrollments.

—Data not reported or not applicable.

NOTE.—Data are for the entire academic year and are average charges. Tuition and fees were weighted by the number of full-time-equivalent undergraduates in 1993, but are not adjusted to reflect student residency. Room and board are based on full-time students.

SOURCE: U.S. Department of Education, National Center for Education Statistics. Integrated Postsecondary Education Data System (IPEDS), "Fall Enrollment" and "Institutional Characteristics" surveys. (This table was prepared August 1995.)

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