FOIA Number: 2017-1073-F

FOIA MARKER

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

Collection/Record Group: Clinton Presidential Records

Subgroup/Office of Origin: National Economic Council

Series/Staff Member: Bob Shireman

Subseries:

OA/ID Number: 13223

FolderID:

Folder Title:
HOPE [Hope and Opportunity for Postsecondary Education] Scholarship

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

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

Office of the Deputy Assistant Secretary
Policy, Planning, and Innovation

7th and D Streets, SW
Room 4060, ROB-3
Washington, DC 20202-5143
Phone: (202) 205-2987 Fax: (202) 401-5749

Fax Cover Sheet

Number of pages following cover sheet: 7

TO: Bob Shireman FAX: 456-2223

FROM:

Maureen A. McLaughlin ______ Francine Picoult ______

Lynn Mahaffie ______ Sandy Wood ______

Tia Cosey ______

MESSAGE:

Contact Margaret Wood if any questions.
(708-5547)

ACCOMPLISHMENTS OF THE CLINTON ADMINISTRATION IN HIGHER EDUCATION

I. *Increased Access to Higher Education*

- The Administration made college more affordable for low- and middle- income students by increasing available aid by $10 billion between 1993 and 1995 -- an increase of 40 percent. With the enactment of the fiscal year 1997 appropriations bill, aid available to students will increase by an additional $3.6 billion for a record total of $38.2 billion in aid in 1997 for an estimated 8.2 million students. In particular, the Pell Grant maximum award increased from $2,300 in 1993 to $2,700 in 1997, and the amount appropriated for the College Work-Study program increased from $760 million in 1993 to $830 million in 1997.

- By 1997, the Department estimates that at least 45 percent of student loans will be Direct Loans. The Direct Loan program offers borrowers a choice of repayment options, including income-contingent repayment, that will make it easier for borrowers to manage their student loan debt. Even the millions of students who have not borrowed under the Direct Student Loan program benefit from improvements in the Federal Family Education Loan program and the reduction in fees charged.

- To encourage low-income, first-generation college students to attend and complete college, the Administration requested $500 million for the federal TRIO programs in fiscal year 1997, an increase of $37 million. The program will serve approximately 685,000 at-risk students by providing outreach and support services as well as information about postsecondary education opportunities.

II. *Prevented Access from Being Eroded*

- Over the last several years, the Department has worked to ensure that changes in student aid programs do not harm students. The Department vigorously opposed the following proposals in Congress:
  -- eliminating the in-school interest subsidy for student borrowers;
  -- eliminating the six month grace period;
  -- eliminating student aid for legal immigrants;
  -- eliminating the Student Educational Opportunities Grant and Perkins Loan programs;
  -- increasing the Pell Grant minimum award.

III. *Other Major Accomplishments*

- The Direct Loan program has revolutionized federal student loan delivery by providing borrowers and participating schools with a simple, more automated and accountable system while saving taxpayers billions of dollars. Over 1,600 schools now participate in the program, and more than 1.7 million student and parent borrowers have received direct loans since the program began.

- In the three years since the start of the Clinton Administration, the Department of Education increased total defaulted loan collections more than five-fold, to $2.5 billion in fiscal year 1996.

- Aggressive accountability and collection efforts have cut the student loan default rate in half in just three years, from 22.4 percent in fiscal year 1990 to 11.6 percent in fiscal year 1993.

- The Department has approved 135 five-year Experimental Sites projects at 100 higher education institutions. These projects exempt schools from certain regulatory and statutory requirements so that they can innovate to better meet their students' needs, without sacrificing accountability. The Department will be able to use the results of these experiments in the future to inform our policy decisions.

IV. Management Initiatives

- As part of the President's reinvention of the way government regulates, OPE has eliminated or has proposed to eliminate (through Notices of Proposed Rulemaking) 232 pages of regulations, exceeding our goal by nearly 50 percent.

- To reduce burden further for schools and students, OPE has reinvented many regulations, providing for flexibility by, for example: allowing the use of NSLDS as an alternative method for obtaining Financial Aid Transcript information; requiring fewer student signatures on forms; and automating certain student verification checks in cooperation with the Selective Service and INS.

- As part of our mission to ensure accountability of taxpayer funds by improving oversight of institutions, the Department terminated 723 institutions from participation in the loan programs because of high default rates, and 381 schools were terminated from all Title IV programs for poor performance. In addition, through the on-going recertification process, another 291 institutions were denied eligibility to participate.

- The Department uses the latest technology to improve the federal financial aid programs for students and schools. The National Student Loan Data System (NSLDS) is in the final stages of implementation and provides schools with information in an electronic format on student aid recipients. Institutions receive free EDExpress software packages to allow them to administer the delivery of student aid electronically. In addition, student applicants now have access to free FAFSA Express software.

- The Office of Higher Education Programs has reinvented its grant process. Grantees no longer are required to submit non-competing continuation applications, and have access to "one-stop shopping" at program offices so that they no longer have to deal with multiple offices in the Department.

October 10, 1996

DIRECT LOAN PROGRAM ACCOMPLISHMENTS

Vital Statistics -

The Direct Loan Program has revolutionized federal student loan delivery by providing borrowers and participating schools with a simple, more automated and accountable system, saving federal taxpayers billions of dollars.

The Direct Loan Program is to be phased in over a five-year period, saving more than $4.3 billion by FY 1998.

More than 1,600 schools participate in the third year of the program. As of July 1996, approximately 1.7 million student and parent borrowers have direct loans, borrowing approximately $10.5 billion.

In academic year 1995-96, Direct Loans captured about a third of total student loan volume.

In addition, approximately 82,000 borrowers have consolidated nearly $1.2 billion in Direct Consolidation Loans since the program's inception.

Improved benefits for borrowers - Direct Loans afford borrowers several benefits including: simplicity in obtaining loans, timely delivery of funds to students, one loan holder (the federal government), and varied repayment plans with the option to switch between plans without cost or penalty. The flexible repayment options reduce borrower default and its cost to taxpayers, help students transition into the workforce, and ensure that the cost of education is not a barrier to success.

Customer service - The Direct Loan Program's customer focus is reflected in the enhanced control it gives borrowers. It gives borrowers a toll-free hot line to ensure quick response to student concerns; questions and problems are resolved quickly. Funds are electronically transferred directly to the school and are available to students in record time. Training, technical assistance and consumer materials are made available to schools.

Simplification - The Direct Loan Program simply does more with less. It has streamlined the student loan delivery process by reducing the number of participants to three -- the borrower, the school, and the Department of Education.

Accountability - Program data for monitoring, improvement and enforcement is more accurate and more timely than in any other federal student aid program. The Direct Loan Program reconciled 100 percent of its draw downs from the federal Treasury during its first year, a first in the history of federal financial aid programs.

Flexibility - Borrowers have a wide range of repayment options, and schools are free to manage direct loans in ways that best suit their own environments. The simplicity of the program has resulted in reduced paperwork and staff time answering questions and tracking loan applications.

Competition - The Direct Loan program has introduced market-based competition to the federal student loan system. Through contracts awarded on a best-price-to-value basis, the private sector is responsible for all of the essential administrative processes associated with Direct Loans, such loan servicing and collection.

Schools still enrolled in the government-guaranteed loan program have praised the benefits that competition has brought to the federal student loan system. More than 100 college and university presidents at FFELP schools recently petitioned Congress to allow the Direct Loan Program to compete with the FFELP because of the improved service that Direct Loans have inspired from both the Department of Education and the government-guaranteed loan program.

Less Red Tape for Schools - The duplicate paperwork that is required under the FFELP is replaced by one application, one source of funds and one servicing center. As a result, financial aid offices are more efficient and provide better service to students.

Increased Control for Schools - Schools are allowed to implement Direct Loans with a substantially greater degree of autonomy from lenders and government and have better control over the loan process.

Innovations - The Direct Loan Program has pioneered such innovations as electronic Title IV processing, electronic funds management, reconciliation and automated quality assurance measurements for schools. In so doing, direct lending has set the standard for student financial aid delivery. As a result, lenders, secondary markets and guaranty agencies have been forced by the competition to make substantial improvements in their operations and customer service.

Recognition - The Direct Loan Program was named as one of 25 finalists in the 1996 Innovations in American Government Awards Program by the Ford Foundation and the John F. Kennedy School of Government at Harvard University.

In another first for a federal student aid program, Direct Loan Programs received a "clean" audit for its financial situation, internal control structure and compliance with laws and regulations during its first year of operation from the independent certified public accounting firm of Urback, Kahn and Werlin.

Education Daily, a higher education trade publication, found in a 1995 survey that more than 90 percent of participating colleges and universities rated the Direct Loan Program as "excellent." One hundred percent would recommend it to other schools.

Tax Cuts for Higher Education fact sheet

The HOPE Scholarship and Lifetime Learning Credit

The President signed on August 5, 1997, the BALANCED BUDGET ACT OF 1997 and TAXPAYERS RELIEF ACT OF 1997 to balance our budget, put our fiscal house in order, and expand educational opportunity. The education provisions provide for universal access to the 13th and 14th years of education through the HOPE scholarship tax credit and a 20% tax credit for lifetime learning.

The final tax cut bill enacts the President's proposals. When fully phased in, 12.9 million students are expected to benefit--5.8 million claiming the HOPE Scholarship, and 7.1 million claiming the Lifetime Learning Credit.

- **$1,500 HOPE Scholarship to make the first two years of college universally available.**

  For students in the first two years of college (or other eligible post-secondary training), taxpayers will be eligible for a tax credit equal to 100% of the first $1,000 of tuition and fees and 50% of the second $1,000 (the amounts are indexed for inflation after 2001). The credit will be available on a per-student basis for net tuition and fees (less grant aid) paid for college enrollment after December 31, 1997. The credit is phased out for joint filers between $80,000 and $100,000 of income, and for single filers between $40,000 and $50,000 (indexed after 2001). The credit can be claimed in two taxable years (but not beyond the year when the student completes the first two years of college) with respect to any individual enrolled on at least a half-time basis for any portion of the year.

- **Lifetime Learning Credit for college juniors, seniors, graduate students and working Americans pursuing lifelong learning to upgrade their skills.**

  For those beyond the first two years of college, or taking classes part-time to improve or upgrade their job skills, the family will receive a 20% tax credit for first $5,000 of tuition and fees through 2002, and for the first $10,000 thereafter. The credit is available for net tuition and fees (less grant aid) paid for post-secondary enrollment after June 30, 1998. The credit is available on a per-taxpayer (family) basis, and is phased out at the same income levels as the HOPE Scholarship.

Other Tax Cuts For Higher Education

- **Education Savings Accounts**

For each child under age 18, families may deposit $500 per year into an Education IRA. Earnings would accumulate tax-free and no taxes will be due upon withdrawal for net post-secondary expenses for tuition, fees, books, equipment, and room and board. The Education IRA is phased out for families with incomes between $150,000 and $160,000, and for single filers between $95,000 and $110,000. A taxpayer who uses tax-free distributions from an Education IRA may not, in the same year, benefit from the HOPE Scholarship or Lifetime Learning Credit.

- **Student Loan Interest Deduction**

Allows an above-the-line deduction (the taxpayer does not need to itemize in order to benefit) for interest paid in the first 60 months of repayment on private or government-backed loans post-secondary education and training expenses. The maximum deduction is $1,000 in 1998, $1,500 in 1999, $2,000 in 2000, and $2,500 in 2001 and beyond. It is phased out for joint filers with incomes between $60,000 and $75,000, and for single filers with incomes between $40,000 and $55,000 (indexed after 2002). The deduction is available for loans made before or after enactment of this provision, but only to the extent that the loan is within the first 60 months of repayment. The loan amount eligible for the deduction is limited to post-secondary expenses for tuition, fees, books, equipment, room, and board.

- **IRA Withdrawals**

Taxpayers may withdraw funds from an IRA, without penalty, for the higher education expenses of the taxpayer, spouse, child, or grandchild. The amount that can be withdrawn without penalty is limited to net post-secondary expenses for tuition, fees, books, equipment, and room and board.

- **Employer-Provided Education Benefits**

Extends Section 127 of the tax code for undergraduates for three years (for courses beginning prior to June 1, 2000). This provision allows workers to exclude up to $5,250 of employer-provided education benefits from their taxable income.

- **Community Service Loan Forgiveness**

  Excludes from taxable income loan amounts forgiven by non-profit, tax-exempt charitable or educational institutions for borrowers who take community-service jobs addressing unmet needs.

- **Expand benefits for pre-paid tuition plans**

  Allows State-sponsored pre-paid tuition plans--the earnings from which not taxed until the time of withdrawal as a result of last year's tax bill--to include room and board expenses for students who attend on at least a half-time basis. Withdrawals are eligible for the HOPE Scholarship and Lifetime Learning tax credits.

- **Repeal Cap on Tax Exempt Bond Issuance by Colleges and Universities**

  Repeals the $150 million bond cap that affects private higher education institutions and certain other charitable institutions. The repeal applies to tax-exempt bonds issued by these institutions to finance new capital expenditures.

UNITED STATES DEPARTMENT OF EDUCATION

PUBLIC AFFAIRS

Remarks by*
U.S. Secretary of Education
Richard W. Riley

Press Conference -- Higher Education Tax Proposals
Wednesday, June 11, 1997

Thank you all for coming.

In recent months, President Clinton and the majority in Congress have come together in several ways to help the nation's college students and families better handle the costs of college.

During last year's appropriations process, we secured the largest increase to the Pell Grant program in two decades, and we created more College Work-Study jobs. More recently, the budget agreement called for $35 billion over five years for the President's HOPE Scholarship and a $10,000 tuition tax deduction.

However, we still have important work to do. I'm very pleased with the higher education community's support for the President's proposals. There are three criteria that guided President Clinton's education-related tax breaks as outlined in the budget agreement -- expanded access, fairness, and promotion of lifelong learning. Chairman Archer's education proposals offered earlier this week don't just miss the mark -- they miss the point.

Chairman Archer's alternative to the President's HOPE Scholarship sacrifices some of its biggest advantages. It doesn't include the big motivational benefit offered by President Clinton's plan -- a guarantee that the 13th and 14th years of education are just as accessible as the previous 12. Additionally, the Archer plan provides only $22 billion in tax relief -- $13 billion less than the amount called for in the budget agreement -- for the President's credit and deduction. On both counts, the Archer plan fails the access test.

Further, the Archer version of the HOPE Scholarship penalizes students who choose to attend a more affordable institution during their first two years of college. A student entering most four-year colleges would receive the full $1,500 credit, and there's nothing wrong with that. But a student attending a community college would receive much less. That fails the fairness test.

Finally, the Archer plan does away with the lifelong availability of tax relief as presented in

---

* Secretary Riley may depart from prepared remarks.

600 INDEPENDENCE AVE., S.W. WASHINGTON, D.C. 20202-0131
(202) 401-1576

President Clinton's plan. You know, a few short years ago, we saw a wave of corporate downsizing that forced millions of Americans to take their careers in new directions. For some, that meant returning to school. By making these tax breaks available to students of all ages, the President gives families a chance to navigate these changing times. The Chairman's plan fails to promote education throughout people's lives.

As I said earlier, we have resolved our differences with Congress on several occasions for the sake of America's students and families, and I hope that we can do so again. But we must remain committed to expanding access, fairness, and promotion of lifelong learning.

I should note that from what I know about the plan proposed by Congressman Charles Rangel, it offers a different look at these issues while moving forward on those three criteria. It is a plan that we will be examining as these discussions move forward.

I look forward to continuing to work with members on both sides of the aisle in Congress to reach an agreement that meets those criteria and works for America's families.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

June 11, 1997

SECRETARY OF THE TREASURY

The Honorable Bill Archer
Chairman, Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515-4005

Dear Bill:

I have reviewed the Chairman's Mark you released earlier this week, providing the details of the tax portion of the bipartisan budget agreement. The President is eager to sign legislation implementing the agreement into law, but in its present form, the proposal you have put forth does not meet the test of fairness to working families and has other serious problems. I have included preliminary Treasury distribution tables for your package after this letter. Our major concerns are listed below.

Your bill will reduce the value of the $500 child credit for millions of low income families by requiring a family to take the child credit only after the earned income tax credit is taken against their tax liability. A family with two children and $25,000 of income, for example, would receive no tax relief from the child credit under your proposal. Under the President's plan, this family would get $1,000, the same as a family that earned twice as much. We would favor a refundable child credit that better targets low and middle income working families. The credit should be indexed for inflation. We would also permit taxpayers to place their child credit into a tax-favored savings account to finance their children's college education. In combination with our tuition deduction, this proposal would allow families to save and pay for college tax-free.

The proposed legislation singles out six million families who pay for child care and gives them a smaller tax cut. Beginning in 2002, families who receive a tax credit for their child care expenses would lose 50 cents for each dollar of their child credit. This provision unfairly reduces tax relief for working parents who are struggling to maintain a decent standard of living and to pay for child care. For example, a family with two working parents making $45,000 who pay for child care for their two children would seemingly be eligible for a $1,000 child tax credit. But under the proposed legislation, they would also lose $480 of their child tax credit, beginning in 2002.

The education package falls nearly $13 billion short of the agreed goal of $35 billion in tax cuts for education, which are consistent with the HOPE scholarship and tuition deduction proposals in the President's FY98 Budget. Furthermore, as compared to the President's proposals, it directs more benefits toward upper-income families while reducing the benefits to lower-income families. It introduces serious administrative complications and is less effective at easing the burden of college attendance for working families.

- The HOPE credit would be cut to 50 percent of tuition expenses, halving the value of education benefits for millions of students attending community colleges and other low-cost institutions.

- Unlike the broadly available tuition deduction in the President's package, the tuition deduction in your proposal would be available only if education expenses are paid from certain education savings plans. Hence, no help is given beyond the first two years of higher education to low-income students and students who must borrow to pay tuition. In addition, your proposal does much less to encourage lifelong learning, one of the central objectives of the President's package.

- Tax-free savings offered through new education investment accounts and the opportunities for tax-deferred saving through private prepaid tuition plans are overly generous to upper income families, since they have neither income limits nor contribution limits. This would give high-income taxpayers an incentive to use these vehicles to save tax-free, even if they never intend to use the savings for education expenses. In the early years, the benefits for education will only be available to those who already have large reserves of cash to deposit in these accounts, not to others who can contribute only modest amounts each year.

The American Dream IRAs are not sufficiently targeted. Contributions could be made to these back-loaded IRAs without any income limits, which would surely result in a substantial shifting of existing savings into tax-preferred investment vehicles by high-income taxpayers, rather than creating new savings.

The proposal to index certain capital assets and lower the rate of tax on capital gains provides a double benefit to taxpayers, substantially overcompensating them for the effects of inflation. The package would disproportionately benefit the wealthy over lower- and middle-income wage earners. The package also has an explosive revenue cost in years after 2007, possibly jeopardizing all our important work to balance the budget. In addition, the indexing proposal is enormously complex and difficult to administer. To quote the New York State Bar Association, indexing is "fundamentally flawed" and would create problems that would "overwhelm taxpayers and the IRS."

In addition, we are concerned about the proposal to reduce the corporate capital gains tax rate. We would propose expanding the existing exclusion for long-term equity investments in smaller businesses. The expansion of the capital gains incentive for small businesses will help more start-ups get off the ground, and ensure that America continues to lead the world in high technology.

At a time when business conditions are strong and profits are at their highest share of GDP in two decades, you have proposed to spend $34 billion over 10 years to eliminate the corporate alternative minimum tax. This provision would return us to the days when some large and profitable corporations could pay little or no tax.

Your plan contains other provisions that raise serious concerns. The safe-harbor for independent contractor status would permit employers to avoid essential worker protections. At a time when we are trying to expand health and pension coverage, this proposal could lead to widespread shifting of employees to independent contractor status, resulting in loss of worker protections such as pension and health coverage, and consequently wage and hour protections, unemployment insurance benefits and compensation for work-related injuries.

Under your proposal, Indian tribes would be subject to the unrelated business income tax on all income earned from commercial activities. Contrary to long-established U.S. policy, this tax fails to respect the sovereignty of Indian tribes and their special status as domestic dependent nations. This lack of respect for sovereignty is particularly apparent in the difference the proposal would create between tribes and States. In addition, the proposal would be extremely difficult to administer.

We are very disappointed that your proposal excluded a number of important initiatives for the President's FY 1998 Budget that were included in the budget agreement. For example, the Nation's mayors and urban and rural communities have been extremely supportive of the President's brownfields provision, which provides a tax incentive for environmental cleanup and encourages economic development in formerly contaminated areas. Your proposal excludes this provision. And while tax relief is provided for the District of Columbia, no additional Empowerment Zones or Enterprise Communities for the rest of the country are provided.

In addition, no provision is included to stimulate investments in Community Development Financial Institutions to revitalize distressed neighborhoods around the country. No provision is included for equitable tolling, which protects a taxpayer's rights when he or she is incapacitated, or for restructuring our Nation's affordable housing portfolio.

Your bill also includes a provision to raise the debt ceiling. We believe that it should be included in the other reconciliation bill.

In summary, we think this package disproportionately benefits the most well off in society at the expense of working families. Given the tough choices that need to be made within this tax package, we think it is unwise, for example, to eliminate the corporate AMT, while at the same time denying tax relief provided by the child credit to millions of hard-working taxpayers with children who receive the earned income tax credit. Moreover, the provisions in the package that drive up costs beyond the ten year budget window, are those that most advantage high-income taxpayers.

We look forward to working with the Congress to design a tax package that helps working families pay for education, buy and sell homes, and raise their children. We are committed to achieving a tax package that is fair to all Americans.

Sincerely,

Bob

Robert E. Rubin

Enclosures

President Clinton:
Providing Educational Opportunities for the New Century

"Looking ahead, the greatest step of all -- the high threshold of the future we now must cross -- and my number one priority for the next four years is to ensure that all Americans have the best education in the world."
--President Clinton, State of the Union, February 4, 1997

Expanding Access to Higher Education

Agreement single 45

- **Making College More Affordable.** The ~~President's~~ Balanced Budget includes the largest investment in higher education since the G.I. Bill in 1995 ~~-- roughly $35 billion in tax cuts to help families pay for college~~. ~~Congress enacted~~ the President's $1,500 HOPE Scholarship tuition tax credit, ~~to~~ make the first two years of college universally available. Students beyond the first two years, or part-time students seeking to improve or acquire job skills, can now receive a 20% tax credit for up to $5,000 of tuition and required fees through 2002, and $10,000 thereafter. Lifetime Learning

- **The largest Pell Grant increase in 20 years.** The President's Balanced Budget includes the largest increase in Pell Grants in two decades -- a funding boost of 25%. The maximum award will reach $3,000, $700 more than in 1993 -- in the 1998 budget alone, an additional 348,000 students will receive grants.

- **Reforming Student Loans.** President Clinton cut student fees and interest rates for all borrowers, expanded repayment options and improved service through the Direct Loan Program, which has served more than 2.1 million student and parent borrowers.

Strengthening Our Public Schools

- **Expanding School Choice and Accountability in Public Education.** The Clinton Administration has dramatically increased funding for charter schools: one charter school was in existence when the President took office -- this fall, there will be nearly 700 charter schools in operation.

- **Attracting and Preparing Tomorrow's Teachers.** President Clinton has proposed an initiative to attract nearly 35,000 talented people of all backgrounds into teaching at low-income urban and rural schools across the nation, and to dramatically improve the quality of training and preparation given to our future teachers.

- **Raised Standards for Over Ten Million Students.** The Clinton Administration overhauled Title I, which provides extra help with basic and advanced skills to more than 10 million disadvantaged students in elementary and secondary schools.

+ Technology Challenge

Ensuring that Every Child Can Read

- **Launched America Reads.** The Balanced Budget will fund a child literacy initiative consistent with the America Reads Challenge, the President's effort to make sure every child can read well and independently by the end of third grade.

Leading a Crusade for National Standards

- **Goals 2000.** The President signed Goals 2000, which helps states establish standards of excellence for all children, and plan and implement steps to raise educational achievement.

Bob,
I have to leave in 20 min. If you have changes before then, pls call me at 62734. If you have changes after that, pls call Ruby Shamir, in Ann Lewis's ofc.
Thanks.
Lowell Weiss

Draft of cover note for education packet

Now that the new school year has begun, we encourage you to speak out about education -- the key to unlocking the opportunities of the 21st century. The month of September is the best time of the year for us to galvanize support for our important education initiatives.

As President Clinton made clear in his State of the Union address, our number one priority for the next four years is to ensure that Americans have the best education in the world. Here are some examples of education initiatives where Democrats are making the difference.

First, opening the doors of higher education. Thanks to the President's outstanding leadership during the difficult balanced budget negotiations this spring and summer, we Democrats achieved a truly remarkable goal: For the first time ever, all children in America who study hard will have the opportunity to go to college. and to keep on learning for a lifetime. Our balanced budget makes this possible through $1,500 HOPE Scholarships, a Lifetime Learning Tax Credit, new Education IRAs, and the largest increase in Pell Grants in two decades.

Second, supporting our public schools. For example, the President is providing the tools for parents, teachers, and community groups to create public charter schools. Charter schools help expand school choice for parents -- and unlike so-called voucher schemes, they strengthen public school systems rather than draining them of resources. Also, the Administration will continue to press Congress to address the growing problem of unsafe and overcrowded public schools. The Administration is helping to recruit talented new public school teachers and reward the existing teachers who are serving their students best. And the Administration is working tirelessly to connect every public school classroom and library to the Internet by the year 2000.

Third, expanding early-childhood education. Because a child's learning begins long before he or she goes to school, we are expanding Head Start to one million a ~~additional~~ children by 2002. We ~~are also creating a nationwide child literacy initiative~~ also have launched the America Reads Challenge to ensure that every child can read independently by the end of the 3rd grade.

Finally, promoting high education standards. We believe that every state should adopt voluntary national standards and test their students in reading and math to make sure these standards are met. High national standards are the best way we can be sure our children learn what they need to succeed in the new economy.

The American people want to work together to provide all our children with the best preparation for the opportunities of the 21st century. The American people are looking to Democrats to lead the way.

- **Leading a Crusade for Voluntary National Standards and Tests**. President Clinton has challenged every state to adopt high national standards, and, by 1999, to test every 4th grade student in reading and 8th grade student in math so that parents, students and teachers can tell if students are meeting national standards. Fifteen of the nation's largest urban school districts, as well as six states and the Department of Defense Schools have joined the President's effort.

THE AMERICA READS CHALLENGE

"We ought to commit ourselves as a country to say by the year 2000, 8 year-olds in America will be able to pick up an appropriate book and say, "I read this all by myself"

President Clinton, September 12, 1996

HELPING ENSURE THAT EVERY AMERICAN CHILD CAN READ WELL AND INDEPENDENTLY. Research shows that children who cannot read well and independently by the end of third grade are less likely to succeed in school and more likely to drop out. While American students today generally read as well as ever, 40% of our fourth graders scored below the basic level on the 1994 National Assessment of Educational Progress. According to studies, however, well-designed tutoring programs result in student gains in reading. The America Reads Challenge sets forth the first comprehensive, nationwide effort to create after-school, summer, and weekend tutoring in reading. Legislation proposed by President Clintont links parents, teachers, AmeriCorps members, trained reading professionals, and volunteer tutors to school, library and community literacy efforts. The proposal is a five-year, $2.75 billion commitment to local communities and organizations, as well as national and regional efforts. It includes:

✔ **America's Reading Corps**. The proposal would fund 25,000 reading specialists and coordinators, including 11,000 AmeriCorps members, to mobilize 1 million volunteer reading tutors.
   - A state-based education-service partnership would fund local school-community partnerships that need reading specialists to train and supervise tutors, and AmeriCorps members and others to help recruit and organize tutors.
   - Coordinating with the in-school reading program, tutors will provide individualized after-school, weekend, and summer reading tutoring for approximately 3 million children in grades K-3 who need extra help.

✔ **Parents as First Teachers Challenge Grants.** The legislation also recognizes that, as their children's first teachers, parents can give their children the firm foundation they need to do well in school. The Parents as First Teachers Challenge Grants would provide more than $300 million over five years to foster effective programs to provide assistance for interested parents to help their children become successful readers by the end of 3rd grade.

THE PRESIDENT'S AMERICA READS CHALLENGE INCLUDES OTHER KEY COMPONENTS.

- **Federal Work Study Expansion**. President Clinton has asked college presidents to allocate work-study slots to college students to become America Reads tutors. The goal is to give 100,000 federal work study students the opportunity to help children learn to read better. So far, *more than 700 colleges have pledged students to tutor in elementary schools.*

- **Head Start Expansion**. One million 3- and 4-year olds will be reached through the expansion of Head Start programs, part of the President's balanced budget plan.

PRESIDENT CLINTON IS ISSUING THE AMERICA READS CHALLENGE TO ALL AMERICANS. The America Reads Challenge builds on the work being done by classroom teachers, librarians and reading specialists by drawing upon the spirit of community volunteers in tutoring and mentoring.

- The Challenge is pursuing several essential strategies to help our children learn to read: creating more learning opportunities to supplement classroom reading instruction; encouraging parent involvement to help children develop readiness skills for reading beginning at birth, as well as involvement throughout the school years; and bringing best teaching practices into classrooms.

- This unprecedented initiative calls on all Americans -- schools, libraries, religious institutions, universities, students, the media, community and national groups, business leaders and senior citizens -- to ensure that every American child can read well and independently by the end of 3rd grade.

FO HOM

MAKING COLLEGE MORE AFFORDABLE

The Balanced Budget Agreement includes the largest single investment in higher education in 50 years. These tax credits and scholarships build on the Clinton Administration's commitment since 1993 to expand access to higher education for young people as well as for working adults.

Tax Cuts for Higher Education:

HOPE SCHOLARSHIPS FOR 5.8 MILLION STUDENTS. The $1,500 HOPE Scholarship tax credit makes the first two years of college universally available. Families can reduce their taxes by 100% of the first $1,000 of tuition and fees paid (less any grants and scholarships), and 50% of the next $1,000.

LIFETIME LEARNING TAX CREDITS FOR 7.1 MILLION STUDENTS. The need to learn does not end with two or even four years of college. Many adults need to return to school to upgrade their skills, or to get an advanced degree. The Lifetime Learning tax credit helps reduce the financial burden of the third and fourth years of college and promote lifelong career advancement. Taxpayers can reduce their taxes by 20% of tuition and fees (less and grants and scholarships) up to $5,000. After the year 2002, the eligible amount of tuition and fees increases to $10,000.

INCENTIVES FOR SAVINGS. Taxpayers will be allowed to withdraw funds from an IRA, without penalty, to pay their own higher education expenses or those of a child, grandchild, or spouse. In addition, families may open Education IRAs for any child under 18. For each child, they may add $500 per year, and the earnings will accumulate tax-free.

STUDENT LOAN INTEREST. Taxpayers -- including a parent -- in the first five years of repaying a student loan will be able to deduct the interest payment from their taxes (up to $1,000 in 1998, rising to $2,500 in 2001 and beyond).

Expansion and Improvement of Student Aid

LARGER PELL GRANTS FOR NEARLY 4 MILLION STUDENTS. The President's Budget includes the largest increase in Pell Grant scholarships in 20 years. The maximum award will reach $3,000, an increase of $700 since 1993.

CHEAPER AND EASIER STUDENT LOANS. President Clinton and the Congress in 1993 cut student fees and interest rates for all borrowers, expanded the availability of flexible repayment options, and improved service through the Direct Loan Program.

MOVING TOWARD 1 MILLION WORK-STUDY JOBS. With President Clinton's 1998 Budget, the work-study program will be 39% larger than in 1993. More than 700 colleges have committed some of their work-study students to help elementary school children improve their reading skills.

THE AMERICA READS CHALLENGE

"We ought to commit ourselves as a country to say by the year 2000, 8 year-olds in America will be able to pick up an appropriate book and say, "I read this all by myself"

HELPING programs *President Clinton, September 12, 1996*

~~TODAY, PRESIDENT CLINTON WILL ANNOUNCE THAT HE IS SENDING LEGISLATION TO CONGRESS TO HELP~~ ENSURE ~~THAT~~ EVERY AMERICAN CHILD CAN READ WELL AND INDEPENDENTLY. The America Reads Challenge ~~Act~~ sets forth the first comprehensive, nationwide effort to create after-school, summer, and weekend tutoring in reading. ~~It~~ link~~s~~ parents, teachers, AmeriCorps members, trained reading professionals, and volunteer tutors to school, library and community literacy efforts. The ~~America Reads Challenge Act~~ is a five-year, $2.75 billion commitment to local communities and organizations, as well as national and regional efforts. It includes:
legislation proposed by President Clinton would proposal

✔ **America's Reading Corps**. The Act would fund 25,000 reading specialists and coordinators, including 11,000 AmeriCorps members, to mobilize 1 million volunteer reading tutors.

- A state-based education-service partnership would fund local school-community partnerships that need reading specialists to train and supervise tutors, and AmeriCorps members and others to help recruit and organize tutors.
- Coordinating with the in-school reading program, tutors will provide individualized after-school, weekend, and summer reading tutoring for approximately 3 million children in grades K-3 who need extra help.

✔ **Parents as First Teachers Challenge Grants.** The legislation also recognizes that, as their children's first teachers, parents can give their children the firm foundation they need to do well in school. The Parents as First Teachers Challenge Grants would provide more than $300 million over five years to foster effective programs to provide assistance for interested parents to help their children become successful readers by the end of 3rd grade.

~~THE PRESIDENT'S LEGISLATION ADDRESSES CHILDREN'S READING NEEDS.~~ Research shows that children who cannot read well and independently by the end of third grade are less likely to succeed in school and more likely to drop out. While American students today generally read as well as ever, 40% of our fourth graders scored below the basic level on the 1994 National Assessment of Educational Progress. According to studies, however, well-designed tutoring programs result in student gains in reading.

PRESIDENT CLINTON IS ISSUING THE AMERICA READS CHALLENGE TO ALL AMERICANS. The America Reads Challenge builds on the work being done by classroom teachers, librarians and reading specialists by drawing upon the spirit of community volunteers in tutoring and mentoring.

- The Challenge is pursuing several essential strategies to help our children learn to read: creating more learning opportunities to supplement classroom reading instruction; encouraging parent involvement to help children develop readiness skills for reading beginning at birth, as well as involvement throughout the school years; and bringing best teaching practices into classrooms.
- This unprecedented initiative calls on all Americans -- schools, libraries, religious institutions, universities, students, the media, community and national groups, business leaders and senior citizens -- to ensure that every American child can read well and independently by the end of 3rd grade.

THE PRESIDENT'S AMERICA READS CHALLENGE INCLUDES OTHER KEY COMPONENTS.

- **Federal Work Study Expansion**. President Clinton has asked college presidents to allocate ~~half of all their new~~ work-study slots to college students to become America Reads tutors. The goal is to give 100,000 federal work study students the opportunity to help children learn to read better. So far, ~~165~~ 700 *colleges have pledged ~~thousands of~~ students to tutor in elementary schools.*
- ~~**Service Summit Commitments.** As part of the President's Service Summit in Philadelphia, *major corporations and non-profits have committed to recruit tens of thousands of additional tutors* for the America Reads effort.~~
- **Head Start Expansion**. One million 3- and 4-year olds will be reached through the expansion of Head Start programs, ~~already a~~ part of the President's balanced budget plan.

- Head Start Now

THE AMERICA READS CHALLENGE: THE INITIATIVE

If students cannot read well by the end of third grade, their chances for success are significantly diminished. In 1994, 40 percent of America's fourth graders failed to attain the basic level of reading on the National Assessment of Educational Progress. Study after study finds that sustained individualized attention and tutoring after school and over the summer, when combined with parental involvement and quality school instruction, can raise reading levels.

The America Reads Challenge asks every American to identify what role he or she can play to help all of our children to read independently and well by the end of third grade. Several strategies are essential for helping our children learn to read:

Create More After School, Weekend and Summer Learning Opportunities

The fundamental purpose of the America Reads Challenge is to enable parents and educators to complement and expand successful literacy efforts to help many more children increase their skills and achievement levels, and to provide children who need additional help in reading with extended learning time.

The America Reads Challenge will build on nationwide efforts such as:

- **Read*Write*Now!**: With 60 reading and literacy groups, the Department of Education designed this summer program in 1994 to help fight the "summer reading drop off." The program, expected to reach 1.5 million children this summer, encourages children to read 30 minutes a day at least once or twice a week with an older reading partner, get a library card and use it, and learn a new vocabulary word a day. ?
- **Corporation for National Service:** National service grant programs that engage volunteer tutors in literacy efforts are working in hundreds of communities.
- **Federal Work Study (FWS):** President Clinton has challenged all colleges and universities to join The Honor Roll by pledging 50 percent of their Federal Work-Study increase for tutoring children in reading. Nearly 500 have signed on so far.
- **America Reads Challenge Legislation:** The Administration is proposing legislation to fund the establishment or expansion of community partnerships to help children with reading. This program will supplement classroom instruction in reading with high-quality volunteer tutoring, primarily after school and during the summer.

Strengthen Parent Involvement and Our Nation's Investment in the Early Childhood Years, So That Our Children Develop Readiness Skills for Learning to Read by the Time They Enter School

Parents and caregivers can engage in exercises to foster development of the necessary reading skills in their child. Early childhood researchers, the Department of Education, the Department of Health and Human Services, and the Corporation for National Service developed a kit called Ready*Set*Read! that suggests ideas for parents and caregivers to help their young children develop their language skills. The kit includes an activities booklet, a calendar of activities, and a growth chart that identifies language skills many children can perform.

A number of existing Federal resources and programs can be strengthened. For example:

- **Head Start Expansion:** One million 3- and 4-year-olds will be reached through the expansion of Head Start programs, already a part of President Clinton's balanced budget.
- **Even Start Expansion:** Additional investments are included in the President's balanced budget plan to expand and strengthen family literacy efforts.

In addition, the America Reads Challenge Act would create **Parents as First Teachers** grants to support programs that underscore the importance of parents' staying involved in their children's lives as they make the transition into their school years.

Bring Best Practices Into the School and Classroom

Teacher Preparation: Working with exemplary teachers and successful local reading programs, the Department of Education will identify examples of best practices to help improve teacher development in reading instruction.
Principal Leadership: America Reads will participate in efforts with the Department of Education and principals around the country to support efforts to expand principal leadership training.
Strengthening of Title I: Additional investments are included in President Clinton's balanced budget plan to expand efforts to strengthen reading instruction during the regular school day.
Identification of Successful Reading Programs: As a part of this effort to bring best practices into our schools, strong reading programs will be identified based on current research and the findings will be disseminated. Three areas of particular focus will be children in poverty served by Title I, children with disabilities served by the Individuals with Disabilities Education Act, and children who speak English as a second language.

Promote Greater Public Awareness and Local Partnership Building

The America Reads Challenge will encourage states and communities to form and to build on literacy partnerships among schools, libraries, youth-serving groups, businesses, and other community organizations. America Reads will use all available resources to raise awareness about what each of us can do to help our children learn to read.

Support Research and Evaluation

America Reads will continue to support research, evaluation, and dissemination in a range of critical areas related to reading and early childhood development. Dissemination of up-to-date research findings to a wide audience remains a priority.

Council of Am. Econs DNC

- Lovell Weiss - speech writer
  Are pages of examples

1. College Access - plg from radio address
   tax more?

2. Supporting Public Schools
   - more rules - NBPTS
   - Charter schools
   - School Cons st'n
   - vouchers

3. Reading:
   - all!
   - early ed, Head Start

① Pres
② Am Rds. - large
- work-study
nat'l service

4. Standards

Treasury

*

STRENGTHENING OUR PUBLIC SCHOOLS

We have to give every American access to the world's best schools, best teachers, best education.
--President Clinton, July 17, 1977

ATTRACTING AND REWARDING GOOD TEACHERS. President Clinton has proposed a $350 million initiative to attract talented people of all backgrounds into teaching at low-income schools across the nation, and to dramatically improve the quality of training and preparation given to our future teachers. This new initiative will help bring nearly 35,000 outstanding new teachers into high-poverty schools in urban and rural areas over the next five years. In addition, it will upgrade the quality of teacher preparation at institutions of higher education that work in partnership with local schools in inner city and poor rural areas. The President's initiative will help recruit and prepare teachers nationwide to help our neediest students succeed in the 21st century. The President's budget will also enable 100,000 teachers to obtain national certification as master teachers from the National Board for Professional Teaching Standards. Every school will be able to have at least one master teacher who can help lead improvements in the school and support teacher development.

EXPANDING SCHOOL CHOICE AND ACCOUNTABILITY IN PUBLIC EDUCATION. The Clinton Administration, together with Congress, is expanding start-up and planning funding for charter schools. These schools are provided with real flexibility while being held accountable for reaching high standards with all children. From a starting point of one school when President Clinton took office, around 700 charter schools will be operating this fall -- well on the way to the President's goal of 3000 charter schools by the start of the next century. As a result, parents are being provided with options, public school accountability is increased, and improvement of other public schools is stimulated and informed by the innovations of charter schools.

WORKING TO IMPROVE SCHOOL INFRASTRUCTURE. As America moves into the 21st century, our schools should too. The President is committed to finding solutions, to help local communities and states rebuild America's schools -- through both upgrading and new construction. The need for this is clear: student population this fall is at an all-time high of 52.2 million and record numbers of school buildings are in disrepair. The Administration will continue to push Congress to help address the issue of unsafe and overcrowded schools. We cannot expect children to raise themselves up in schools that are falling down.

CONNECTING EVERY CLASSROOM AND LIBRARY TO THE INTERNET. President Clinton has challenged the nation's parents, teachers, government, community and business leaders to work together to ensure that all children in America are technologically literate by the dawn of the 21st century. The administration is making this possible through initiatives such as: Technology Literacy Challenge Grants and Technology Innovation Grants, which support partnerships to spur investments in education technology and develop creative new ways to use technology for learning. The President also signed into law the Telecommunication Act of 1996 implementing the e-rate, an special rate that ensures that all schools and libraries will have affordable access to advanced telecommunications. The e-rate will provide telecommunications services for close to free for schools serving the lowest-income students.

A SUMMARY OF THE EDUCATION TAX CUTS IN THE 1997 BALANCED BUDGET PLAN

Many new tax benefits for adults who want to return to school and for parents who are sending or planning to send their children to college will be available due to the balanced budget signed into law in August, 1997. These changes are the largest investment in higher education since the passage of the G.I. Bill in 1945.

These tax cuts essentially make the first two years of college universally available, and they will give many more working Americans the financial means to go back to school if they want to choose a new career or upgrade their skills. When fully phased in, 12.9 million students are expected to benefit -- 5.8 million under the HOPE Scholarship tax credit, and 7.1 million claiming the Lifetime Learning tax credit.

- **Up to a $1,500 tax credit for students starting college**

The HOPE Scholarship tax credit helps make the first two years of college universally available. Students will receive a tax credit of 100% on the first $1,000 of tuition and required fees and 50% on the second $1,000. This tax credit will be available for payments after December 31, 1997 for college enrollment after that date. This credit is available for tuition and required fees less grants, scholarships, and other tax-free educational assistance. A high school senior going into his or her freshman year of college in September, 1998, for example, could be eligible for as much as a $1,500 tax credit.

> *A married couple with an adjusted gross income of $60,000 and two children in college at least half-time, one at a community college with a tuition of $2,000 and the other a sophomore at a private college with $11,000 tuition, would have their taxes cut by as much as $3,000.*

This credit is phased out for joint filers between $80,000 and $100,000 of adjusted gross income, and for single filers between $40,000 and $50,000. The credit can be claimed in two taxable years for students who are in their first two years of college or vocational school and who are enrolled on at least a half-time basis for any portion of the year.

- **The Lifetime Learning tax credit**

This tax credit is targeted to adults who want to go back to school to upgrade their skills and to college juniors, seniors, graduate and professional students, mid-career changers and those who want to take a course or two. A family will receive a 20% tax credit for the first $5,000 of tuition and required fees paid each year through 2002, and for the first $10,000 thereafter. The Lifetime Learning tax credit is available for tuition and required fees less grants, scholarships, and other tax-free educational assistance, just like the HOPE tax credit, for amounts paid on or after July 1, 1998 for post-secondary enrollment beginning on or after July 1, 1998. The credit is available on a per-taxpayer (family) basis, and is phased out at the same income levels as the HOPE Scholarship tax credit throughout their lifetime. Families will be able to claim the Lifetime Learning tax credit for some members of their family and the HOPE Scholarship tax credit for others who qualify.

> ***Returning to school full–time to become a teacher***: A homemaker, whose family has an adjusted gross income of $70,000, wants to attend a graduate teacher training program at a public university after being out of college for 20 years ($3,500 tuition). Her family's income taxes would be cut by as much as $700.
>
> ***Automobile Mechanic***: A married man, whose wife works part-time, and who has two grown children and an adjusted gross income of $32,000, is going back to a local technical college **to take some computer classes** with a tuition of $1,200. This family would have their taxes cut by as much as $240.

- ## Parents and grandparents can create education IRAs and make penalty-free withdrawals from other IRAs

Beginning January 1, 1998, taxpayers may withdraw funds from an IRA, without penalty, for the higher education expenses of the taxpayer, a spouse, a child, and even a grandchild. For each child under age 18, families may also deposit $500 per year into an Education IRA in the child's name. Earnings will accumulate tax-free and no taxes will be due upon withdrawal for post-secondary expenses for tuition and required fees (less grants, scholarships, and other tax-free educational assistance), books, equipment, and eligible room and board if used before the age of 30.

A taxpayer's ability to contribute to an Education IRA is phased out when the taxpayer has adjusted gross income between $150,000 and $160,000 for joint filers, and for single filers between $95,000 and $110,000. There are a few restrictions. A taxpayer, for example, who uses the tax-free distributions from an Education IRA may not, in the same year, benefit from the HOPE Scholarship or Lifetime Learning Credit.

• Expanded benefits for qualified State tuition plans

This provision allows qualified State-sponsored tuition plans -- the earnings from which are not taxed until the time of withdrawal as a result of a law passed last year -- to include savings for certain room and board expenses for students who attend on at least a half-time basis. Withdrawals are eligible for the HOPE Scholarship tax credit and Lifetime Learning tax credit.

• Paying back student loans at less cost

For many college graduates, one of their first financial obligations is to pay off their student loans, which average about $13,500. This provision will reduce the burden of this obligation by allowing students or their families to take a tax deduction for interest paid in the first 60 months of repayment on student loans.

> *A senior graduates from college and finds a job paying $25,000 a year (an has no other income). The student has a total student debt of $13,500 and is in the 15% federal income tax bracket. The monthly payment for this student's loans is $166. The total amounts of payments for the year is $1,992, over half of which is interest --$1,080 --which can be deducted under the new law. The student's maximum tax benefit will can be calculated by multiplying $1,080 by 15%: for a savings of $162 (for years after 1998).*

The maximum deduction is $1,000 in 1998, $1,500 in 1999, $2,000 in 2000, and $2,500 in 2001 and beyond. It is phased out for joint filers with adjusted gross income between $60,000 and $75,000, and single filers between $40,000 and $55,000. The deduction is also available for all educational loans, such as student, parent, federal and nonfederal loans, made before August of 1997 when the tax cuts became law but only to the extent that the loan is within the first 60 months of repayment.

• Going to school while you work

The tax relief bill extends Section 127 of the tax code for three years for undergraduate education (for courses beginning prior to June 1, 2000). This provision allows workers to exclude up to $5,250 of employer-provided education benefits from their income. This provision will enable many Americans to pursue their goals of lifelong learning.

- **Community service loan forgiveness**

This provision excludes from income student loan amounts forgiven by non-profit, tax-exempt charitable or educational institutions for borrowers who take community-service jobs that address unmet needs.

The balanced budget bills signed by President Clinton include many other provisions that will help all of the young people in America to grow and learn and help families navigate through these changing times. For example, the law provides $24 billion to provide health insurance to as many as 5 million more children. The tax cut bill includes a provision to encourage computer donations to schools. The balanced budget agreement protects and advances President Clinton's top domestic priorities, such as an expansion of Head Start, and an increase in the maximum Pell grant for college to $3,000. All of these benefits and tax cuts have one goal: to give parents the support they need to give their children a first class education and hope for the future.

Sincerely,

Richard W. Riley
U.S. Secretary of Education

For additional information on meeting the costs of college and lifelong learning for you, your children and grandchildren please call: 1-800-USA-LEARN.

MAKING COLLEGE MORE AFFORDABLE

Powell - Treas.

11/26/97

HOPE

Subject: HOPE and Pell figures -Forwarded -Reply
The FY 1999-2002 cost of the HOPE credit is $20.5 billion. The c
ost of
the lifelong learning credit over the same period is $10.3 billio
n.

I've never seen the "tax savings for the student at the average
4-year
college is $5,000" claim before. I've forwarded the message to J
ulie C.
and Bruce to see if they can confirm it.

As suggested by Shirman, I will leave the Pell cost confirmation
to OMB
or the education department.

Subject: HOPE and Pell figures -Forwarded -Reply
The FY 1999-2002 cost of the HOPE credit is $20.5 billion. The cost of the lifelong learning credit over the same period is $10.3 billion.

I've never seen the "tax savings for the student at the average 4-year college is $5,000" claim before. I've forwarded the message to Julie C. and Bruce to see if they can confirm it.

As suggested by Shirman, I will leave the Pell cost confirmation to OMB or the education department.

Ways & Means

John A. Gardner has written his fair share of grant applications, so the physics professor at Oregon State University was surprised in September when the U.S. Education Department rejected his proposal to test software to help visually impaired people read graphs and maps.

It wasn't the rejection that surprised him so much as the reason: The type on the application was too small and was not double-spaced, the department said. Dr. Gardner hadn't noticed the flaws, because he is blind.

The department returned the application to him five months after he had submitted it, saying it did not meet the "requirements for consideration." When he called to check further, he was told that no application that was not in 12-point type and double-spaced would be considered. When he asked if he could correct the errors and resubmit the application, officials refused and suggested that he apply again next year, he said.

"This just makes me so mad," Dr. Gardner said in an interview. "They claim they didn't discriminate against me, because they do this to everybody. Except that everyone who isn't blind can see if there are double spaces."

Senator Ron Wyden, an Oregon Democrat, wrote a letter to Education Secretary Richard W. Riley in which he called the incident "a case of bureaucracy prevailing over common sense."

"The merits of ideas should be more important than their presentation," wrote Mr. Wyden.

In a statement last week, Mr. Riley said he was "troubled" by the way the application had been handled, and admitted that the department had not informed the professor of the problems "in a timely manner." A new grants process begins in the spring, he added, "and we look forward to reading Professor Gardner's application."

■

Because of the Prudential Insurance Company's legal troubles, hundreds of college students in Florida will get a piece of the Rock.

State officials announced this month that they would finance a new Ethics in Business Scholarship Program with part of the $15-million penalty extracted from Prudential for misleading customers into buying more-expensive policies.

The state plans to match $10-million from the Prudential settlement with private donations, using the money to establish endowments that will give annual $2,500 scholarships to 575 students at Florida's public universities. To qualify, students must enroll in courses in business ethics.

In addition, state officials have earmarked half of a $6-million penalty, which they plan to levy against the John Hancock Mutual Life Insurance Company, to finance similar grants to students at private and community colleges.

Government & Politics

The Politicking and Policy Making Behind a $40-Billion Windfall

How Clinton, Congress, and colleges battled to shape Hope scholarships

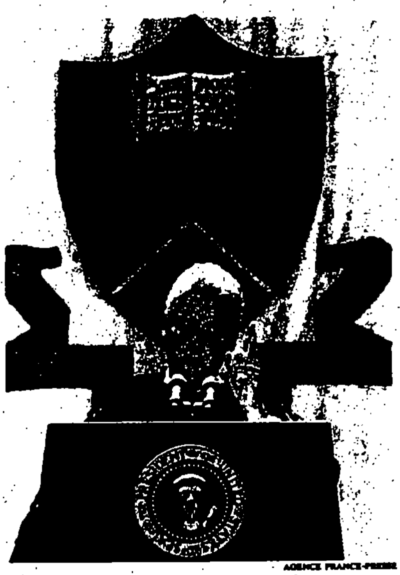
BY DOUGLAS LEDERMAN

THE WHITE HOUSE thought it had a deal.

For months, Clinton Administration aides had been frustrated by colleges' tepid support for the President's proposed tax breaks for tuition, which promised to return tens of billions of dollars to the pockets of students and their families.

Mr. Clinton's advisers wanted foot soldiers for the looming legislative war over how to shape the first major tax cut since 1981. So they hatched a plan: Package the President's proposals with benefits for low-income students, who were largely shunned by the Clinton tax breaks, and win college leaders over.

On January 27, 1997, a damp, chilly evening in Washington, two dozen college lobbyists crowded into a conference room in the Old Executive Office Building. In streamed the Administration team: the Secretary of Education, the Deputy Secretary of the Treasury, the director of the National Economic Council, and a gaggle of other aides.



AGENCE FRANCE-PRESSE

President Clinton used a 1996 speech at Princeton U. to call for tax breaks to make two years of college "universal to all Americans."

They explained that the next day, when Mr. Clinton previewed the higher-education part of his planned 1998 budget at a press conference, he would bring good tidings. Among the proposals: A $300 increase in the maximum Pell Grant for needy students; a plan to make the grants available to hundreds of thousands of financially independent students; and a 50-per-cent cut in the fees that borrowers pay on student loans.

Oh, and there was one more feature: As if it were an afterthought, the Education Secretary, Richard W. Riley, mentioned that the Administration had altered its proposed $1,500 tax credit for tuition so that it would *not* be refunded to students from families too poor to pay income taxes.

During his presidential campaign, Mr. Clinton had described his "Hope Scholarship" tax credit as a way to expand access to college for all. The talk was far different on this day. "This is a middle-class tax break, first and foremost," said the President's economic adviser, Gene B. Sperling. Low-income students, he said, would be helped by the bigger Pell Grant and other elements of the budget package.

The President wants to use the tax bill to help education, while the Republicans in Congress want to cut capital gains for the rich, Mr. Sperling argued to the uncertain gathering. If you don't support us, he warned, *they* will shape the bill, and they'll find someone else who wants the billions of dollars intended for students and their families.

When the pitch was over, the room fell silent. Then David L. Warren, president of the National Association of Independent Colleges and Universities, rose to his feet.

"We're with you," he said. Leaders of the American Council on Education added their support.

Officials of a few other groups, however, including the American Association of State Colleges and Universities, offered no such endorsements. For them, there was still no deal.

■

Few moments better capture the policies and the posturing behind the process that resulted in the most significant federal higher-education legislation in three decades: the Taxpayer Relief Act of 1997, which, beginning in January, will deliver $40-billion in tax breaks to students and their families over five years.

Interviews with more than three dozen college officials, Administration aides, lawmakers, and others reveal many strands of the story of how the tax bill took shape: the conflicting tactics that groups like the state-college association and the American Council on Education used to try to get what they wanted; the relevance, or irrelevance, of academe's leaders in the rarefied political atmosphere in which the deal-making took place; the ability of one Congressman to threaten long-held tax breaks for graduate students and faculty members; and the contentious, complicated relationship between the Clinton Administration and college leaders.

More than anything else, however, it is a tale of how politics shapes—and subverts—education policy.

To supporters of the Clinton plan, the story is about how a shrewd Democratic team built support for an enormous infusion of federal funds to higher education, despite the country's budget-cutting mood and intense opposition from Republicans.

To others, it is about how election-year politics led the Administration to abandon the students most in need of federal aid—and how college officials, blinded by dollar signs, went along for the ride.

An Appeal to the Middle Class

The Hope Scholarship, a central plank on which President Clinton based his successful re-election campaign, has its roots in his political nadir: the Congressional elections of 1994.

A few weeks after Republicans had won control of Congress on a platform of balancing the budget and cutting taxes, President Clinton introduced his "Middle-Class Bill of Rights." It called for a balanced federal budget, a tax credit for every child, and a $10,000-a-year tax deduction for the cost of postsecondary education.

Liberals attacked the plan as a betrayal, and Republicans called it a desperate attempt by a Democratic President to steal from their playbook. College officials criticized the tuition deduction because it would give bigger subsidies to people with high incomes than to those in lower tax brackets. The Middle-Class Bill of Rights went nowhere.

Administration aides were disappointed by colleges' lack of support. But over the next few months, the two groups teamed up against Republican efforts to slash federal student aid. President Clinton twice turned G.O.P. plans to cut financial aid to his political advantage. In May 1995, Republican lawmakers proposed ending the interest payments that the government makes on student loans for qualified borrowers while they are in college. Then, in the fall, they introduced a plan to balance the budget in seven years, a measure that would have cut student aid significantly.

A clash of wills over the budget plan caused the government to shut down for several days in late 1995. Congressional Republicans absorbed most of the resulting public anger, and the President, viewed as education's savior, scored big political points. He would remember the lesson.

Big Numbers in Opinion Polls

As the White House began preparing its fiscal-1997 budget plan that fall, aides to Mr. Clinton knew they wanted to do something to expand access to higher education. A consensus emerged that the only way to do this would be through the tax code. Given the drive to balance the b[illegible]ys Marshall S. Smith, the Deputy Education S[illegible], proposing big increases in spending on Pell Grants or other aid "wasn't in the cards."

In one of a series of meetings between top Education Department officials and White House aides, Dr. Smith mentioned to Dick Morris, the President's political consultant at the time, that the vast majority of undergraduate students were in their first two years of college. That fact, Mr. Morris says, along with polls showing the public's high respect for the job training provided by community colleges, helped him realize that "for the same amount of money we were putting into the college deduction, we could make the first two years of college free for the vast majority of kids in two-year colleges."

Officials of the Education and Treasury Departments and other agencies began crafting proposals. In November 1995, aides traded memos suggesting that the 1997 budget plan include a $1,600-a-year tax credit for freshmen and sophomores. The proposal racked up big numbers in White House public-opinion polls, Mr. Morris says, and many Administration aides liked it.

Not all of them, though. David A. Longanecker, Assistant Secretary for postsecondary education, acknowledges that he believed that direct grants would give much more help to the neediest students. Top economic advisers in the White House concurred.

Another group, led by George Stephanopoulos, a senior adviser to the President, liked the tax credit but found the timing terrible. Their view, says Mr. Sperling, was that in the midst of a fight over shutting down the government and balancing the budget, "it would be ill-advised if we came out with a new proposal that costs a lot of money."

"George's view carried the day," Mr. Sperling says. The tax credit was not included in the budget plan that Mr. Clinton offered in March 1996.

[illegible]a had legs, though. As the spring progressed, [illegible]f the Education Department, among others, worked q[illegible]n iterations of the tax credit. Meanwhile, the Presidential election campaign was heating up—and not in Mr. Clinton's favor. Word was growing of the 15-per-cent, across-the-board tax cut that the Republican candidate, Bob Dole, was preparing to introduce, and the Whitewater investigation was back in the newspapers.

Mr. Morris and other advisers thought that Mr. Clinton needed to make a splash. The place to do it, they decided, was a high-profile speech at Princeton University's commencement on June 4, 1996.

From early May until just hours before the speech, aides from Education and Treasury and the Office of Management and Budget worked feverishly to hone the details of the tax-credit proposal. They worked quietly, to shield the plan from the Dole campaign and the news media. "We were not to discuss it with anybody," says Maureen McLaughlin, Deputy Assistant Secretary of Education for policy and planning.

"Anybody" included officials of Washington's higher-education associations, whose advice the Clinton Administration often seeks on policies that affect colleges. They knew nothing about the Hope Scholarship until the morning of June 4, when Secretary Riley met with them and told them what the President would announce in his speech that afternoon.

Little Assistance for Low-Income Students

At Princeton, Mr. Clinton added to his proposed $10,000 deduction, suggesting a credit that would let taxpayers subtract up to $1,500 a year from their federal tax bills for the costs of the first two years of college. The plan, he said, would help "make the 13th and 14th years of education as universal to all Americans as the first 12 are today."

College leaders cheered the President's continuing support for education, but many doubted his tactics. Using the tax code would help middle- and upper-income students recoup college costs, they argued, but would offer little to Americans who could not afford college at all.

That was especially true, they said, because Mr. Clinton's plan would cut the value of a student's tax credit by the amount of other federal financial aid he or she received, and require students to sustain a B average to keep the credit for a second year. Low-income students, on average, have lower grades than wealthier students.

Even though a version of the Hope Scholarships had been under study for more than a year, many college officials suspected that the proposal had materialized at the last minute. "In an election year, one should expect that everything that is read, heard, and said is aimed at good politics rather than good policy," Edward M. Elmendorf, vice-president for government relations at the state-college association, said at the time.

In the weeks after Hope's unveiling, the President talked constantly about the tax credit. Apart from Mr. Elmendorf's early jabs, though, higher-education officials on the whole said little about it. Most of them shared his group's concerns about the Clinton proposals and were glad that someone was airing them. But they did not want to undercut the President in campaign season, or to risk blowing a possible $40-billion infusion for higher education. "We couldn't publicly come out and say, 'We're real worried about this,' because that would have shot them in the back," says Terry W. Hartle, senior vice-president for government and public affairs at the American Council on Education.

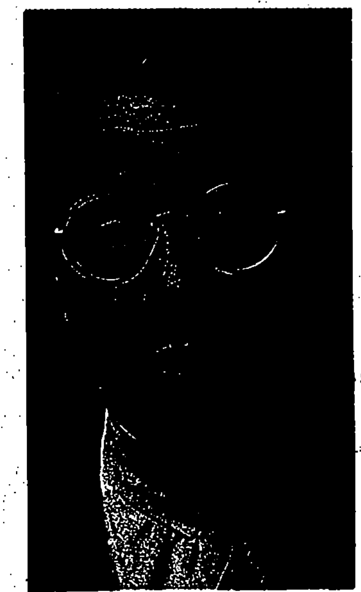
The college groups walked a "fine line," Mr. Hartle says, between expressing support for the Administration's goals and "simultaneously trying to wrestle them into making some changes we thought were crucial."

What he sees as savvy politics looked like a sellout to Lawrence E. Gladieux, executive director for policy analysis at the College Board. "Most of the people representing higher ed seemed to figure, 'Look, here's a lot of money being put on the table. Let's not say much now—after the election, we can try to redirect it toward something we want more.' It was a tacit conspiracy to look the other way."

Mr. Gladieux says his two main problems with the plan were that it would not do what Mr. Clinton said it would—help people go to college who otherwise wouldn't have—and that it might encourage colleges to raise their tuitions.

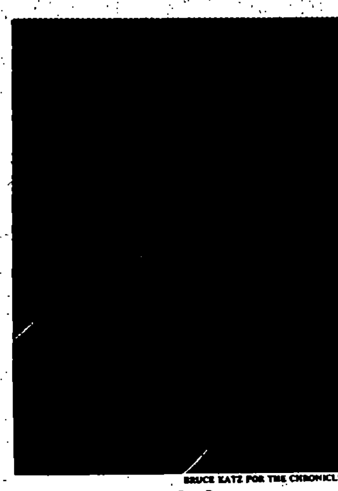
After a chance encounter on a street corner near their Washington offices, Mr. Gladieux and Robert D. Reischauer, an economist at the Brookings Institution who had previously headed the Congressional Budget Office under the

Continued on Following Page



RICHARD BLOOM, SABA

Gene B. Sperling, a key White House aide, told colleges that if they didn't back the President's tax plan, Republicans would use the tax bill to help the wealthy.



BRUCE KATZ FOR THE CHRONICLE

Edward M. Elmendorf of the American Association of State Colleges and Universities was an early and consistent critic of the President's proposal.

RICHARD BLOOM, SABA

Leon Panetta, the President's chief of staff, was frustrated that education lobbyists were not rallying around the plan.

LOS ANGELES TIMES

Barry Munitz, chancellor of the California State U. System, helped round up college support for the White House position.

Continued From Preceding Page

Democratic majority, decided to co-write a critique of the Hope credit for *The Washington Post*. The September 4 opinion piece, which would be cited often in attacks on the plan, said: "While tuition tax relief may be wildly popular with voters and leave Republicans speechless, it won't achieve the President's worthy objectives for education, won't help those most in need, and will create more problems than it solves."

Enticements to Win Over Critics

Voters seemed to disagree. Judging from surveys, the Hope credit—and Mr. Clinton's general support for education—helped him win re-election. Critics of the tax credit, who had hoped that the President might then ditch the plan, got a jolt when Mr. Clinton, in his first major post-election speech, declared enactment of the credit to be among his top three priorities for a second term.

To prove they were serious about Hope, his aides hustled to get the tax credit into legislative form and intensified their efforts to sell it to college leaders.

It didn't go well.

"We started getting an awful lot of, 'This is nice, but . . . ,' " Dr. Longanecker says. The criticisms echoed those of Mr. Gladieux: that the credit offered little to low-income students, and that it might inflate tuition and grades alike.

The response was frustrating to Administration aides. "The White House was living under this cloud of having proposed something they thought was their centerpiece in terms of education benefits, but was controversial in the education community itself," says Leon Panetta, Mr. Clinton's chief of staff at the time.

The President's advisers tried to assure college leaders that if they were patient, their qualms would be resolved. The Administration sent signals, for instance, that the B-average requirement would eventually vanish.

What to do about low-income students was a thornier matter: The tax code, by its nature, offers little assistance to poor people, and Treasury Department officials worried that making the tax credit refundable to those who do not earn enough to pay income tax might encourage people to pretend to be students.

In White House discussions, some aides also wondered why low-income students needed the tax credit when they were already getting Pell Grants. The counter-arguments were that federal support for the Pell program had ebbed, and that a 1992 change in federal law had denied eligibility for the grants to many students who were financially independent of their parents. Reversing that change was the top priority of the state-college association, the most vocal foe of Hope among higher-education groups.

In January 1997, the Administration refined its strategy: Make the tax credit non-refundable to those whose incomes are too low to be taxed, thus easing the Treasury Department's concerns, but at the same time help low-income students by proposing a $300 increase in the maximum Pell Grant and a fix of the law on independent students. The changes would provide $1.7-billion more a year for Pell Grants, increasing spending on the program to $35-billion over five years—about the same as the cost of the Hope tax credit and deduction.

With high expectations, White House aides presented the package at the late-January meeting in the Old Executive Office Building. Yet instead of embracing it, one college lobbyist says, "AASCU pissed all over the deal."

The state-college association applauded the Administration for reaching out to low-income students with the Pell Grants plan. But it wrote to its members that the White House had moved "in the wrong direction" by making the credit non-refundable.

From that point on, the Administration essentially gave up on the group—a leading voice for public higher education—and, through an intensive lobbying campaign, focused on winning support elsewhere.

The campaign was aimed primarily at getting supporters to speak up, but Administration aides sometimes tried to clamp down on critics. In late January, for instance, Education Department officials called Donald W. Stewart, president of the College Board, to complain about Mr. Gladieux's critiques. Similar calls were made to other groups over the months that followed.

At the "center of the tree" of the Administration's lobbying campaign, as he describes it, was Barry Munitz, chancellor of the California State University System and chairman of the Board of Directors of the American Council on Education, higher education's main umbrella group. To the Administration, he had the added allure of being the person to whom the presidents of the 23 California State campuses—members of AASCU all—reported. If the state-college group's lobbyists would not toe the line, White House aides figured, let's go around them.

The campaign's first payoff came in late February 1997, during the council's annual meeting, in Washington. Mr. Clinton was set to appear, and Dr. Munitz wanted to deliver the endorsement that the President badly wanted.

Dr. Munitz and Mr. Hartle, the council's senior vice-president, spent much of a weekend holed up in a hotel room trying to come up with a resolution on which White House aides and members of the council's board could agree. Dr. Munitz says he told board members that the higher-education groups should "put aside their parochial differences" to rally behind the Administration's tax plan.

"Academics are much more in love with distinctions than with finding common ground. I told them, 'If we don't demonstrate this time that we know how to set aside this love with what we don't agree on, we're going to lose the whole package.' "

On February 24, the President and a team of aides met privately with Dr. Munitz, the council's president, Stanley O. Ikenberry, and others. Mr. Clinton told the college officials that the Administration would work with them to ease their concerns about the tax breaks. That afternoon, Dr. Munitz presented an ebullient President with a resolution that generally endorsed Mr. Clinton's plan. The same day, the American Association of Community Colleges delivered an endorsement of its own. As the playing field shifted to Congress, Administration officials could say, with a straight face, that they had higher education's support for their tuition tax breaks—with or without support from the recalcitrant state-college association.

In Congress, Attacks and Complaints

From then through mid-April, Congressional committees held a set of hearings on the education tax breaks. The proceedings were remarkably similar: Administration officials explained the tax breaks, and economists and lawmakers from both parties ripped them apart. Republicans portrayed the program as too costly and cumbersome, and Democrats said the tax credits would help the wealthy and ignore the poor.

In their own testimony, college lobbyists continued to take different tacks: The education council offered general support, with reservations, while the state-college association welcomed Mr. Clinton's support for education and then blistered his proposals.

The real action, however, was occurring in closed-door meetings, at which Republican Congressional leaders and White House officials were negotiating the framework for a balanced budget.

They completed their work—sort of—in early May. On May 2, Mr. Clinton announced that a deal had been struck to set aside $35-billion, of a total of $135-billion in tax relief over five years, for his $1,500 tax credit and $10,000 deduction; to raise the maximum Pell Grant by $300, to $3,000; and to make the grants available to 350,000 independent students.

Almost immediately, however, Republicans disavowed the deal. Members of the Senate and House of Representatives tax-writing committees—left out of the negotiating process—said they were not bound by it.

As the parties staked out new bargaining positions, the Administration had the upper hand. Mr. Clinton's popularity was high, and surveys showed that Americans favored his tax cuts, tailored narrowly to help education and the middle class, over the "Republican" tax cuts for capital gains and estates, which were seen as favoring the wealthy.

On May 18, after two weeks of painstaking negotiation, details of a revised agreement were worked out. It would provide "roughly $35-billion" in tax relief for postsecondary education, "consistent with the objectives" of Mr. Clinton's proposed tax credit and deduction. But at the insistence of G.O.P. lawmakers like Bill Archer, chairman of the House Ways and Means Committee, the language was carefully worded to give Republicans room to propose other tax breaks that would also help people pay for college.

"Under our Constitution," a prickly Mr. Archer said then, "tax bills originate in the House, not the White House."

Throughout May 1997, as the House and Senate tax-writing committees prepared their tax plans, the Clinton Administration turned up its pressure on colleges.

In sometimes heated meetings with college lobbyists, Education Department officials urged the groups to have their member colleges flood Capitol Hill with expressions of support for the Administration's proposals.

College lobbyists were reluctant to do so. Besides having mixed feelings about the Hope plan, they also passionately supported some other tax breaks favored by lawmakers, including deductions for the interest paid on student loans and for the value of educational aid provided by employers.

"Our strategy was to try to support both sides, because we liked some of what each had to offer," says one college lobbyist. "That wasn't enough for the Administration. They thought our job was to help them, and their mantra was: 'It's $35-billion for Hope, and if you want anything else, it should be on top of that.' They were often frustrated that we weren't out there in our cheerleader outfits."

Hoping for Help
n the Senate

Capitol Hill, Administration aides had essentially written off Mr. Archer and the Ways and Means Committee. They had higher hopes for the Senate Finance Committee, given the bipartisan approach of its G.O.P. chairman, William V. Roth of Delaware. The White House seemed to underestimate, however, the extent to which the Senate panel's Democrats disdained the tax credit and deduction, and how much they resented having been locked out of the negotiations over the outlines of the balanced-budget deal.

In early June, the Senate panel's Democrats stitched together their own package of tax proposals for education. It included deductions for loan interest and employer-paid tuition, a plan to lift the cap on the value of capital-improvement bonds that a private college could have outstanding at any time, and proposals aimed at helping families save for college. It also contained a scaled-back version of the Hope tax credit, and it omitted the President's $10,000 deduction entirely. The price tag was $32-billion.

The White House promptly summoned the committee's nine Democrats to a meeting with Vice-President Gore, who told them that Mr. Clinton's plan was *the* "Democratic" tax proposal, and that the Senate Democrats were to go along.

"The push back by the members was, 'We're elected Senators, and we think these things represent a better policy, and cost less money,' " says a Senate Democratic aide.

Mr. Clinton's advisers knew that they needed to embrace some of the other tax ideas, but feared that giving too much ground now could embolden Congressional leaders to ignore the $1,500 credit and $10,000 deduction entirely.

In a series of calls to reporters in early June, Administration aides said they were altering their own proposals to appease critics, dropping the B-average quirement and agreeing not to subtract a student's federal cial aid from his or her tax credit.

r the first time, they also expressed support for the n-interest deduction, the lifting of the bond cap, and other priorities of both Republicans and Democrats in Congress. Their backing came with a caveat, however: They would support those measures only if the money for them came from outside the $35-billion that they argued was already reserved for the Hope credit and the deduction. As one Administration official explains, "It made sense to put the Republicans on the hot seat to include the items they had publicly supported, and to put it on their side of the ledger."

Most college lobbyists saw desperation in the move. "The lack of support from the Senate Democrats brought them to a very gutsy place," says one lobbyist. "You're down and feeling attacked. In response, you unveil an even bolder proposal. I thought they were out of their minds."

Surprising Threats to Cherished Tax Breaks

Officials of the Administration and of colleges alike had expected Mr. Archer, the Ways and Means chairman, to skimp on college tax breaks, and he did just that in the bill he unveiled on June 9. His plan contained about $31-billion in tax breaks for education, which he said met the "roughly $35-billion" standard assured by the budget deal.

His plan omitted Mr. Clinton's $10,000 deduction, instead proposing deductions intended to encourage families to save for college. It included a version of the President's tax credit, although modified to be worth 50 per cent of the first $3,000 that a student spent on college, rather than 100 per cent of the first $1,500. Mr. Archer, convinced by economists' views that the influx of federal tax funds would spur colleges to raise tuitions, felt that forcing students to match every dollar they got from the credit with a dollar of their own would dissuade colleges from increasing fees.

If college officials were disappointed by what was missing from the Archer bill, they were dismayed by what was in it: taxes on the tuition breaks that colleges provide to graduate students and the children of employees, and on the pension assets of Teachers Insurance and Annuity Association–College Retirement Equities Fund, higher education's main pension company.

Aides to the chairman say he sought to revoke TIAA's tax exemption because the pension fund had become a full-fledged insurance business competing with taxable entities.

Others accused Mr. Archer of having baser motives, arguing that he acted at the behest of VALIC, a pension company that competes with TIAA and is based in his district in Texas. Its parent company, American General Group, contributes heavily to the G.O.P. and gave Mr. Archer $1,000 toward his 1996 re-election campaign.

Hours after Mr. Archer announced his bill, TIAA-CREF executives zoomed into Washington to begin a lobbying campaign that, over the next two months, would involve more than 40 employees and consultants.

From mid-June to late July, the Senate Finance Committee received more than 1,000 letters, faxes, and e-mails about the pension fund—"more than on any other single issue" in the tax bill, a Senate Democratic aide says.

The only other issue that came close was the proposed tax on tuition waivers for graduate students and research assistants. College officials were shocked that Mr. Archer had taken aim at that benefit. They assumed that the aides who wrote the bill's language had nicked graduate students by mistake, in what they saw as a misguided attempt to rein in benefits for the children of faculty members.

Graduate students, on the other hand, felt that Mr. Archer had gone after them on purpose. They noted that his bill proposed extending—for undergraduate work, but not for graduate study—the tax break that allows employees to deduct tuition aid paid by their employers. They also knew that some Republican lawmakers were still angry about the vitriolic fight that graduate students had waged in 1995 to protect their interest payments on student loans.

An aide to Mr. Archer denied at the time that "anybody in Congress is gunning" for graduate students. G.O.P. aides also made clear that the primary targets were the children of college employees, who, they said, did not deserve a break on the high tuition that other students were forced to pay.

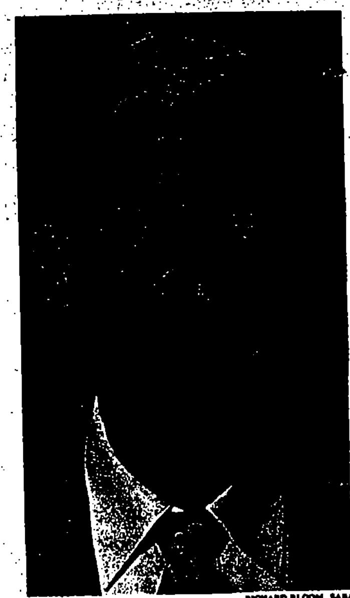
"Tuition costs are rising like crazy, and who sets the tuition price? People who work at universities," Kenneth J. Kies, chief of staff of the Joint Committee on Taxation, said in June. "And who are the only people who don't pay tuition? People who work at universities."

Still, aides to Mr. Archer denied that graduate students had been accidental victims. "Most people pay for their own education," said one staff member. "If you're one of the

Continued on Following Page

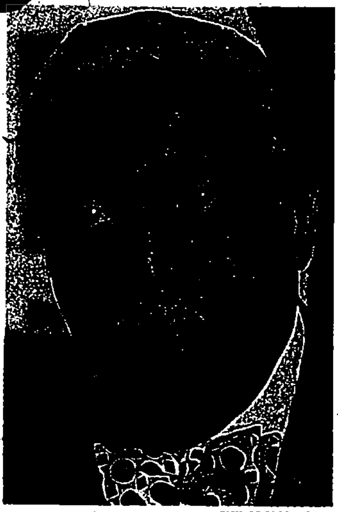
RICHARD BLOOM, SABA

Representative Bill Archer infuriated graduate students and faculty members with his push to end tax breaks on which they rely.



RICHARD BLOOM, SABA

Senator William V. Roth thought his version of the tax bill had to include some form of the tax breaks the President wanted.



RICHARD BLOOM, SABA

Representative Charles B. Rangel persuaded the Administration to replace its tax deduction for older students with a tax credit.

RICHARD BLOOM, SABA

Senator John Chafee sponsored an unsuccessful amendment that would have made the new tax breaks available to the neediest students.

Continued From Preceding Page

lucky few who gets to be a graduate teaching assistant, the kid sitting next to you might feel like it's unfair."

Graduate students insisted that taxing the tuition waivers of teaching assistants would force many of them out of school. Though it lacked TIAA-CREF's big bucks, the National Association of Graduate-Professional Students unleashed its own e-mail and telephone assault on Congressional offices.

College leaders, for their part, may have reacted lukewarmly to Administration pleas that they lobby for the Hope proposals, but they rallied when the White House asked them to attack Mr. Archer's bill.

At a press conference on the morning of June 11, the day that the Ways and Means panel took up the Archer bill, the heads of three major college associations joined Treasury Secretary Robert E. Rubin and Mr. Riley, the Education Secretary, at a press conference to criticize the measure.

The department solicited statements condemning Mr. Archer's bill from higher-education groups. Even the American Association of State Colleges and Universities provided one, although its leaders were not asked to join the other officials on the dais; Mr. Elmendorf, the group's top lobbyist, stood alone in the back of the room, handing out a statement outlining the association's position.

Compared with the bill passed by the Ways and Means panel on June 12, college officials and Administration aides far preferred the Senate version, released by Mr. Roth, of the Finance Committee, five days later. It contained more money for education tax breaks, including a set of proposals aimed at encouraging saving for college; proposed making permanent the tax deduction on employer-paid tuition, for graduate and undergraduate students alike; and omitted the proposed taxes on TIAA and tuition waivers. Like the House bill, the Senate plan ignored the $10,000 deduction.

The Senate bill sought a compromise on Mr. Clinton's Hope Scholarship, though there was "very little support" for it on the Finance Committee, aides say. "Senator Roth thought it would be unrealistic not to do *something*" with the President's proposal, one Republican aide says, because Mr. Clinton was sure to veto any bill without it.

The Senators shared Mr. Archer's concern about tuition inflation but recognized that Mr. Clinton wanted to help community-college students. So they modified the House version of the tax credit, to give two-year students a credit worth 75 per cent of their first $2,000 in college costs.

An Idealistic Mission to Capitol Hill

Throughout this period, a band of college lobbyists was canvassing Capitol Hill on what looked like a fool's mission. The group, made up of Barmak Nassirian, of the state-college association; Ivan Frishberg, of the U.S. Public Interest Research Group; and Erica Adelsheimer, of the U.S. Student Association, among others, spent May and June trying to persuade Senators to make the Hope tax credit refundable to low-income students.

They were working against all odds: The Administration had abandoned the idea in January; most House and Senate Republicans were dead-set against it; and the major higher-education groups thought that pushing the idea might put the entire set of college tax breaks at risk by angering both the Administration and Republican leaders.

Proponents of refundability were not dissuaded. Education Trust, which works on behalf of low-income students, amassed data showing that a non-refundable credit would leave up to 40 per cent of the students in some states in the cold. Those figures succeeded in helping the lobbyists sell the idea of a refundable credit to a surprisingly large group of Senators—as many as 50, they contend. Some, like the liberal Democrat Paul Wellstone of Minnesota, were predictable. But they also swayed Republicans like John Chafee of Rhode Island and Olympia Snowe of Maine.

"There were a lot of people who didn't want to have the criticism made later, when the smoke cleared and people realized who got the tax credit, that this was just a middle-class giveaway," says one Senate Republican staff member.

In late June, as the Senate prepared to vote on the Roth tax plan, Mr. Chafee, with two Democrats, Mr. Wellstone and New Mexico's Jeff Bingaman, agreed to sponsor an amendment to make the credit refundable. However, they were unable to come up with the $6-billion needed to finance such a change, and on the final vote on the bill, the weary Senators shouted a resounding "No" to the idea.

Last-Minute Tweaks by the Administration

Three days after the Senate vote, as negotiations over the tax bill between the House and the Senate, and between Congress and the White House, were set to begin, the Administration tweaked its education tax breaks yet again.

In a nod to G.O.P. concerns that a dollar-for-dollar credit would inflate tuitions, the White House said its credit would apply to 100 per cent of the first $1,000 a student spent on college, and 50 per cent of the next $1,000.

And in a concession to Congressional Democrats, the White House dumped its widely unpopular $10,000 deduction in favor of a proposal by Representative Charles B. Rangel, of New York, to give students after their second year of college a tax credit, aimed at encouraging "lifelong learning," worth 20 per cent of up to $10,000 in college costs. The Administration plan also formally incorporated Republican proposals to allow students to deduct loan interest and employer-paid tuition. That lifted the total cost of the Administration's education-related tax cuts to $42-billion.

The chief areas of disagreement between House and Senate negotiators on education tax breaks were the House's proposed taxes on tuition waivers and TIAA, and the Senate's desire to make the deduction for employer-paid tuition permanent and to extend it to graduate education.

Mr. Archer compromised first on the tax on graduate assistants. His aides even shifted their rhetoric to say they had never intended to tax graduate-student tuition waivers in the first place. House Republicans then offered to drop the proposed tax on tuition waivers for college employees if the tax on TIAA remained—a deal that Senators accepted.

Mr. Archer was adamant, however, about not letting graduate students deduct the value of employer-paid tuition, a Senate aide says. A major motivation, the aide and others say, was that one of Mr. Archer's staff members had gone to George Mason University's law school and had been amazed at how many of her classmates were not paying their own way. The aide had paid her tuition in full, because Congress does not pay for its employees' schooling. "The Congressman didn't think it was fair that people who have to work to pay for their grad school don't get a tax break if their employer does not provide educational assistance," a House Republican aide said.

Mr. Archer won that fight, and graduate students lost.

In the End, Using 'Brute Force'

Over the last weekend of July, White House negotiators and Republican Congressional leaders met to hash out the few remaining areas of disagreement over the tax bill. Although Administration officials objected to the tax on TIAA and the omission of graduate students from the deduction on employer-paid tuition, they focused on insuring the survival of the two tax breaks for tuition: the Hope credit and the lifelong-learning credit. They succeeded, and the final tax plan contained a total of $40-billion in tax breaks for college students and their families.

"The Administration got what it wanted by brute force," says a Senate Republican aide.

Now, college officials are preparing for the Hope Scholarship to take effect in January. Already they are fielding questions from students and their families hoping to benefit from the new tax credit.

Most educators agree that the tax breaks are not what they would have chosen if they'd had a real say in the matter.

Some, like the officers of the state-college association, still believe that academe's leaders forsook the interests of too many students in their quest to rake in $40-billion.

That's a minority view, however.

"If getting $40-billion to help people buy the product you make is selling out," says Mr. Hartle, of the American Council on Education, "I hope I have the opportunity to do it again." ■

P123

OFF OF POLICY DEVELOPMENT
OPS9 OPD 235 OEOB
EXEC OFF OF PRESIDENT
VASHINGTON DC 20502

THE CHRONICLE
of Higher Education.

November 28, 1997 • $3.25
Volume XLIV, Number 14

ISSN 0009-5982

Quote, Unquote

News Summary: Page A5

"What happens in the world now is far more unlikely and interesting than what a novelist can invent."
A faculty member who teaches nonfiction writing at Bennington College: A12

"I'm really not interested in cultural politics. I'm interested in eliminating cultural politics."
The new editor of "The American Scholar": A15

"There is a lot wrong with higher education; I even wrote a book about it. But the one thing that colleges can't be accused of is gouging the public."
A member of the National Commission on the Cost of Higher Education who was an adviser to President Reagan: A33

"There hasn't been much high-level scholarship on foundations, even the biggest and most visible, to say nothing of all the rest."
The director of the Institute for Non-Profit Organization at the University of San Francisco: A37

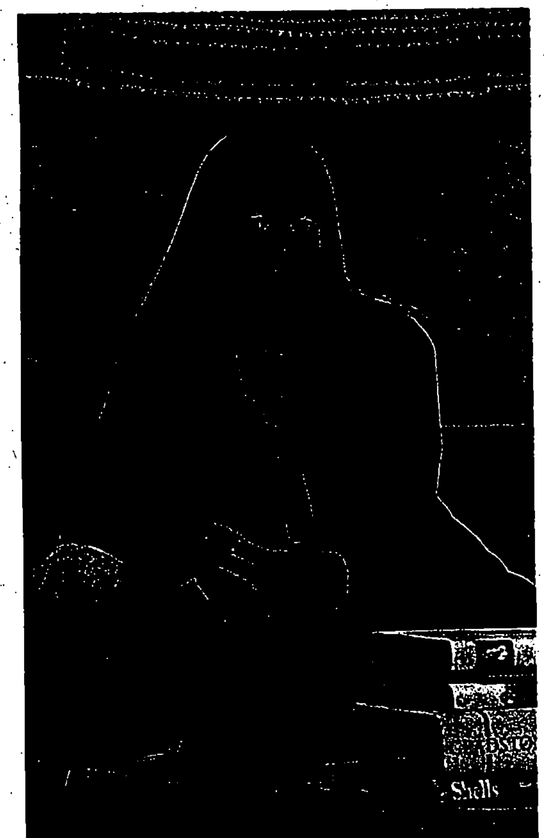
"Often I've wondered whether the men in my classes feel intimidated by the volume of poetry produced by their female peers on the subject of their abuse at the hands of men."
An associate professor of English at Southern Illinois University: A56

"The openness of the conversations and debates preserved on tape in the Kennedy, Johnson, and Nixon Presidential libraries makes it imperative that scholars be able to use them to the fullest."
The authors of "The Kennedy Tapes: Inside the White House During the Cuban Missile Crisis": B4

The Chronicle on the Internet: http://chronicle.com

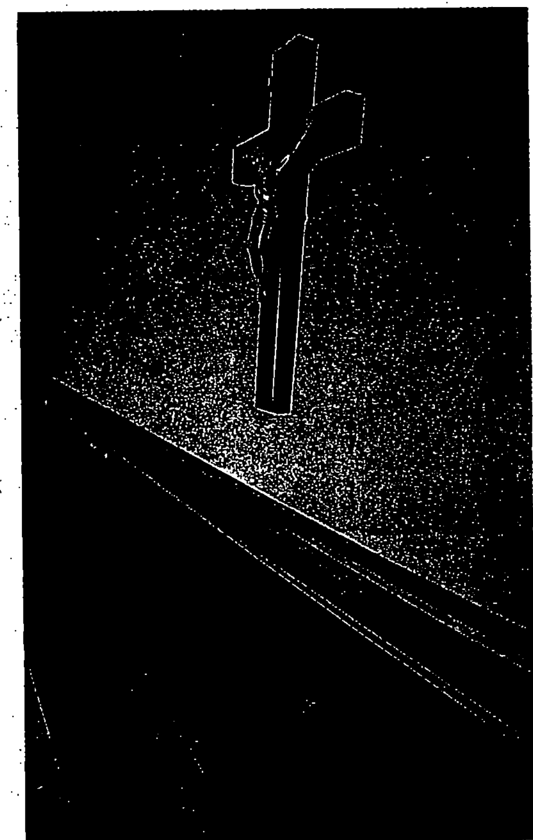
SPECIAL REPORT: A $40-BILLION WINDFALL

How Clinton Won College Tax Breaks: A28



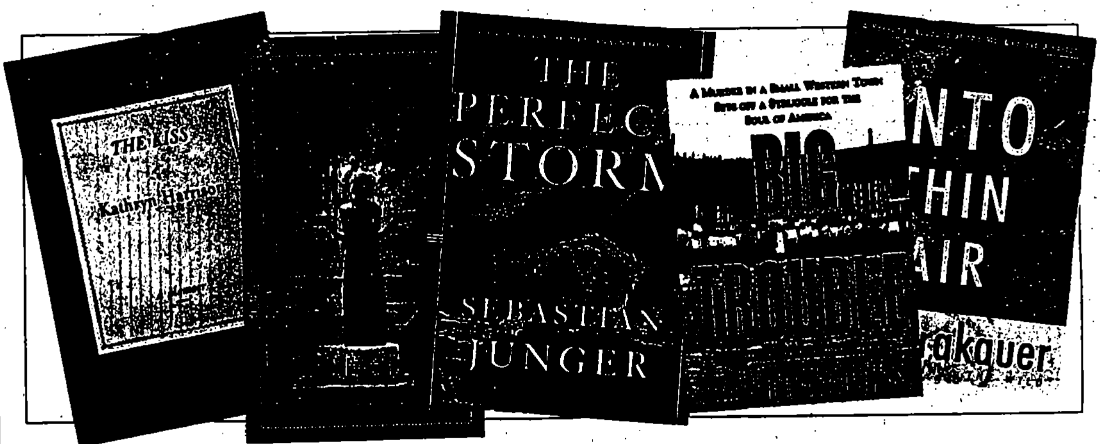
ANNE FADIMAN, THE INCOMING EDITOR — ERICA LANSNER, BLACK STAR, FOR THE CHRONICLE

A NEW 'AMERICAN SCHOLAR'
Editor to Seek Younger Readers: A15



GEORGETOWN U. — CHRONICLE PHOTOGRAPH BY JOHN SPAULDING

CRUCIFIXES IN THE CLASSROOM
Issue Divides Georgetown Students: A43



ACADEME DISCOVERS 'CREATIVE NONFICTION'
Programs Are Lucrative, but Do They Promote Good Writing?: A12

naicu

Hope

UPDATED
MEMORANDUM

TO: Interested Parties

FROM: Matthew W. Hamill

DATE: November 12, 1997

RE: Reporting Responsibilities in the Taxpayer Relief Act of 1997

Background

On August 5, 1997, President Clinton signed the Taxpayer Relief Act of 1997 into law (P.L. 105-34). The Act included a number of tax provisions beneficial to college students and families. Since enactment, staff of the Department of Treasury, Internal Revenue Service, Office of Management and Budget, and Department of Education have been working with the higher education community to develop interim guidance for colleges and for student and families so that these tax provisions may be implemented.

This memo outlines issues that colleges and universities, working with Treasury and IRS representatives, may have to face during the implementation of these various tax provisions. Due to the complexity of many of these issues, Treasury and IRS are likely to issue guidance on these matters in an evolutionary way. Colleges and universities, and taxpayers, should expect that the process of developing these rules may take several years. All references in this memo are to the Internal Revenue Code of 1986, as amended, unless otherwise noted.

HOPE Scholarship and Lifetime Learning Tax Credit

The HOPE Scholarship and Lifetime Learning tax credits created by the Act allow taxpayers to claim a credit for certain tuition and required fees paid to attend a postsecondary education institution. (See Appendix 1 for detailed description of these tax provisions.)

The HOPE and Lifetime Learning tax credits require (under new code section 6050S) colleges and universities to collect and report certain information to students (and certain other individuals designated by a student) and to the Internal Revenue Service. Specifically, section 6050S requires institutions to collect and report the following information:

1) the name, address, and Taxpayer Identification Number (TIN) (generally the Social Security number) of the student;

2) the name, address and TIN of any individual certified by the student as the taxpayer who will claim the student as a dependent for the tax year;

3) the aggregate amount of payments for qualified tuition and related expenses received for each student;

4) the aggregate amount of reimbursements or refunds paid to each student, and;

5) such other information as the Secretary of Treasury may determine.

The Treasury Department has already announced that only certain reporting responsibilities are likely to be implemented for 1998, the first year these tax credits take effect. For this first year, Treasury and IRS representatives are considering plans to require colleges and universities to report the following information:

1) the name, address and TIN of each student who enrolls at the institution;

2) the name, address and Employer Identification Number (EIN) of the educational institution making the report, as well as the name and phone number of an individual on campus to contact with any questions relating to the return;

3) whether or not the student was enrolled on at least a half-time basis during any academic period beginning in the calendar year (using current Department of Education rules for determining the definition of half-time);

Treasury is currently considering whether and how to obtain even the most rudimentary information about the academic status of the student. For example, they are contemplating whether to ask colleges and universities to report whether or not the student was enrolled exclusively in graduate level courses. If this question was answered yes, the IRS would be able to determine that the student was ineligible for the HOPE tax credit. Treasury will NOT require colleges and universities to collect and report the name, address and Social Security number of the parent or other individual that the student certified was going to claim them as a dependent on their tax return until 1999 at the earliest. Treasury and IRS staff will be continuing their efforts to develop rules for the reporting of whether or not a student has completed their first two years of postsecondary education. Those rules, and associated reporting requirements, will not take effect in calendar year 1998.

The information reporting will take place on a specially designed form similar to the current IRS Form 1098, which is used to report home mortgage interest. (See Appendix 2 for sample copy of Form 1098.)

The following questions and answers address some of the implementation issues that have arisen since the Act was signed into law.

Q1. Will I have to report on every student that enrolls for a class on campus?

A1. Generally, yes. Treasury and IRS staff are examining possible protocols to waive the data collection and reporting responsibilities for certain classes of students. However, it is unlikely that wholesale exceptions will be provided, or that students will be able to simply waive these requirements. The information report may be needed by students or their parents even if they are not eligible to claim one of these tax credits; for example, to determine whether they are eligible to withdrawn funds from a regular IRA without incurring a penalty, or from a new Education IRA, or if they receive a distribution from a state prepaid tuition plan.

Q2. The Federal Educational Rights and Privacy Act (FERPA) appears to prohibit educational institutions from reporting this type of data without a student's consent. How will this statutory requirement be handled?

A2. Treasury and IRS staff are researching the interactions between FERPA and the reporting responsibilities of new code section 6050S. If required, students will sign a waiver of FERPA when they sign and file an IRS-designed form with the educational institution, providing such information as their name and Social Security number. Preliminary analysis suggests that FERPA does not apply to this type of information, but a formal opinion has not been released. It is useful to remember that FERPA does not create a private right of action for students to make a claim against a college or university. Sole enforcement authority under FERPA is with the U.S. Department of Education.

Q3. Will colleges and universities be responsible for verifying any data submitted by students?

A3. No.

Q4. Will colleges and universities have to determine whether each course they offer qualifies for these tax credits?

A4. No, that determination will be made by the individual taxpayer.

Q5. Will colleges and universities have to report whether or not a student has been convicted of a drug-related felony?

A5. No.

Q6. How would institutions handle the following situation: a student makes a tuition payment in December for the Spring semester. The college provides an information return in January that includes the December payment. After the information return is filed, the student withdraws from classes, and receives either a full or partial refund of their December payment.

A6. The refund of the December tuition payment would be reported the following year, and the student/taxpayer would make the necessary adjustments on their tax return.

Q7 *We have a contract with a company to process our tuition payment plan. Students make monthly payments to this company, and we receive the lump sum according to the schedule we have arranged with the company. For purposes of these tax credits, when has the student actually paid the tuition?*

A7. Treasury and IRS staff are studying this matter, and have not reached any conclusions yet. A determination on this matter may rest on the precise financial and legal relationship between the student, the college, and the third party receiving payments, whether the third party is acting as an agent of the college or of the student, and the refund policies that the plan provides.

Q8. *Under the HOPE Scholarship tax credit, only payments made on or after January 1, 1998, for classes beginning on or after January 1, 1998, are eligible for the tax credit. How will students and families treat payments made in December 1997 for classes in 1998?*

A8. Payments made before January 1, 1998 are not eligible for the HOPE tax credit, and will not be reported on the information return that a college will prepare in January, 1999. However, students and parents making payments in December may not understand that their payment is ineligible for the new tax credit. As a result, institutions may want to consider advising students and parents of their payment options, and briefly summarize the potential tax implications of these options. In the absence of such notice, students and parents may be surprised, and angered, by the information return supplied by the college long after the payment is made. Many students will make payments in calendar year 1998, such as those for summer classes, or for the fall semester, which will allow them to claim the maximum HOPE tax credit, even if they make their payment for the spring semester in December of 1997. Students paying $2,000 out of pocket, or borrowing $2,000 during calender year 1998 will qualify for a maximum HOPE tax credit (assuming they meet the income eligibility rules).

Q9. *How is an institution supposed to capture this information from students who register by telephone, or in electronic form?*

A9. Institutions will likely need to develop a procedure to allow students to submit the IRS form to the institution so that a proper information return can be prepared.

Q10. *How is an institution supposed to determine whether a student has completed "the first two years of postsecondary education"?*

A10. The Treasury Department will need to issue regulations interpreting what that phrase means before an institution could be required to provide that information. Based on statements made by Treasury and IRS staff, it is unlikely that this requirement will be implemented in 1998, since the requirement raises numerous issues.

Q11. Will either the HOPE or Lifetime Learning tax credit be considered "untaxed income" for purposes of the Free Application for Federal Student Aid (FAFSA), thereby changing a student's eligibility for financial aid?

A11. Legislation has been approved by Congress that would exclude these tax credits from the calculations to determine eligibility for federal financial aid, so these credits will not be considered "untaxed income" on the FAFSA, and thus will not impact a student's eligibility for federal financial aid.

Q12. Treasury and IRS staff have indicated that, in order to claim either the HOPE or Lifetime Learning tax credit, a taxpayer may have to file the long form (1040). Wouldn't this filing requirement mean that taxpayers who have been able to file a 1040EZ or 1040A would lose their eligibility for simplified needs analysis?

A12. The U.S. Department of Education is currently studying this to determine whether any changes might be required during reauthorization of the Higher Education Act.

Q13. Will students have an opportunity to submit revised information to a college or university for purposes of preparing an information return?

A13. Treasury and IRS staff are considering whether, and under what circumstances, students should be allowed to submit revised information to a college or university.

Q14. Will the IRS penalize colleges that fail to meet these new reporting responsibilities?

A14. Under section 6050S, the IRS may not impose any penalties until regulations have been issued. In addition, the law allows any penalties to be waived if the failure was due to a reasonable cause. Treasury and IRS staff have indicated that a good faith effort to comply with the reporting requirements by colleges and universities will likely suggest that penalties are not in order.

Q15. What if a student withdraws from a class after the refund period has passed? They will have paid the tuition, but not have completed the course. Are they still eligible for these tax credits?

A15. Yes. The credits are for tuition paid, and the IRS will not seek to determine whether the student completed the course. If the institution does refund any tuition paid, that refund will need to be reported on the next information return, reducing the amount that would otherwise be eligible under the HOPE and Lifetime Learning tax credits.

Q16. We charge a comprehensive fee, which includes tuition, room and board, and other fees. We don't itemize these expenses. How will students know what expenses are eligible for these tax credits?

A16. Institutions that charge a comprehensive fee may be required to break this fee down into categories that would assist students and taxpayers prepare their tax returns. Treasury staff is considering what requirements might be necessary to facilitate the information reporting by colleges and universities that charge a comprehensive fee.

American Enterprise Institute for Public Policy Research

Hope

August 1997

Conference Summary

Financing College Tuition

President Clinton's proposed tax credits and deductions to increase college enrollment have now been signed into law. The president's plan is based on two general propositions: a college education is increasingly valuable in today's society and the cost of tuition is a major constraint on college enrollment among youth from lower-income families. The Clinton administration's policy and its premises raise important questions. Is inability to pay college tuition and expenses the main cause of low enrollment rates among lower-income youth? Would additional financial support, through the tax system or other means, be likely to increase enrollment rates appreciably? Would lower-income youth benefit more from extending their schooling to the college level or from better education at the elementary and secondary level?

At an AEI seminar on May 15, five scholars discussed their research into these issues, the implications of their findings for the administration's plan, and other aspects of education policy.

Stephen V. Cameron, Columbia University, and James J. Heckman, University of Chicago

College enrollment patterns are related to family income, with higher enrollment rates among those in the upper half of the income distribution. But that does not tell the whole story.

Beneath the surface fact of low family income lies a set of family characteristics even more closely related to college enrollment, characteristics such as the level of education of the father and mother and whether the student is from a broken home. These factors, when adverse, lead to poor educational performance of students long before the age of graduation from high school. Poor early performance can effectively rule out the option of going to college. If the aim is to increase college enrollment among lower-income youth, more can be achieved by addressing those problems than by providing income supplements to help pay college tuition.

A good measure of readiness for college is the Armed Forces Qualification Test. When college enrollment rates are considered in light of AFQT results, family income becomes almost irrelevant; students with high AFQTs typically go to college, and those with low AFQTs do not. Of course, there is a correlation between income and AFQT scores, but the point is that a low-income student with a high AFQT is likely to go to college while a high-income student with a low AFQT is not.

Furthermore, average tuition at two-year community colleges is quite low, averaging \$1,074 per year. This is not a serious constraint on attending college, almost regardless of family income. For lower-income students, the cost is close to zero when Pell grants are taken into account.

In short, a large portion of the gap in college enrollment between higher- and lower-income students is a result of what happens early in their lives. Those early experiences matter more than the ability to pay tuition, though that is of some importance. Therefore, tuition policy alone will not significantly increase college enrollment in the target population.

As for the president's tax credits and deductions for college, nearly 90 percent of the subsidies will go to people who would attend college anyway. Middle-income families will benefit much more than lower-income families because families with the lowest incomes pay no income taxes in any case.

Thomas Kane, Harvard University

The benefits of a college education, measured in wage differentials, have increased dramatically. A huge response to that development has occurred in the form of higher college enrollment—34 percent of people eighteen to twenty-four years old are now enrolled, compared with about 25 percent in 1980.

Average tuition costs have risen by 80 percent in real terms since 1980, but tuition levels still average about only $3,000 per year at four-year public institutions. Much of the increase in tuition at public institutions has occurred not because of a rise in costs but because of a reduction, per student, of state appropriations to the colleges. Tuition increases for private colleges have been greater than for public institutions, even allowing for growth in student aid.

Public resources devoted to higher education are likely to be stretched thin over the next several decades for demographic reasons. The size of college-age population cohorts has been shrinking since 1980, which has partly offset the rising rate of enrollment among those of college age, but this is about to change. There will be a 12–14 percent increase in the college-age cohort in the next ten years and an increase of more than 20 percent in the next twenty years.

Most Americans would be surprised to realize that, if the $1,500 tax credit championed by President Clinton is added to subsidies already being provided (including Pell grants), the effect will be to reduce the progressivity of our system for subsidizing higher education. The proposed tax deduction, for instance, is worth most to those in high tax brackets.

A problem with the proposal is the incentive it will create for colleges to increase their tuition charges. The proposal would introduce a new subsidy of $1,500 available to the broad mass of middle-income people, not just to low-income students (as is the case with Pell grants).

The proposal would provide welcome tax relief for families struggling to pay tuition bills and minor additional assistance to low-income youth. But it does nothing to solve the structural weaknesses in our current system for financing college education.

Eric Hanushek, University of Rochester

The emphasis of recent discussion in Washington about education, including the president's college education proposals, has been on higher education despite the fact that our higher education system is working well. It is public elementary and secondary education that is not working. This raises a serious question about our priorities in investing in education.

There has been a steady increase in resources devoted to education, though the federal government is not primarily responsible for it. In elementary and secondary education, per pupil spending has risen in real terms by 3.5 percent per year for 100 years—from $170 per student in 1990 dollars to $4,800. It nearly tripled from 1960 to 1990. Other measures have improved as well. Class sizes are smaller, and the percentage of teachers with masters' degrees has doubled, for instance.

Performance, however, is another story. In international comparisons of standardized test results, American elementary and secondary schools do not perform well. The United States is almost always below the median for any group of countries taking the tests. Over a long period, we have substituted quantity of schooling for quality. But now many countries are catching up on the quantity side, as measured by the percentage of their students that completes a high school education.

Average scores in the United States on the National Assessment of Educational Progress science tests, for example, were no better in 1994 than they had been in 1970, despite an increase of about 75 percent in spending per pupil. In higher education, however, the story is different. While there are no accurate measures of quality, U.S. industry is paying a lot more for college education than in the past, and foreign students—though they would not come to the United States to attend high school—flock to American colleges.

As for policy, the real problem is in our elementary and high schools, not in higher education. But none of the administration proposals addresses the key issue of incentives to improve the performance of these schools. Improvement in schools below the college level depends on improvement in their incentive structures, not on spending more money. In various ways, including testing and standards, the federal government could take the lead in attacking that problem.

The president's proposals amount to a transfer program to the current winners of the system. But targeting resources to the broad middle class of people is not serious or good educational policy. It does not deal with the large problems of higher education.

Caroline Minter Hoxby, Harvard University

The fundamental question raised by the president's proposals is whether we ought to focus on higher education when the biggest problem lies elsewhere. If the aim is to benefit disadvantaged students, it is important to note that, among students from families with incomes below the median, those who do manage to go to college spend, on average, 40 percent of their first year doing remedial work.

Why has American higher education performed so much better than our system of public elementary and secondary schools? The first difference is in market structure. Higher education is competitive, while the public school system is not. The typical American college now faces competition from about eighty-five colleges, up from thirty colleges in 1950. By contrast, a typical metropolitan school system has only four school districts, and parents are constrained in their choices because they have to move their residence if they wish to take advantage of a better school. In addition, competition in elementary and secondary schools has been decreasing. There are 15,000 school districts in America today compared with 85,000 in 1950. Furthermore, 65 percent of school financing now comes from the states rather than from local governments: the need to satisfy local voters has diminished. Finally, private competition in elementary and secondary education is declining, largely because of the shrinkage of the Catholic school sector.

If competition is the first explanation for the much greater success of the higher education system, the second is student incentives. In college, unlike in high school, students spend some of their own money. That typically makes them take school more seriously than they did before. They begin to ask whether they are getting out of college what they are paying for, and that changes their behavior. A Pell grant of a few hundred dollars means something to university students, whereas high school students—who probably have around $7,500 a year spent on them on average—do not make good use of their schooling. The evidence suggests that education does not work as well when people think of it as an entitlement rather than an investment in themselves.

Because of these two factors—competition and student incentives—American higher education is performing well and attracting students from all over the world. We should be cautious, therefore, about policies that attempt to make higher education an entitlement instead of an investment. That is a potential problem with President Clinton's proposed tax credits for higher education. The proposal is accompanied by rhetoric about making the thirteenth and fourteenth years of education universal, with no requirement that the student make a strong investment in schooling.

Hope

5. The Wall Street Journal
09/26/97 Page C1

Your Money Matters: Weekend Report

Saving for College Gets More Complex, But '97 Law Offers Intriguing Choices

By Jonathan Clements
Staff Reporter of The Wall Street Journal

Child's play, it isn't.

The 1997 tax law makes saving for college a lot more complicated. But with the complexity also come some intriguing investment opportunities.

Here are three suggestions from experts on how college savers can take advantage of the new tax law:

Make the most of the education IRA.

Starting in 1998, you can put $500 a year into a new education individual retirement account for any child under age 18, providing you are single with adjusted gross income of $95,000 and less or filing jointly with income of $150,000 and below. Eligibility phases out above these income thresholds.

"Even if the parents aren't eligible to contribute, the grandparents may be," notes Minneapolis financial planner Ross Levin.

Some people sneer at these tax-sheltered savings accounts because of the low contribution cap. But after socking away $500 a year for, say, 15 years with an annual return of 10%, your kid's education IRA would be worth some $15,900, which you could then withdraw tax-free to pay college expenses.

That's a nice chunk of change. But the accounts don't make sense for everyone. In particular, there are three drawbacks.

First, in any year that you fund an education IRA for a kid, neither you nor anybody else can put money into a prepaid tuition plan for the same child. Under the 1997 tax law, prepaid-tuition plans have been expanded, so now they can be used to pay for room and board, as well as tuition. But Mr. Levin says he would still favor the education IRA over prepaid tuition.

Second, if you expect financial aid, you may want to pass on the education IRA, because these accounts will probably crimp your aid eligibility. "I wouldn't put any money into an education IRA until the middle of next year, when we should know how the Department of Education will assess these accounts for financial-aid purposes," says Kalman Chany, author of "Paying for College Without Going Broke."

Finally, once your child is in college, you can't claim the new Hope Scholarship or Lifetime Learning credit in any year you withdraw money tax-free from an education IRA. These credits are fully available to joint filers with adjusted gross income of $80,000 and less.

The Hope Scholarship can be used in your child's first two years of college and is worth a maximum $1,500 in annual tax savings. The Lifetime Learning credit, which can be used in subsequent years, is worth as much as $1,000 a year through 2002 and $2,000 a year thereafter. If you qualify, "the credits will be more valuable than the education IRA," Mr. Chany reckons.

Cash in on lower capital-gains rates.

Experts have long warned against investing in a child's name. A kid's savings count against a family's aid eligibility far more heavily than money held in the parents' names. Moreover, children usually get control of their custodial accounts at age 18 or 21, depending on state law.

Despite these problems, plunking money into a custodial account for a child suddenly looks much more attractive, thanks to the cut in the capital-gains tax rate. For instance, if your children are in the 15% income-tax bracket and they hold an investment for more than 18 months, any capital gain is taxed at 10%.

But if you really want to skimp on taxes, possibly the most intriguing opportunity lies in the rock-bottom capital-gains rate on assets owned five years or more. If you are in the 28% income-tax bracket or above, the five-year capital-gains rate of 18% doesn't kick in until 2006 for investments held since 2001. But for those in the 15% bracket, the new five-year rate makes an earlier debut. Starting in 2001, those in the 15% bracket can sell investments held for at least five years and pay taxes at just 8%.

How can you take advantage of this? If you invest in a child's name and the kid is under age 14, the first $650 of investment earnings is tax-free and the next $650 is taxed at a maximum 15%. Above $1,300, all gains are taxed at the parents' rate.

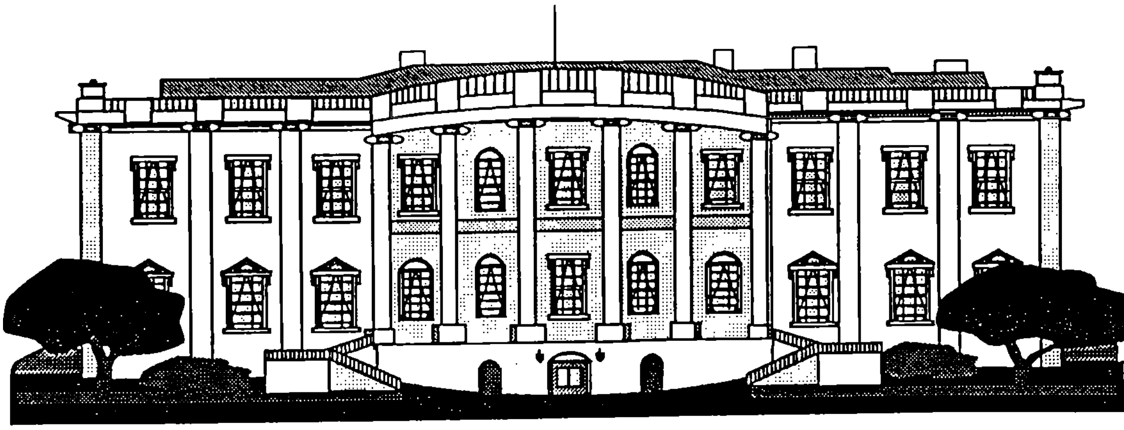
But the real tax break comes once your youngsters turn 14. Your children can then earn far more than $1,300 and still be in the 15% income-tax bracket. Consider hanging onto your children's stocks and mutual funds until 2001. If, at that point, your children are at least age 14 and have held their investments for five years, you can sell the securities and pay taxes at 8%.

What if you want to keep control of the money? Mr. Levin suggests holding investments in your own name until your children turn 14. At that juncture, if your children seem responsible and you are confident you won't be eligible for financial aid, you and your spouse can each gift as much as $10,000 of mutual funds or stocks to each of your children every year and have them sell the investments at their 8% or 10% capital-gains tax rate.

"An 8% tax rate is pretty darn attractive," says David Foster, a financial planner in Cincinnati. "That seems to me like a slam-dunk."

The 1997 tax law also makes home sales far less taxing. For instance, if you file jointly and your gain from selling your home is $500,000 or less, you now avoid all capital-gains taxes. That opens up the possibility of tapping your home's value to pay for college.

"You could trade down and take equity out of your home tax-free," Mr. Levin says. "That especially works for older parents," who



The White House

National Economic Council

To: Karl Scholz

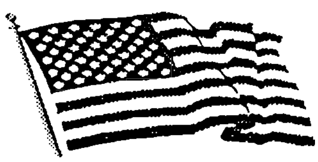
Phone: Fax:

From: **Bob Shireman**

Phone: (202) 456-2803 Fax: (202) 456-2223

Pages including cover sheet: 4

Comments: Do you have any analysis of this. Or any sense of cost?



CABLE: "UAW DETROIT"

Bob -
We should respond to
J.P. Kaplan

Solidarity House

8000 EAST JEFFERSON AVE
DETROIT, MICHIGAN 48214
PHONE (313) 926-5000

INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA—UAW

STEPHEN P. YOKICH, *PRESIDENT* ROY O. WYSE, *SECRETARY-TREASURER*

VICE-PRESIDENTS: CAROLYN FORREST • JACK LASKOWSKI • ERNEST LOFTON • RICHARD SHOEMAKER

October 29, 1997

Sperling
were we against
this? Podesta
cc: Karen T.

Honorable William J. Clinton
President of the United States
The White House
1600 Pennsylvania Ave., N.W.
Washington, D. C. 20500

Dear President Clinton:

During your tenure in office you have repeatedly championed proposals to enhance educational opportunities for Americans. In particular, you led the fight for the HOPE college and other tax credits to enable more individuals to attend college. You also have consistently supported the extension of Section 127 of the Internal Revenue Code, which encourages employers to provide tuition assistance benefits to their workers by making these benefits exempt from taxation. And you have also fought for many other pro-education initiatives.

Mr. President, the UAW now calls on you to take the lead in fighting for another important pro-education initiative. **Specifically, we urge you to support legislation to exempt from taxation post-secondary tuition assistance benefits provided by employers for the dependent children of active, retired and deceased workers.**

During the last round of collective bargaining negotiations between the UAW and the Big Three automakers, the UAW broke new ground by negotiating for the first time contract provisions requiring each of the companies to provide tuition assistance benefits for the dependent children of workers. These new tuition assistance programs require the companies to provide the dependent children of active, retired and deceased workers with up to $1,000 of tuition assistance per year, which can be used to cover tuition costs and fees associated with attending post-secondary institutions.

Although these new tuition assistance programs are relatively new, they have already been a tremendous success. In the first year since the programs were instituted (September, 1996 to August, 1997), 29,737 dependent children of Big Three workers have received tuition assistance totaling $27.9 million. These tuition assistance benefits have played an important role in helping the children of Big Three workers obtain post-secondary education. The majority of these tuition assistance benefits have been used to cover the costs of attending 4 year colleges. But a significant

opeiu494
PRINTED IN USA

number of the benefits have also been used for community colleges and vocational education.

Mr. President, you have been very sensitive to the fact that the soaring costs of college education are making it increasingly difficult for many families to send their children to college. The HOPE scholarship and other tax credits which you championed will provide critically important assistance to families to help them meet some of these increased costs. But the UAW submits that this does not solve the entire problem. In particular, the HOPE scholarship and lifetime learning tax credits do not come close to covering all of the tuition costs associated with attending most four year college programs. Thus, we believe there is still a need to find ways to provide working families with additional assistance in paying for the enormous costs associated with obtaining a college education for their children.

The UAW believes that one important way to provide this type of additional assistance would be to encourage the growth and development of employer-provided tuition assistance plans for the dependent children of workers. There are a number of significant advantages to this approach.

- By providing a relatively small tax expenditure to exempt these tuition assistance benefits from taxation, the federal government can leverage much larger private sector support for the costs of college education. Thus, this approach is much more cost effective than direct governmental grants or tax credits.

- This would be similar to the approach used by the federal government to encourage private companies to provide health care and pension benefits to their employees. The federal government has long recognized the social and economic importance of employer sponsored health and pension plans, and has encouraged their growth by refusing to force individuals to pay taxes on health benefits and pension contributions. For similar reasons, the same principle should now be extended to employer-provided post-secondary education benefits for the dependent children of workers.

- Exempting from taxation post-secondary tuition assistance benefits for the dependent children of workers would not create a large revenue loss for the federal government. This type of tax exemption would dovetail, to some extent, with the existing HOPE scholarship and lifetime learning tax credits.

- We believe this proposal could attract bipartisan support in Congress. Representatives Sander Levin (D-Mich.) and Phil English (R-Pa.) have already introduced legislation (H.R.1382) to exempt from taxation post-secondary tuition assistance benefits for the dependent children of workers. The tax exemption for tuition assistance benefits for workers themselves (Section 127) has always enjoyed broad, bipartisan support. Many Republicans might support a similar exemption for post-secondary tuition assistance benefits for the dependent children of workers precisely because this represents an effort to encourage private sector involvement in addressing the problem of making college affordable for working families.

For all of the foregoing reasons, the UAW strongly urges you to support proposals to exempt from taxation post-secondary tuition assistance benefits provided by employers for the dependent children of active, retired and deceased workers. **In particular, we call on you to include this initiative in the budget plan which the Administration will submit to Congress for fiscal year 1999.**

The UAW stands ready to work with your Administration to make this initiative become a reality, and to take another important step towards the objective which you have championed - namely, making college education affordable for all Americans.

With best wishes.

Sincerely,

Stephen P. Yokich

Stephen P. Yokich
President, UAW

SPY:ar:car
opeiu494
C3040
cc Hon. Alexis Herman
Hon. Richard Riley
Hon. Sander Levin
Hon. Phil English
Erskine Bowles
John Hilley
John Podesta
John Sweeney
George Becker
R. Thomas Buffenbarger

MANUFACTURERS ALLIANCE **Policy Review**

1525 Wilson Boulevard, Suite 900, Arlington, VA 22209 • 703/841-9000 • FAX 703/841-9514

PR-141 October 1997

Hope +

TAX SUBSIDIES FOR HIGHER EDUCATION

The Taxpayer Relief Act of 1997: Economic Efficiency vs. Political Opportunity

MANUFACTURERS ALLIANCE for Productivity and Innovation (MAPI) promotes the technological and economic progress of the United States through studies and seminars on changing economic, legal, and regulatory conditions affecting industry.

HOPE and other education tax cuts

20. Business Week

November 10, 1997 ***THE TAXMAN HELPETH —A LITTLE***

Like many new parents, Mark Heaphy already is plotting a way to send his 1-year-old son to college —a proposition that could cost $60,000 a year by the time his boy enrolls. To get the ball rolling, the 25-year-old tax accountant is considering opening a new Education IRA next year. "I figure I'd better start saving," he says.

The Education IRA is one of several new provisions in the sweeping 1997 tax bill that aims to help parents pay for college. Also included are another new individual retirement account, tax credits, and modified tax rules for children's earnings (table). But these incentives are confusing, so you'll have to read the fine print carefully to take full advantage of them.

IN FLUX. Congress already is fighting over details of a few provisions, and some laws passed this year are likely to change before a baby born in 1997 enters college. Also, it's unclear how schools will view the new investments and tax credits as they calculate financial aid. Currently, schools do not consider parents' IRAs when awarding scholarships or loans. But financial planners fret that if you have a large sum of money socked away in an Education IRA, that may count against you. "We don't know how institutions are going to deal with this yet," admits Lawrence Gladieux, executive director for policy at The College Board, a nonprofit that represents academic institutions.

The plan's main tuition-savings vehicle is the Education IRA. It allows parents with joint incomes of up to $150,000 ($95,000 for singles) to put away $500 per child until the dependent is 18. The money can then can be withdrawn tax-free for college. If you exceed the income cap, another qualifying family member or friend can open an account for you. And if your eldest decides to teach skiing instead of enrolling in Harvard University, you can transfer the money to a sibling's account. One catch: The funds must be used by the time the child is 30, or you face a 10% penalty.

Many financial advisers see problems, though. For one, if you invest $500 a year for 18 years, with an annual return of 9%, you'll end up with $25,000 —hardly enough to pay for college. Republicans tried to increase the limit to $2,500 a year and allow money to be used for elementary and secondary schools. Although they didn't succeed this year, they vow to continue pressing for the changes. Something that might help their case is that mutual-fund companies may not offer the accounts. "They'd be very expensive to administer for such low contributions," says Steven Norwitz, a vice-president at T. Rowe Price Associates in Baltimore. That means your money could be parked in a bank, earning 5% a year.

If you meet the criteria, you might want to open a new Roth IRA. It allows each parent to set aside $2,000 annually, which can be withdrawn without penalty after five years for education, among other things. For example, if a couple invested $4,000 a year over 10 years, they'd have $40,000 in principal to spend. You wouldn't want to take out the earnings before age 59 1/2, because otherwise they'd be taxed as ordinary income. Again, the income phase-out is $150,000 for joint filers. Most children wouldn't qualify themselves because they don't have earned income.

A few tax credits —the Hope Scholarship and the Lifetime Learning Credit —are thrown in, too. But you won't be eligible unless you make less than $80,000 for joint filers. A high-income family could use the credits, but only if the parents do not declare the child as a dependent on their tax returns. In that case, the child could claim the credits.

The tax bill included another, less obvious, education incentive: a capital-gains-rate cut that affects children's assets. This could benefit even families not likely to qualify for the new IRAs or tax credits. For assets held at least 18 months, the capital-gains rate drops from 15% to 10% for those in the 15% income bracket, which includes most children. Taxpayers in higher brackets pay 20%. And in 2001, children can sell assets they have held at least five years and pay at an 8% rate.

To utilize this change for college planning, you might consider setting aside money in your child's name under the Uniform Gifts to Minors Act (UGMA). Once the child turns 14, UGMA-account assets are taxed at the child's rate. So the idea is to transfer assets —a maximum of $20,000 per couple a year tax-free is allowed —into your child's account at least five years before college, then withdraw the money at the lower capital-gains rate for tuition.

True, these provisions won't finance four years at a fancy private school. But given the enormous cost of going to college, they sure can help.

Mary Beth Regan■

HOPE+

JOINT ECONOMIC COMMITTEE STUDY

JIM SAXTON, CHAIRMAN OCTOBER 1997

College Affordability: Tuition Tax Credits vs. Saving Incentives

Executive Summary

Education is an important means of investing in human capital. Accordingly, the government has played an active role in financing higher education in order to provide universal access to college. Despite government efforts to improve college affordability, federal aid programs have fallen short of their expectations.

- Tuition continues to rise. The price of higher education has nearly doubled over the past 15 years and continues to rise. The average annual cost of attending private and public institutions in 1995 was $17,000 and $6,000, respectively, when room and board were included.

- College affordability is declining. Despite a 65 percent increase in government funding over the past 10 years, college affordability is declining. As the cost of the student loan programs continues to grow, more funding is being shifted toward loans for middle- and upper-income families, leaving less money to finance grants and other need-based programs for the poor. As a result, grants as a percentage of all federal aid have fallen by 36 percent, and educational opportunities for the poor have declined. The channeling of funds toward student loans does not necessarily reflect an increase in the well being of middle- and upper-income families since tuition increased by approximately 45 percent over the past 10 years, offsetting much of the benefits of the increased funding. Overall, the federal aid system is heavily dependent on student debt, even for the most disadvantaged families

- The participation gap between low- and high-income students is widening. The prospect of incurring large debts has discouraged many low-income students from attending college altogether. As a result, the participation gap between low- and high-income students has increased by 22 percent since 1980.

These trends have occurred for several reasons.

- Colleges have little incentive to control costs and tuition. By increasing the availability of federal aid, the government increases the stream of revenue available to colleges, thus encouraging them to raise costs and justify tuition hikes. Colleges thus largely absorb increased funding.

- The market for higher education is distorted. The structure of federal aid allows private institutions to price discriminate so that colleges can extract the maximum amount of revenue from each student and raise their prices above the competitive level.

- Middlemen receive much of the benefit from federal subsidies. In 1992, 6 million students received some form of federal aid costing taxpayers $11 billion. Of this students received some form of federal aid costing taxpayers $11 billion. Of this amount, $6 billion represented the cost of subsidizing financial institutions and student loan defaults. Thus students do not receive the full economic benefit of federal aid and taxpayers finance a wasteful system. Is that all waste?

Families would benefit from alternative federal aid policies that provide more benefits to more students at a lower cost. The Balanced Budget Act of 1997 provides several tax benefits to expand educational opportunities. Two of the largest are tuition tax credits, called HOPE Scholarships, and expanded benefits for Individual Retirement Accounts (IRAs).

HOPE Scholarship

The use of tuition tax credits is similar to past government policies that have merely increased the amount of aid available to families without addressing the underlying problems of the federal aid system that cause tuition to rise in the first place. As a result, tuition tax credits may well contribute to the problems of the federal aid system instead of improving college affordability.

- There is broad agreement that the HOPE Scholarship will lead many institutions to raise their prices in order to absorb the additional stream of revenue.
- Since the HOPE Scholarship is designed to primarily benefit middle- and high-income families, it will not provide new educational opportunities for children in the poorest families.
- In the short run, the HOPE Scholarship will allow some families to send their children to more expensive schools and it may reduce the amount of financial aid for which many families qualify. In the long run, the benefits will accrue to institutions of higher education rather than to students.
- Claiming the HOPE Scholarship may subject many middle-income families to the alternative minimum tax (AMT), which was designed to only affect upper-income taxpayers. Thus families with incomes as low as $41,350 may not receive the full benefit of the credit, even in the short run. Check

Expanded IRAs

The Balanced Budget Act of 1997 provides several education saving incentives through the expansion of traditional IRAs and the creation of education saving accounts similar to IRAs. Saving incentives can improve college affordability for families across the income spectrum.

- Expanded IRAs provide families with appropriate opportunities and incentives to save for their children's higher educational expenses, thereby reducing their reliance on student loans. As families become financially independent, the cost and size of the student loan programs will be reduced since demand for student loans will fall. ! Yeah, right
- Government savings can be diverted to grants and other need-based programs for the poor.
- Expanded IRAs can control tuition inflation by restoring competition to the market for higher education. Colleges and universities will have an incentive to control costs and improve productivity since they will be more reliant on private financial assets than on federal subsidies.
- Families that use their own financial assets to pay for higher education will be motivated to make more responsible decisions regarding where their children go to school and what programs they enter, thus maximizing their children's educational return.

Although the newly enacted IRA provisions provide important benefits for higher education, a more

Although the newly enacted IRA provisions provide important benefits for higher education, a more aggressive expansion of IRAs would provide greater benefits to families. If the maximum annual deductible contribution is raised and penalty-free withdrawals are allowed for more family expenses, IRAs can become an important saving vehicle for middle-income families. Aside from the tax benefits provided to families, expanded IRAs can also promote economic growth by potentially raising the national saving rate.

Representative Jim Saxton (R-NJ), Chairman
Joint Economic Committee

College Affordability: Tuition Tax Credits vs. Saving Incentives

In the 1960s, Nobel Laureate Gary Becker introduced the concept of human capital—the widely accepted notion that human qualities such as skills, knowledge, and the ability to think critically are important sources of economic growth. Education is a primary means of invest-ment in human capital. Education helps individuals develop abilities and skills that increase their future productivity, thereby providing new opportunities for economic growth. It is also the primary vehicle by which cultural values are conveyed from one generation to the next.

Because education is so important to individuals and to the economy, the government has played an active role in financing higher education so that all individuals can have an opportunity to attend college. Initially, federal aid was limited to the most disadvantaged students, but over time, aid was extended to most students regardless of financial need or academic merit. Despite the government's efforts to improve college affordability, it is now clear that federal aid programs have fallen short of their expectations: tuition continues to rise, more students graduate with larger debts, government costs have grown dramatically, and affordability for the neediest students has declined.

This paper reviews the shortcomings of the federal aid system and examines the most effective policies to expand educational opportunities. In particular, it considers the use of tuition tax credits and expanded Individual Retirement Accounts (IRAs), two of the largest educational provisions contained in the Balanced Budget Act of 1997.

The evidence presented in the paper suggests that tuition tax credits may well contribute to the problems of the federal aid system. In contrast, expanded IRAs can provide long-term solutions to college affordability by providing families with appropriate incentives and oppor-tunities to save for their children's education. The use of IRA savings for college education will encourage schools to control costs, lower tuition, and improve quality since they will have to compete for private financial assets rather than rely on federal subsidies. The expansion of IRAs can also generate additional benefits for families and can promote economic growth by raising the national saving rate.

The first section of this paper describes the role of the federal government in higher education and recent trends in college affordability. Section two considers some of the funda-mental shortcomings of the federal aid system that have caused these trends. Section three compares the use of tuition tax credits and expanded IRAs in light of the problems discussed throughout the paper. The paper concludes by discussing additional economic benefits of IRAs.

I. The Role of the Federal Government

Background[1]

Historically, the federal government played a very small role in higher education. It did not regulate the activities of post-secondary institutions nor did it provide them with federal funds. However, the Higher Education Act (HEA) of 1965 established a commitment by the federal government to equalize

83

What about NDEA?? Land Grants??

Higher Education Act (HEA) of 1965 established a commitment by the federal government to equalize opportunities in higher education. Title IV of HEA created grants and campus-based programs for disadvantaged students and their families. Title IV also helped middle-income students through the creation of federally guaranteed, but minimally subsidized, private loans. The guaranteed loan program was supposed to be smaller and much less costly than federal grants.

During the 1970s, various legislation expanded the provisions of Title IV. The needs test for guaranteed loans was eliminated, making federal aid widely available to students across the income spectrum. Federal aid was also extended to non-traditional students such as part-time students, students attending for-profit trade schools, and students without high school diplomas or equivalency.

The growth of the student loan programs during the 1970s created mounting costs for the government as more middle- and upper-income families took advantage of the generous terms offered by subsidized loans. Between 1970 and 1980, the cost of guaranteed student loans increased by 180 percent after adjusting for inflation, from $3.9 billion to $10.9 billion annually.[2] Realizing that these growing costs were unsustainable, efforts were made in the 1980s to reduce the size of the student aid programs by focusing federal support on the neediest families. Although the needs test for subsidized loans was reinstated, other cost-reducing efforts were derailed in Congress and federal support remained steady throughout most of the 1980s.

Legislation in the early 1990s continued to expand the availability of student loans so that nearly anyone wanting to attend college could take out a loan for the full amount. As students began graduating with larger debts and default rates began rising, new provisions were enacted to facilitate loan repayment. In 1995, student aid from the federal government totaled $37 billion, an amount equal to 74 percent of all student aid funding.[3]

Trends in College Affordability

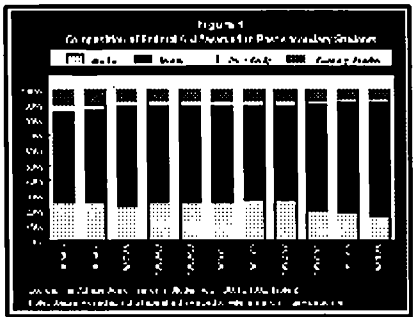
Many education analysts believe that past legislation has not made college more affordable, it has simply made it easier to take out loans, thus increasing families' reliance on loans and increasing pressure on the Treasury. Dr. Michael Mumper of the State University of New York notes that the federal aid programs have made a significant contribution to higher education over the years, but they have also produced some discouraging results: Since the early 1980s, the net price[4] of a college education has increased rapidly, the participation gap between upper- and lower-income students has expanded, and the focus of government subsidies has shifted from the most needy students to middle- and upper-income students. As a consequence, the goal of universal access to higher education is further away in the mid-1990s than it has been in more than a decade.[5]

Rising Tuition

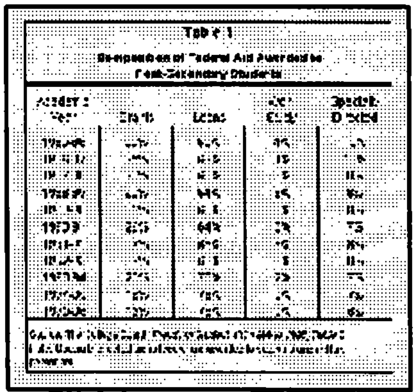
The price of higher education has nearly doubled over the past 15 years and continues to rise. After adjusting for inflation, average undergraduate tuition at private institutions increased from $6,200 per year in 1980 to $11,800 per year in 1995; and average tuition at public institutions rose from approximately $1,100 per year to about $2,100 per year over the same time period. When the price for room and board is included, the average annual cost of attending private and public institutions in 1995 was $17,000 and $6,000 respectively.[6]

Shift in Federal Subsidies

As the cost of the student loan programs has increased, a larger percentage of government funding has been channeled toward loans for middle- and upper-income families, leaving less money to finance grants and other need-based programs for low-income families. Thus contrary to the original goals of the HEA, federal subsidies are now targeting middle- and upper- income students instead of disadvantaged students. Figure 1 and the accompanying table show that student loan programs are consuming an increasingly larger portion of federal funds at the expense of grants and work-study programs for the poor. Over the past decade, student loans as a percentage of all federal aid have increased by 27 percent while the share of grants has fallen by 36 percent.



Click here to see Figure 1.



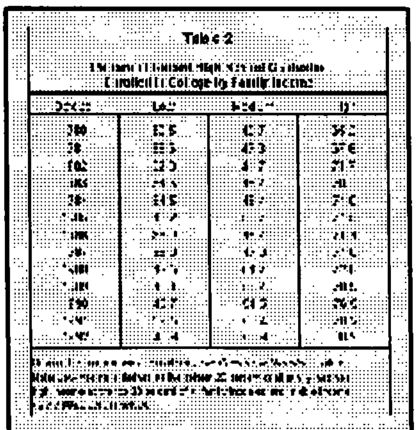
Click here to see Table 1.

Declining Affordability

Despite a 65 percent increase in government funding for student aid programs over the past 10 years, college has become less affordable for the most disadvantaged students. The combination of less government funding and higher tuition has greatly reduced the value of need-based programs. For example, the Pell Grant, which is the largest federal grant program for the poor, has declined considerably in value over the past decade.

Figure 2 shows that the value of the Pell Grant as a share of attendance costs has declined by 37 percent for public institutions and by 42 percent for private institutions. The Balanced Budget Act of 1997 includes funding to increase the value of the maximum Pell Grant from $2,700 to $3,000, but this increase will still leave Pell Grants grossly undervalued. As a result, many low-income families have found it necessary to take out loans for college. The prospect of incurring large debts has discouraged many low-income students from attending college altogether, thereby lowering the partici-pation rates for low-income students relative to high-income students as shown in Table 2. In addition, the increase in student loan funding over the past 10 years does not necessarily reflect an increase in the well being of middle- and upper-income families since tuition increased by approxi-mately 45 percent over the same time period.

Click here to see Figure 2.



Click here to see Table 2.

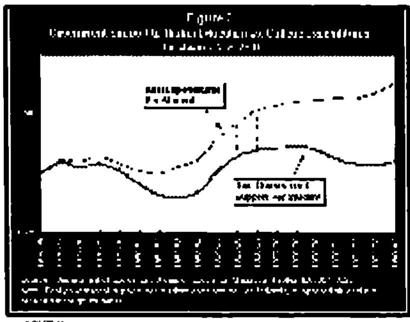
In brief, the federal aid programs, which were intended to equalize opportunities in higher education, have actually created a larger disparity over the past decade. Government inter-vention has transformed the system into one heavily dependent on student debt, even for the most disadvantaged students. In addition, federal subsidies now target middle- and upper-income students contrary to the original intentions of the HEA.

This transformation has mainly occurred because the structure of the federal aid system is inherently flawed and could be improved upon to provide greater benefits to students. Federal financing of higher education does not provide colleges with appropriate incentives to restrain spending and therefore encourages tuition hikes. The inefficient structure of student loan programs has broken down the marketplace for higher education by eroding price competition among schools and artificially inflating student demand. As a result, tuition continues to rise, college affordability continues to decline, and taxpayers continue to pay more for less valuable programs.

II. Problems with the Federal Aid System

Federal Aid and Tuition Inflation

The steep increase in tuition is largely attributable to a growth in college costs during the 1980s. College administrators contend that changing demographics in higher education since 1980 have necessitated an increase in costs in order to provide a high quality education to a more diverse student body. They argue that government appropriations to higher education did not keep pace with rising expenditures. As shown in Figure 3, government funding per full-time equivalent (FTE) student grew in pace with inflation between 1975 and 1993, but college spending per FTE student rose by 38 percent. College leaders argue that the government's failure to increase funding when costs were rising necessitated an increase in tuition to make up the shortfall.



Click here to see Figure 3.

However, many education experts believe that the fundamental problem in higher education is not a deficiency of government funding, but uncontrolled spending by colleges and universities.[7] They argue that, even though some of the increased spending may have been necessary due to the labor-intensive nature of higher education, a large part was unnecessary and extravagant. Much of the spending was merely an attempt by colleges to keep enrollment high in order to attract more state funding and did nothing to improve the quality of education. Thomas Sowell of the Hoover Institution at Stanford University notes that colleges and universities have expanded their bureaucracies, overseas facilities, and programs beyond what was needed to meet demand or improve educational quality.[8]

The evidence suggests that the structure of the federal aid system has contributed to the problem of uncontrolled costs and associated tuition hikes. Institutions generally base their spending decisions for the following year on the amount of revenue they project to earn in that year. The more money they expect to earn from various sources, the more spending they decide to undertake. The wide availability of federal aid thus encourages increased spending and subsequent tuition hikes.

Dr. Sowell provides the following example to illustrate this point: College X can charge $8,000 per student for tuition and cover its costs. The average family can afford $9,000 for tuition (based on a federal formula). If College X sets tuition at $8,000, it will receive no federal funding in the form of student aid. On the other hand, if College X sets tuition at $12,000, not only will it extract the additional $1,000 from the family, but it will also receive $3,000 of federal funds from each student. Thus, the school increases spending and justifies a tuition increase on the basis of rising costs. Classrooms remain full because the wide availability of student loans artificially inflates demand at any tuition price. This logic especially applies to private institutions because public institutions rely heavily on state funds and often face political pressure to hold down tuition.

Thus, the inherent problem with the federal aid system is that colleges and universities have little incentive to contain costs, boost productivity, or lower tuition. By increasing the availability of student aid and by making it easier to take out student loans, the government increases the stream of revenue available to institutions of higher education. Schools respond by increasing their expenditures and raising tuition to absorb the growing stream of revenues.

Past government efforts to improve college affordability have not addressed this problem. Instead of finding ways to fight tuition inflation, the government has simply made more federal funds available to more students so they can afford the higher tuition. Thus the benefits of additional federal subsidies are largely absorbed by schools, not students. An effective federal aid system must provide colleges with incentives to restrain costs and boost productivity so tuition can be kept from rising in the first place. Such incentives are grossly lacking from the current system.

Federal Aid and the Market for Higher Education

In general, industries which benefit from government subsidies are able to raise prices above their competitive levels. The same holds true in higher education—federal subsidies allow private colleges and universities to charge artificially high prices, thereby distorting the market for higher education and eroding price competition among schools. Dr. Sowell notes that "like monopolistic price discriminators in the commercial world, private colleges and universities set an unrealistically high list price and offer varying discounts. In academia, the list price is called tuition and the discount is called 'financial aid'."[9]

Institutions use a federal formula to determine the amount each family can reasonably pay for tuition. Then, by setting tuition at an artificially high level, institutions can charge each family the maximum amount it can afford and offer varying financial aid packages to supplement the remainder of the bill. In this way, universities and colleges can earn the greatest amount of revenue from each student. This practice of maximizing revenue by offering different customers different prices is referred to as "price discrimination." Perfect price discrimination is very difficult to practice in the business sector for at least two reasons. First, the product sold must be nontransferable or else customers who pay a low price can resell the product and steal high price customers away from the business. Second, to effectively price discriminate, companies need to know a good deal of information about each customer's willingness to pay for the product. In higher education, these two obstacles are largely overcome. Financial aid packages cannot be transferred among students and information about a family's financial resources is easily accessible from financial aid applications.

In sum, the wide availability of financial aid makes it easier for private colleges and universities to inflate their prices above the competitive level. In turn, easy access to financial aid also inflates the demand for higher education at any level of tuition. As a result, the entire market for higher education is inefficiently distorted.

Federal Family Education Loan (FFEL) Program

Guaranteed student loans, which are collectively known as the FFEL program, have provided important educational opportunities for millions of students. However, their structure is extremely inefficient so that a large portion of their economic benefit does not accrue to students. John Hood of the John Locke Foundation notes that in 1992, six million students received some form of federal aid at a cost of $11 billion to taxpayers. Of that $11 billion, $6 billion represented costs of subsidizing banks and paying for defaults.[10] Thus, over half of the benefit of federal subsidies did not go to students, but to middlemen. A different structure of providing financial resources could provide more assistance to more students in a more cost-effective manner.

The government subsidizes student loans to compensate lenders for the high risk associated with these loans, thus shifting the risk from private financial institutions to taxpayers. Under the FFEL program, the government pays the interest on student loans while a student is in school. The loans are then insured against default and guaranteed by the federal government. If a student defaults on a loan, the debt is turned over to a guarantee agency that fully compensates the lender. The guarantee agency, in turn, attempts to collect the overdue balance, but can be fully reimbursed by the government during its collection effort. The guarantee agency is entitled to a 100 percent reimbursement from the government and 30 percent of any funds it manages to recover. In 1991, guarantee agencies collected $200 million, or 13 percent of their total revenue, in this manner.[11] That same year, nearly one-fourth of all borrowers defaulted on their loans, costing taxpayers $3.6 billion.[12]

It is clear that guaranteed loans create perverse incentives for lending institutions and guarantee agencies. John Hood notes that "in virtually every instance, it pays for lenders and guaranty agencies to let students default—the former are fully reimbursed and save collection costs, while the latter are fully reimbursed and may even get back more than 100 percent of the value of the loan."[13] Consequently, a large percentage of federal expenditures is not transferred to students, but to middlemen who continue to profit handsomely at the expense of taxpayers who subsidize student loan defaults.

This system is extremely costly to students who do not receive the full economic benefit of government spending and to taxpayers who subsidize the profits of banks and guarantee agencies. Low-income students are disproportionately burdened because more money is diverted from need-based programs to finance the growing costs of the FFEL. In 1993, Congress enacted a direct lending program aimed at eliminating subsidies to middlemen. Direct lending allows the federal government to lend money directly to institutions that in turn distribute the money to students. Currently, the FFEL and direct lending program operate side by side, but it is too soon to judge the success of the new program.

III. Tax Benefits for Higher Education

Tuition Tax Credits

The cornerstone of the newly enacted education initiatives is a tuition tax credit called the HOPE Scholarship. The HOPE Scholarship provides families with a non-refundable tax credit of up to $1,500 against income tax liability for the first two years of post-secondary education. According to the U.S. Department of Treasury, the HOPE Scholarship will cost $35 billion over five years and $94 billion over 10 years. In addition, taxpayers will be allowed to claim a Lifetime Learning tax credit worth up to $1,000 for post-secondary education beyond the first two years.

The use of tuition tax credits to help families pay for college is similar to past government policies which have merely increased funding to pay for tuition without addressing the under-lying problems of why tuition rises in the first place. As a result, the HOPE Scholarship may well contribute to the problems of the federal aid system instead of providing long-term solutions.

Rising Tuition

There is broad agreement that tuition tax credits would lead many post-secondary institutions to raise their prices. The effect would be most pronounced in public two-year institutions where average yearly tuition is $1,245. Since eligible families can claim up to $1,500 against their tax liability, the first $1,500 of education is essentially free. In other words, families are indifferent between paying $1,245 or $1,500--demand for a two-year college education is the same at either price. Thus, any public institution which charged less than $1,500 could increase its tuition without losing students or government funds.[14]

The availability of the tax credit will also affect tuition at private and public four-year institutions. Schools will realize that the tax credit increases a family's financial resources by $1,500. This will be taken into account when schools calculate a family's expected contri-bution. Once again, tuition will be set high enough to absorb the additional stream of revenues.

Affordability

The HOPE Scholarship is designed to primarily benefit middle- and upper-income families since the credit is not available to financially disadvantaged families with no income tax liability. As a result, the HOPE Scholarship probably will not encourage the enrollment of students who otherwise would not go to college. It is believed that the HOPE Scholarship will have two effects in the short run. First, it will allow students who are already bound for college to attend more expensive schools. Second, by increasing a family's after-tax income, it will reduce the amount of student loans for which families qualify.[15] In the long run, tuition tax credits will mainly generate large windfalls for institutions of higher education so that the benefit of this subsidy program will accrue to schools rather than to students.

In addition, the interaction between the HOPE Scholarship (and other newly enacted tax credits) and the alternative minimum tax (AMT) may substantially reduce the value of the credit for many middle-income families.[16] The AMT was designed to ensure that wealthy taxpayers, who shelter their incomes from taxation, pay a minimum amount of tax. The AMT requires that taxpayers first calculate their tax liability with all of their deductions and exemptions, then recalculate it using a complicated AMT formula. The individual must pay the greater of the two tax liabilities. Since the newly enacted tax credits, including the HOPE Scholarship, can reduce tax liability by a substantial amount, claiming the credits may subject many middle-income families to the AMT, thereby reducing the value of the tax credits. For instance, *The Washington Post* provides the following example: A family earning $64,100 per year with two children in college would normally pay $6,743 in taxes if filing jointly. If the family claims the HOPE credit for one child ($1,500) and the Lifetime Learning credit ($1,000) for the other, their tax liability would be reduced to $4,243. However, under the AMT calculation, the family's tax liability is $4,966. Since the AMT is the greater of the two amounts, the family must pay the AMT, thus reducing the value of the HOPE Scholarship by $723. According to the minority staff of the House Ways and Means Committee, this interaction may affect a substantial number of middle-income taxpayers with incomes as low as $41,350. Thus, because the tax credits were not designed to offset the AMT, many middle-income families will be subjected to this upper-income tax. As a result, many middle-income families will not receive the full benefit of the HOPE Scholarship, even in the short run.

In sum, tuition tax credits are similar to past government policies which simply provide more aid instead of providing colleges with incentives to control costs and tuition inflation. In fact, the Administration does not believe that cost containment is a reasonable objective. At a Brookings Institution conference on higher education, David Longanecker of the Department of Education (DOE) "made it clear that the Clinton Administration does not see tuition growth and cost containment as a federal responsibility."[17] Instead, it is an issue for states and trustees. Thus, the Administration feels that college affordability is a federal responsibility, but the root of the problem is not.

Expansion of IRAs

The current financial aid system may discourage parents from saving for education because a family's savings can reduce a student's eligibility for grants and scholarships. Families whose financial assistance is reduced based on their level of savings thus face an implicit tax. As a result, many parents save too little for their children's education.

The Balanced Budget Act of 1997 includes several incentives aimed at increasing private saving for education. The new law gradually doubles the income limits for which tax deductible contributions to IRAs are phased out, making IRA saving plans available to more middle-income families. In addition, penalty-free withdrawals will be allowed to pay for higher educational expenses. Parents will also be able to contribute $500 per child, per year to separate education IRAs. Contributions to education IRAs will be nondeductible, but distributions will not be subject to taxation.[18] These new IRA rules will allow families to accumulate tax-free savings for educational expenditures, thus encouraging families to save for their children's education.

Enhanced saving incentives can help improve college affordability. Dr. Mumper states that "...there is powerful theoretical and anecdotal evidence that a soundly designed and broadly accessible program to encourage college savings can be a useful part of a comprehensive government effort to improve college affordability."[19] By reducing families' reliance on student loans and allowing them the opportunity to finance educational expenses from their own financial resources, expanded IRAs can restore price competition to the marketplace for higher education and reduce government costs. Government savings can then be diverted to federal grants to help equalize opportunities for financially disadvantaged students.

Maximizing Educational Return

Expanded IRAs will provide families with opportunities to reduce their tax liabilities and accumulate enough savings to pay for a substantial amount, if not all, of their children's education. Families who use their own financial assets to pay for higher education, rather than borrowed federal funds, will be encouraged to make more responsible decisions regarding where their children go to school and what programs they enter. John Hood points out that no mechanism exists today to make sure children are attending schools with a good money's worth and entering programs that will likely land them a job after they graduate.[20] Thus unwise decisions are made which are costly to students and taxpayers.

For instance, DOE reported that 200,000 students enroll in beauty school each year despite an oversupply of one million cosmetologists nationally. Many beauty school students drop out or cannot find jobs when they graduate, thus failing to repay $100 million worth of loans each year. Consequently, taxpayers spend about $31,000 in student aid for every cosmetology license that is issued in the United States.[21]

Subsidizing the Poor

The most commonly cited criticism against expanded IRAs for education is that low-income families would not be able to participate since they do not have enough financial resources to save, and they do not have any income tax liability from which contributions can be deducted. However, expanded IRAs can reduce the cost of the federal aid programs by making middle- and upper-income families less reliant on student loans. This in turn would allow federal funds to target low-income families through more valuable grants and work-study programs as originally intended by the HEA. Thus middle- and high-income students can benefit because they will be able to graduate with less debt; low-income students will benefit because federal subsidies can be redirected to need-based programs.

Cost Containment and Tuition

With families more reliant on personal financial assets, the government can reduce the size of the student loan programs by awarding student loans on the basis of financial need or academic merit. This could create three desirable effects. First, the reduction in the availability of "easy money" would deflate the artificially high demand for post-secondary education that now exists. If families rely on their own financial resources for the bulk of educational expenses, then demand should fall in line with what the free market would dictate.

Second, reduced reliance on financial aid would undermine a school's ability to price discriminate since financial aid could not easily supplement a family's expected contribution. As mentioned earlier, private schools can easily raise tuition because tuition hikes are met with more financial aid. If financial aid is limited, then schools would truly have to compete for private assets, giving them incentives to provide a high quality education at a low cost.

Third, linking financial aid to academic merit would motivate children to work harder during high school. Tuition tax credits, on the other hand, make two years of higher education a universal right for all students, thereby reducing students' incentives to do well in high school.

Expanded IRAs will provide families with appropriate incentives and opportunities to accumulate enough private savings to afford their children's education. As families become financially independent, they will grow less reliant on student loans, thus reducing the cost and size of the federal aid system. Government savings can be partially used to restore the value of need-based programs for low-income students. The reduction in federal subsidies would restore competitive pressures to the marketplace for higher education, giving institutions an incentive to control costs, improve productivity, and contain tuition. Thus expanded IRAs can help improve college affordability.

IV. Economic Benefits Of Iras

Benefits for Taxpayers

In addition to the benefits provided for education, expanded IRA incentives can generate other benefits for American families as well. In general, IRAs provide three important tax benefits. First, front-loaded IRAs allow taxpayers to deduct IRA contributions from income, thereby lowering income tax liability for the year in which the contribution is made. Second, IRAs allow families to defer their taxes to a time when their marginal tax rate may be lower. Families can deduct their contributions when they fall within a high tax bracket and withdraw the funds at a time when they fall within a lower tax bracket. Third, income earned in the account (inside build up) is not taxed.

In addition, IRA investments can yield higher returns than tax-free investments. Normally, tax-free investments, such as municipal bonds, yield lower rates of return than investments that are subject to taxation. Consequently, a family will not necessarily increase its after-tax rate of return by investing in tax-free investments. However, savings in IRAs can be invested in a wide range of assets including otherwise taxable assets with higher yields. Thus the family receives the tax benefit offered by the IRA and the higher yield offered by a taxable investment. As a result, the family can earn a higher rate of return on an IRA investment than what could be earned from a tax-free non-IRA investment.

The new tax legislation has made important progress in the expansion of IRAs by making IRAs available to more middle-income families and by providing saving incentives for higher education. However, it falls short in three respects. First, the contribution limit of $2,000 per year is too low to provide families with appropriate opportunities to amass a significant amount of savings. The maximum contribution must be raised to provide families with incentives to substantially increase their personal savings.

Second, studies have shown that many individuals do not participate in IRAs because of the restrictions on IRA distributions. Distributions from retirement IRAs are subject to a penalty if withdrawn before the age of 59(. Penalty-free withdrawals should be allowed for a variety of purposes to encourage families to participate in IRA saving.

Third, the new law creates several different types of IRAs for different purposes, thus complicating the tax code. Families who want to take advantage of IRA benefits will have to determine which IRA saving plan is best for them and many may have to seek professional assistance. The added complication may discourage some families from participating in IRA saving altogether.

If the contribution limit were raised above $2,000 and penalty-free withdrawals were allowed for a wider variety of expenses, then traditional retirement IRAs can potentially become an important saving vehicle for middle-income families. Such expansions would allow families to accumulate a significant amount of savings to finance retirement, educational expenses, and other important expenses a family might incur. Thus taxpayers could become financially independent and less reliant on the federal safety net. In addition, since individuals are generally the best investors of their own money, expanded IRAs can allow families to increase their incomes beyond what the government can provide for them through bloated, inefficient federal programs.

Benefits for the Economy

Expansion of IRA benefits can promote economic growth through its impact on saving and investment. Investment is important to the economy because it increases the domestic stock of capital, thereby promoting economic growth and productivity improvements. A larger, more productive economy generates new jobs, higher wages, and better living standards.

Investors have two sources of funds available to them: national saving (the sum of private and government savings) and foreign saving. If national saving falls short of investment demand, investors can borrow funds from foreign sources. Thus the availability of foreign funds allows investment to increase even if national saving is low. However, reliance on foreign saving can create three undesirable effects. First, the profits from the investment flow overseas. Second, the debt must be repaid with interest so that the net wealth inherited by future generations is lower than it otherwise would be. Third, when investment demand exceeds national saving, there is upward pressure on interest rates. Thus, a high national saving rate is desirable because it reduces investors' reliance on foreign money.

However, many economists argue that the national saving rate in the United States is too low because the tax code discourages private saving and encourages consumption. For instance, savings are subject to several levels of taxation, but consumption of certain products is rewarded through tax credits and deductions. The expansion of IRAs clearly helps reduce this bias by providing taxpayers with incentives to save. Expansion of IRAs thus promotes economic growth by increasing saving and investment.

There are some analysts who dispute the economic benefits of IRAs. According to these analysts, IRAs do not attract new saving, they merely encourage taxpayers to shift their existing savings into IRA investments. To the extent that net saving does not increase, the effects of IRAs on the economy are limited.

The empirical studies on IRA saving effects have produced mixed results. However, many notable studies conclude that IRAs do in fact represent new saving. Some of the most distinguished studies have been conducted over the past several years by James Poterba of M.I.T., Steven Venti of Dartmouth College, and David Wise of Harvard University.

Poterba, Venti, and Wise (PVW) point out that the key obstacle to determining the saving effect of IRAs is saver heterogeneity. In other words, some people save and others do not--those who are inclined to saving tend to save more in all forms. For example, families with IRAs have more conventional savings than families without IRAs. Controlling for heterogeneity is extremely important in determining whether IRA contributions increase net saving. PVW use several different methods to control for heterogeneity which they believe sufficiently address the problems presented by this issue. They conclude that "the weight of the evidence, based on many non-parametric approaches...provides strong support for the view that contributions to both IRA and 401(k) plans represent largely new saving...We believe the evidence is strong in all cases"[22]

They note that several other studies using different methods have arrived at different conclusions. The most commonly cited study indicating that IRAs have no saving effect was conducted by Gale and Scholz (GS) in 1994. PVW reviewed the analysis used in this 1994 study and found that "their conclusions are inconsistent with the raw data and their formal model does not provide reliable information on the extent of substitution."[23] In specific, to estimate their model, GS deleted a large number of observations from their sample data. Although there is nothing wrong with deleting observations from the data, PVW show that the estimates in the GS study are extremely sensitive to exactly which observations are deleted and "the deletions that were made essentially determine the conclusions that GS report."[24] In addition, PVW point out that other limitations of the methodology used by GS seriously undermine the reliability of the GS study.

The PVW study provides compelling evidence that IRA contributions do in fact represent an increase in new saving. Consequently, their expansion should generate important benefits for the economy.

V. Conclusion

Although the federal aid system has helped millions of students over the years, it has also contributed to some discouraging trends: tuition is rising, federal subsidies are shifting away from low-income students, and the value of need-based programs for the poor is declining.

These trends have occurred because the federal aid system is inherently flawed and could be improved upon to provide greater benefits to students. Federal financing of higher education does not provide colleges with incentives to restrain costs, and therefore encourages tuition hikes. The inefficient structure of student loans has broken down the marketplace for higher education by eroding price competition among schools and artificially inflating student demand. Past legislation to improve college affordability has simply increased the funding available to students instead of addressing the fundamental problems of cost containment and tuition inflation. As a result, increased federal subsidies have not necessarily improved the well being of student loan recipients. Students would benefit from alternative policies that expand educational opportunities in a more efficient and cost-effective manner.

The HOPE Scholarship recently enacted into law will not improve college affordability because it fails to address the core problems of the federal aid system. Instead, tuition tax credits will only create windfalls for colleges that adjust their tuition upward to absorb the additional revenue.

A more effective solution may be the expansion of IRAs which provide families with incentives to increase their savings for education. By reducing families' reliance on student loans and allowing them the opportunity to finance educational expenses from their own financial resources, expanded IRAs can restore price competition to the marketplace for higher education and provide colleges with incentives to reduce costs, contain tuition, and improve quality. Furthermore, reduced reliance on student loans can lower government costs, allowing the savings to be diverted to federal grants for the poor. Although the IRA expansion provisions contained in the new law are limited, there is evidence to suggest that more aggressive expansion could provide more significant benefits for families and the economy.

Shahira Knight
Economist

Endnotes

1 Michael Mumper, *Removing College Price Barriers* (New York: State University of New York Press, 1996).

2 The College Board, *Trends in Student Aid: 1986 to 1996*, September 1996, Table B.

3 *Ibid.*

4 The difference between tuition and educational funds which do not have to be repaid such as scholarships or grants. This represents the amount the family must finance on its own.

5 *Op. Cit.*, *Removing College Price Barriers*, p. 215.

6 U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics 1996* (Washington, DC: Government Printing Office, 1996), Table 309.

7 Thomas Sowell, *Inside American Education* (New York: The Free Press, A Division of Macmillan, Inc., 1993), pp. 113-121.

8 *Ibid.*

9 *Ibid.*, p. 120.

10 John Hood, "How to Hold Down College Tuition Costs," *Consumers' Research*, October 1993.

11 Thomas Toch, "Defaulting the Future," *U.S. News & World Report: Science and Society*, June 21, 1993.

12 *Op. Cit.*, John Hood, "How to Hold Down College Tuition Costs."

13 *Ibid.*

14 Joint Committee on Taxation, "Analysis of Proposed Tax and Saving Incentives for Higher Education," April 15, 1997.

15 Jane Bryant Quinn, "New Tax Credits May Bring Cuts in Student Aid," *The Washington Post (Business)*, August 31, 1997.

16 Albert B. Crenshaw, "Now You See It, Now You Don't: Tax Law to Make Benefits Disappear,"*The Washington Post (Business)*, September 17, 1997.

17 Lawrence Gladieux and Arthur Hauptman, *The College Aid Quandary* (Washington, DC: The Brookings Institution, 1995), p. 62.

[18] Retirement IRAs are front-loaded; meaning that taxpayers can exclude IRA contributions from income when calculating their income tax liability. However, distributions from the IRA are subject to taxation. In contrast, education IRAs will be back-loaded; meaning that contributions are not tax deductible, but distributions are not subject to taxation. In general, the two types of IRAs are equivalent unless the taxpayer moves into a different tax bracket between the time the contribution is made and the time the distribution is withdrawn.

[19] *Op. Cit., Removing College Price Barriers*, p. 186.

[20] *Op. Cit., How to Hold Down College Tuition Costs.*

[21] *Op. Cit., Defaulting the Future.*

[22] James Poterba, Steven Venti, and David Wise, "Personal Retirement Saving Programs and Asset Accumulation: Reconciling the Evidence," *National Bureau of Economic Research*, May 1996, p. 94.

[23] *Ibid.*

[24] *Ibid.*

JEC Return Home

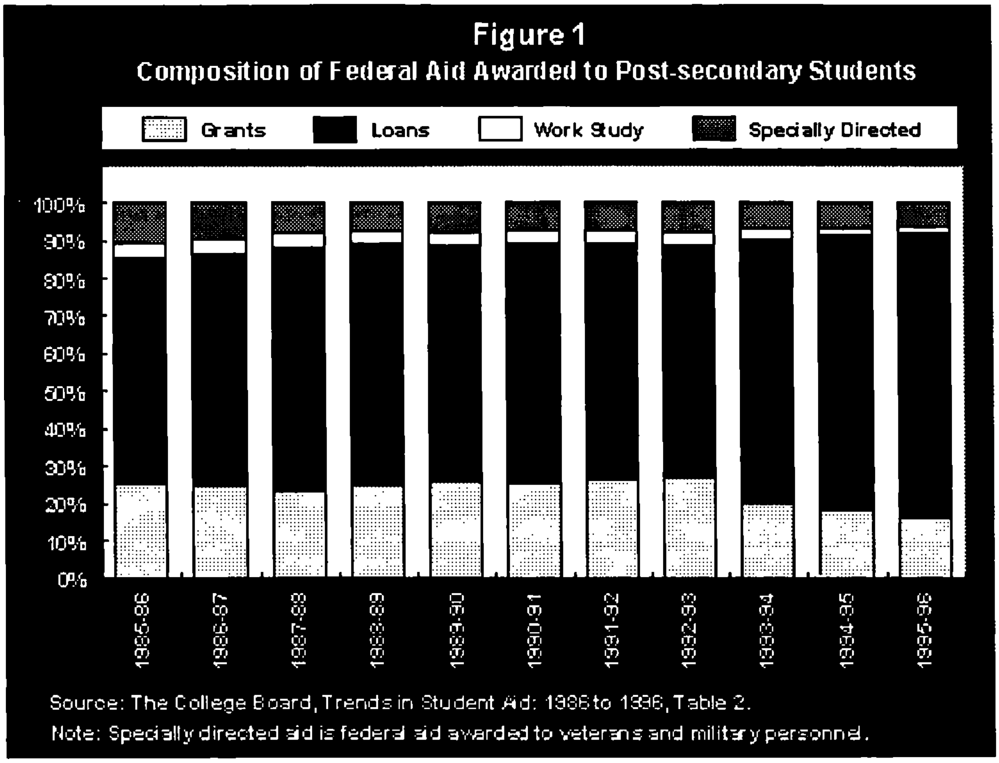


Figure 1
Composition of Federal Aid Awarded to Post-secondary Students
Grants
Loans
Work Study
Specially Directed
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1985-86
1986-87
1987-88
1988-89
1989-90
1990-91
1991-92
1992-93
1993-94
1994-95
1995-96
Source: The College Board, Trends in Student Aid: 1986 to 1996, Table 2.
Note: Specially directed aid is federal aid awarded to veterans and military personnel.

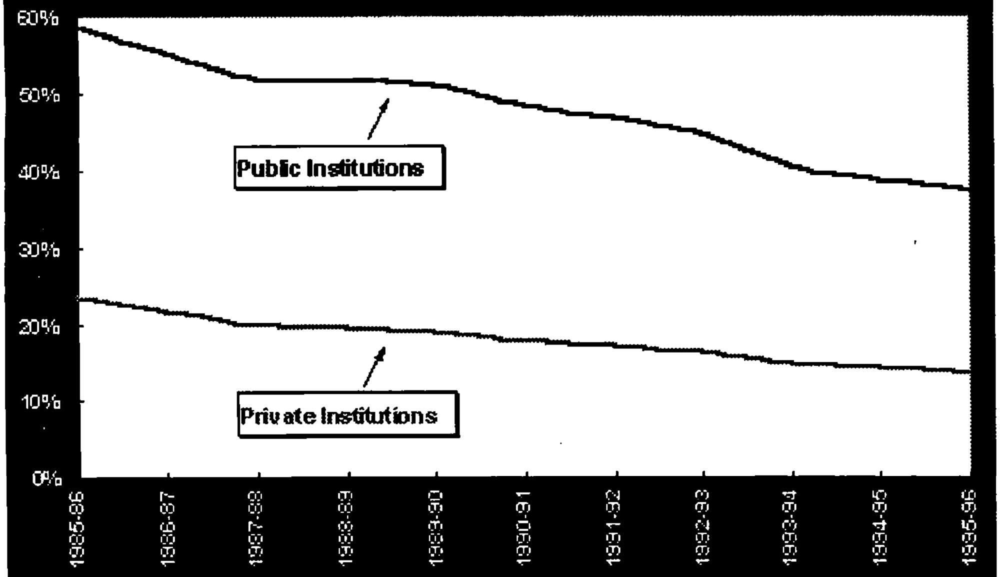
Table 1

Composition of Federal Aid Awarded to Post-Secondary Students

Academic Year	Grants	Loans	Work Study	Specially Directed
1985-86	25%	60%	4%	10%
1986-87	25%	62%	4%	10%
1987-88	23%	66%	3%	8%
1988-89	25%	64%	3%	8%
1989-90	26%	63%	3%	8%
1990-91	26%	64%	3%	7%
1991-92	27%	63%	3%	8%
1992-93	27%	62%	3%	8%
1993-94	20%	70%	2%	7%
1994-95	18%	73%	2%	7%
1995-96	16%	76%	2%	6%

Source: The College Board, *Trends in Student Aid 1986 to 1996*, Table 2.
Note: Specially directed aid is federal aid awarded to veterans and military personnel.

Figure 2
Maximum Pell Grant as a Share of Cost of Attendance



Source: Digest of Education Statistics 1996, Table 309 and Trends in Student Aid: 1986-1996, Table 7.
Note: Cost of attendance includes tuition, fees, and on-campus room and board.

Table 2

Percent of Recent High School Graduates Enrolled in College by Family Income

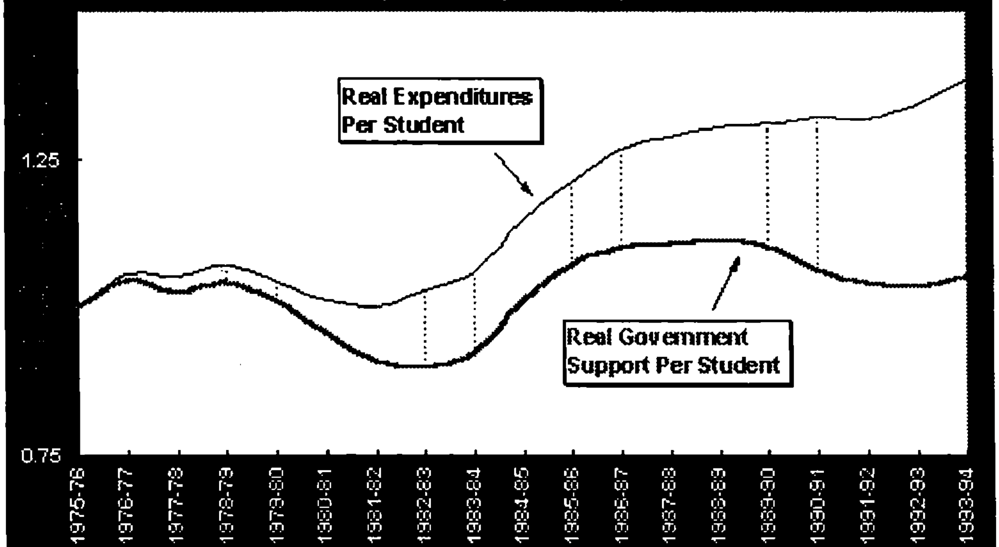
October	Low	Medium	High
1980	32.5	42.7	65.2
1981	33.6	49.3	67.6
1982	32.8	41.7	71.7
1983	34.6	45.4	70.2
1984	34.5	48.4	74.0
1985	40.2	50.7	74.5
1986	33.9	48.4	71.4
1987	36.9	49.9	74.0
1988	42.5	54.7	72.8
1989	48.1	55.4	70.9
1990	46.7	54.5	76.5
1991	39.5	58.4	78.2
1992	40.9	56.9	80.9

Source: L. Gladieux and A. Hauptman, *The College Aid Quandry*, Table 5.
Note: Low income is defined as the bottom 20 percent of all family incomes, high income as the top 20 percent of all family incomes, and middle income as the 60 percent in between.

Figure 3

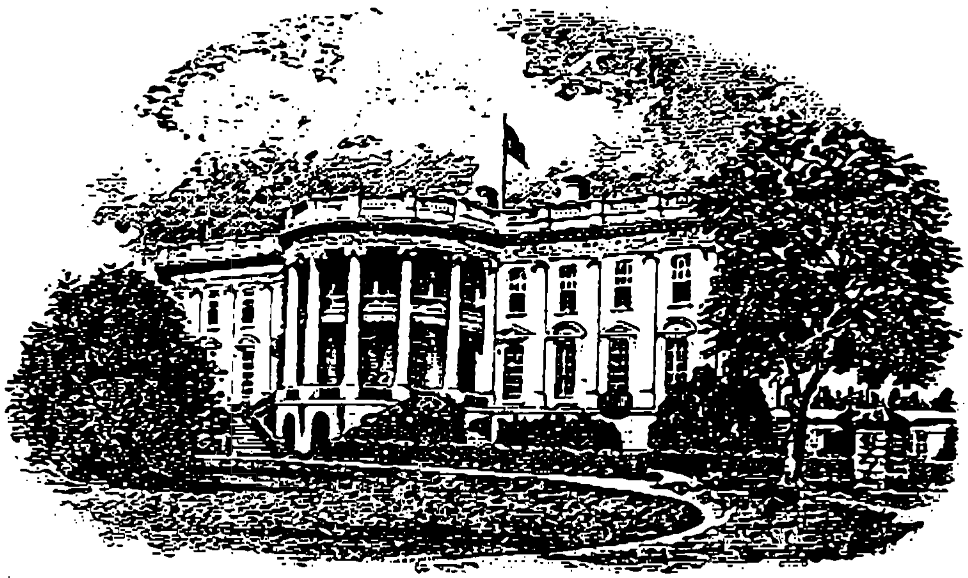
Government Support to Higher Education vs. College Expenditures

(Per Student, 1975-76 = 1)



Source: Department of Education, Digest of Education Statistics, Tables 186, 324, 332.
Note: Real government support per student does not include federally supported student aid received through students.

The White House
Office of Presidential Letters and Messages



facsimile from: Leanne Johnson
phone: 202-456-5512
fax: 202-456-5426

To: Bob Shireman

No. of pages (including cover): 3 Date: 8 · 25 · 97

Phone: Fax: 62223

Comments: FOR EDITS / APPROVAL

LOYOLA
UNIVERSITY
CHICAGO

Office of the President

Water Tower Campus
820 North Michigan Avenue
Chicago, Illinois 60611
Telephone: (312) 915 6400
Fax: (312) 915 6414

August 11, 1997

The Honorable William J. Clinton
The President of the United States
Executive Office of the President
1600 Pennsylvania Avenue N.W.
Washington, D.C. 20500

Dear President Clinton:

Your signature on the Taxpayer Relief Act of 1997 was a shining moment for the students of our nation. This Act affirms the United States' tradition of broad access to higher education. Loyola University Chicago, a Jesuit Catholic institution, has long been committed to making education accessible to all economic strata of our society.

The Hope Tax Credit and your other education initiatives, in particular, will make higher education available to many more students and families. I am particularly pleased about the adjustment made in these programs to reach a greater number of lower income families. I believe measures like these are crucially important.

The preservation of the tax-free treatment of tuition remission benefits, under section 117 of the Internal Revenue Code, allows Loyola to continue a long tradition of providing this benefit to all our staff. Recently, a secretary with over ten years at Loyola completed her Masters of Business Administration and was promoted to a professional position in our Finance Department. This woman began her undergraduate education at the same time she began working at Loyola, and we are thrilled to be a part of her success. This is one of many such stories, and, thanks to the passage of the Taxpayer Relief Act, there will be many more.

The repeal of the $150 million bond cap is also helpful to Loyola University Chicago. In order to provide the best environment for learning and research, we need to continually assess our facilities and oftentimes extensive renovation or new construction is required. Repeal of the bond cap gives us critical flexibility in designing financing to meet the always changing technological and physical demands of our educational community.

Thank you for your vigorous support of accessible higher education, and for your support of Loyola University Chicago.

Sincerely,

John Pidenit

John J. Piderit, S.J.
President

JJP:jj

You provided outstanding leadership in an area that is vital to our future strength as a country. Heartfelt thanks!

AUG 19 1997

Thank you for your warm letter. I deeply appreciate your support. Thanks too for sharing the secretary's story with me.

I was proud to sign the "Taxpayer Relief Act of 1997." I have long believed that the tax system should better encourage investment in college education and job training, and this legislation does that.

I am grateful for the bipartisan support that this measure received in the Congress, and I was pleased to sign it into law.

Thanks again for writing.

Robert M. Shireman
09/29/97 07:59:58 AM

Record Type: Record

To: Sonyia Matthews/OPD/EOP

cc:

Subject: FYI -- Treasury/IRS's meeting on the implementation of new tax credit programs

HOPE binder

--------------------- Forwarded by Robert M. Shireman/OPD/EOP on 09/29/97 07:59 AM ---------------------------

S. A. Noe

09/28/97 02:58:35 PM

Record Type: Record

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

cc:

Subject: FYI -- Treasury/IRS's meeting on the implementation of new tax credit programs

Last Thursday (September 25), Treasury/IRS met with the higher education community groups to discuss the implementation of new tax credit programs. ED and OMB were also invited to the meeting. From OMB, Alex Hunt at OIRA attended the meeting. Below is his summary of that meeting.

On October 1, Treasury/IRS will brief OMB of their work and plan for the implementation of the tax credit programs (including issuing regulations). (For that briefing, ED and Bob are invited to that meeting.)

--------------------- Forwarded by S. A. Noe/OMB/EOP on 09/28/97 02:49 PM ---------------------------

Alexander T. Hunt

09/26/97 04:55:53 PM

Record Type: Record

To: Daniel J. Chenok/OMB/EOP, Daniel I. Werfel/OMB/EOP, S. A. Noe/OMB/EOP

cc: Jefferson B. Hill/OMB/EOP, Kathleen M. Turco/OMB/EOP

Subject: Meeting with higher ed groups

Yesterday, Treasury hosted a meeting with the higher ed community to discuss implementation of the HOPE and Lifetime Learning Credits. Specifically, Treasury was seeking reaction to new requirements that colleges and universities report information on student enrollment and tuition payments beginning January 1, 1998, when the HOPE becomes effective.

In discussing implementation, Treasury emphasized that

- it is focusing on the first year of reporting (presumably, more information will be required in future years);
- it is commited to working with schools to refine and improve the reporting requirements (Treasury, IRS, and ED plan to hold a small number of regional meetings);
- schools will not be required immediately to provide all data that IRS would like to have, just what is essential for compliance and what the schools are able to provide; and,
- as long as schools make a "good faith effort" to report information, IRS would not impose penalties for the 1998 tax year, even if the regulations were finalized next year.

New Reporting Requirements

Treasury proposed to collect the following information from schools, which would have the option of using paper or magnetic media. Much of this info would first have to be collected from students, and schools would be required to provide copies of the reports to students.

- **Name, address, and TIN of either the student or the taxpayer(s) the student certifies is claiming the student as a dependent.** Most schools do not collect TINs of all students and/or their parents, just those receiving financial aid. There appeared to be consensus at the meeting that it would be a good idea for IRS to develop a form (paper or electronic) that schools could use to collect this information. This information collection is required by statute.

- **Name, address, and Employer Identification Number (EIN) of school, and phone number of a contact person.** Except for the EIN, schools are required by statute to report this info.

- **Enrollment status.** To be eligible for the HOPE, students must be at least half-time for any academic period begining in 1998. Schools know the enrollment status of their students, but many people were concerned that half-time status would be difficult to determine for students enrolled part-time in two schools (seperately that are not half-time, combined, they are). Also, since about a million students transfer in their first year, it is important to decide at what point during an academic period enrollment is determined. This information is not required by statute.

- **Amount of post-secondary education.** Students are eligible for the HOPE only in the first two years of college, so IRS wants schools to determine and report whether a student has either completed two years before 1998 or enrolled in either of the first two years of college during 1998. As with enrollment status, schools may not be able to easily obtain this information (e.g., what about AP credit?). This information is not required by statute.

- **Gross amount of tuition paid by students from all sources other than tuition remission.** This info is necessary to determine the amount that students pay out-of-pocket for qualified tuition and fees, beginning January 1, 1998. The problem here is that account statements vary from school to school and they don't always disaggregate qualified payments from payments for non-qualified expenses, such as room and board. Also, schools can't be expected to know if students receive financial assistance directly that should be deducted from the credit (Treasury acknowledged this problem). This information is not required by statute.

Other Issues

- **Technical correction to Taxpayer Relief Act.** Treasury is working with Congress on a possible correction concerning, I believe, the definition of a trade or business that reimburses students for qualified expenses. I am not sure what the problem is, but I think the current language somehow hurts schools.

- **Student loan interest deduction.** Many schools are also lenders and are thus affected by this new deduction, which is limited to the first 60 months of repayment. There is concern that it will be very difficult for lenders to keep track of the months because, for example, months of deferrals and forbearances are not counted.

Things for OMB to Consider

- What is the feasibility of allowing a third-party agent (e.g., student loan clearinghouse) to collect the required information from students on behalf of schools and report it to IRS?
- Does IRS need all the information it can get on all students claiming the credits, or can it adequately ensure compliance through random audits?
- Some smaller schools may simply lack the IT systems necessary to collect, maintain, and report the required information.
- We should see some burden estimates that reflect the fact that many schools will have to invest in new or up-grade existing IT systems.
- SBREFA and Unfunded Mandates may come into play. With approximately 7,000 affected institutions (private and public), it takes an average outlay of only about $14,000 to get to $100 million.
- If Treasury requires information collections not authorized by statute, will IRS have to issue interim final regs this year?

FAX # 456-2215
9/20

(1)

Subj: [illegible]ervice Message
Dat[illegible]08-30 11:12:31 EDT
From[illegible]stem@PMDF.EOP.GOV
To: LEOKORN@aol.com

Report on your message to: /R=A1/U=schireman_r/@mr.eop.gov
Reason: Unable to transfer; message formatting problem (1)
Diagnostic: Unrecognized recipient name (0)
Supplementary-information: ALL-IN-1 EMS_SVM_EXPFAIL
Extension-id: 1
Arrival-date: Sat, 30 Aug 1997 11:12:23 EDT

--Boundary (ID b7UwOzflj792nCAIgXju6Q)
MIME-version: 1.0
Content-type: MESSAGE/RFC822

Date: Sat, 30 Aug 1997 11:11:41 EDT
From: LEOKORN@aol.com
Subject: direct loans
To: schireman_r@a1.eop.gov
Message-id: <970830111106_-1032827319@emout16.mail.aol.com>
MIME-version: 1.0
Content-type: MULTIPART/MIXED; BOUNDARY="Boundary (ID Uzu4RB4FIS0vTWoC1b6YeQ)"
Posting-date: Sat, 30 Aug 1997 11:12:20 EDT
Importance: normal
X400-MTS-identifier: [;02211103807991/291004@EOPMRX]
A1-type: MAIL

--Boundary (ID Uzu4RB4FIS0vTWoC1b6YeQ)
Content-type: TEXT/REPORT

--Boundary (ID Uzu4RB4FIS0vTWoC1b6YeQ)
Content-type: TEXT/PLAIN; CHARSET=US-ASCII

Bob- thanks for calling me back. I am very distreessed about what is happening with direct loans so I decided to send you this email so you will have some of the background which might be useful. As you know, direct loans was the most significant improvement in sfa for decades.It has the potential of saving federal dollars , improved service to students, move towards the elimination of the guaranty agenciesand dramatically reduce the default rate.I really am furious,not distressed, because when the decision was made to put the direct loan back into sfa, no one ever asked me what the vision and plans were for the future. As matter of fact, they did not want to EVEN HEAR ANYTHING EXCEPT TO MAKE SURE IT WAS BACK INTO THE SFa morass.

I want to provide the background and then offer suggestions for your consideration.The reason I think this is the better route is the department has no intention to hear from me and now they are being defensive, particularly because of my strong feelings that they should recruit someone who has the background and experience in running a large complex computer operation. By the way, acco[illegible] to the press, Secretary Rubin made the statement that .the IRS shou[illegible]un by a computer executive and not a competent tax lawyer and is, or alr[illegible]y has , recruited such an executive. This is a direct parallel to sfa. We need a computer executive, not a competent student finananciadministrator.

The distressing aspect of all of this is that the Administrations most significant improvement in sfa is going down the drain.Practically no new

To: Bob Schireman
I sent this thru E-mail but I am not sure it was sent, so I will try the Fax.
By the way, the Department reported a backlog of 70,000. That number seems doable to me. There must be more to this problem to cause the stoppage.
After you read this E-mail, call if I can be helpful.
Leo Kornfe[illegible]

2

sch are joining, over 250 schools which were interested have declined and
now ost important part of direct loans-the repayment options and
cons ion is now in trouble.. What other disasters have to come about
before one will face up the fact that the program is in trouble and serious
dramatic chanres are essential.In privet industry, the President of the
corporation would be terminated for a lot less than what is happening in
direct loans

Enough preaching since I have said all of this before.Finally, the
background.

W#hen I left direct loans we were doing 15000 consolidations per month. The
ransaction was completed in 60 days.We use to receive weekly reports showing
production and backlog. We met with the contractor weeky to monitor the
progress.

The consolidation system was too complicated and we had plans to
simplify the system AND ICREASE THE PRODUCTION. We also had plans to revise
he serviceing since with the repayment options and consolidation, we saw a
clear path to dramatically reduce the default rate.My vision was to
demonstrate that the default rate for student loans -because of direct loans
would be lower than the credit card default rate. No one even had the
coutesy, let alone the smarts, to even ask me what we were plann ing.

I have 3 two suggestions for your consideration.

1- the education community has no confidence that the department can run
direct loans. The press is full of disaster stories, rumours are all over
he place ,the banks are celebrating and Mr Hoekstra is having a field day.In
my n , the department has. to to face up to the facts and announce
tha re recruiting for a computer executive to run direct loans..The
secre y needs to take the same position that Secretay Rubin took. The
department has great eople but it is now time to bring in people with
different backgrounds since the progranm has now reached the size and
complexity- thanks to the great people in the department.

3

ile everyone is trying to figure out what to do with EDS,ask the
revious contractor to process consolidations until the EDS mess is cleaned
ip

3-Put together a goup at the white house level to simplify and improve
he repayment system and consolidation. By doing it at the white house
evel, you willregain some credibity plus OMB has some peoiple who could
nake a significant contribution to tnis effort. You must take steps to
egain the ceredibility of this program or it will become history and the
anks and guaranty agencies will thrive while the students and the
idministrATION will suffer. Also, improve the loan servicing system

Bob- if there is anything I can do, please call. I do not want any
compensation from the federal governmentand my only interst is to be helpful.
Please feel free to to share this long memo with Gene, Barry, or anyone
else.

I already feel better now that I prepared this email since, as you
know, I am the eternal optimist. Keep in touch. Perhaps, when I am in
washington next, we can go to lunch so I can tell you how nice it is to be
back in the private sector. Say hello to Gene and my other freinds.
leo .

-Boundary (ID Uzu4RB4FIS0vTWoC1b6YeQ)
MIME-version: 1.0
Con ype: MESSAGE/RFC822

Date: at, 30 Aug 1997 11:12:23 EDT
MIME-version: 1.0
Content-type: TEXT/PLAIN; CHARSET=US-ASCII
mportance: normal
A1-type: DOCUMENT

RFC-822-headers:
Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)
id <01IN1RHMAYS000BMUJ@PMDF.EOP.GOV> for schireman_r@a1.eop.gov, Sat,
30 Aug 1997 11:12:17 -0400 (EDT)
Received: from storm.eop.gov (storm.eop.gov)
by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01IN1RHKVSKG00AZJK@PMDF.EOP.GOV> for
schireman_r@a1.eop.gov, Sat, 30 Aug 1997 11:12:15 -0400 (EDT)
Received: from emout16.mail.aol.com ([198.81.11.42])
by STORM.EOP.GOV (PMDF V5.1-7 #6879)
with ESMTP id <01IN1RGX0ARG00376U@STORM.EOP.GOV> for schireman_r@a1.eop.gov,
Sat, 30 Aug 1997 11:11:43 -0400 (EDT)
Received: (from root@localhost) by emout16.mail.aol.com (8.7.6/8.7.3/AOL-2.0.0)
id LAA12468 for schireman_r@a1.eop.gov, Sat, 30 Aug 1997 11:11:41 -0400 (EDT)

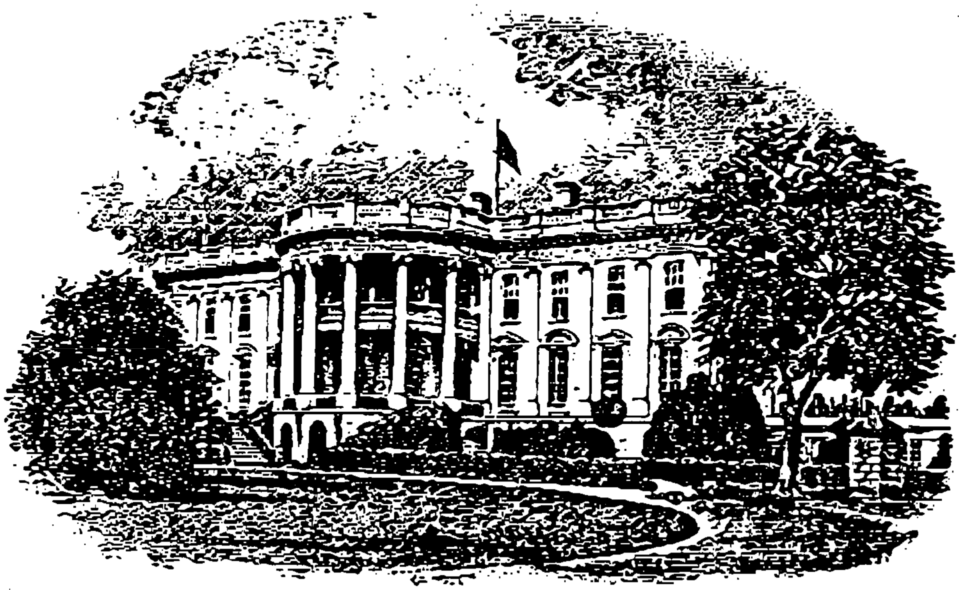
-Boundary (ID Uzu4RB4FIS0vTWoC1b6YeQ)--

-Boundary (ID b7UwOzflj792nCAIgXju6Q)--

----------------- Headers --------------------------------
Received: from mrin46.mail.aol.com (mrin46.mx.aol.com [198.81.19.156]) by air03.mx.aol.com vx with SMTP; Sat, 30 Aug 1997
11:12:31 -0400
Received: from gatekeeper.eop.gov (gatekeeper.eop.gov [198.137.241.3])
by mrin46.mail.aol.com (8.8.5/8.8.5/AOL-4.0.0)
with SMTP id LAA10515 for <LEOKORN@aol.com>;

HOPE
post-passage

The White House
Office of Presidential Letters and Messages



facsimile from: Leanne Johnson
phone: 202-456-5512
fax: 202-456-5426

To: Bob Shireman

No. of pages (including cover): 2 Date: 9.2.97

Phone: Fax: 62223

Comments: Any response necessary?

232768

HARVARD UNIVERSITY

Office of the President

Massachusetts Hall
Cambridge, Massachusetts 02138
(617) 495-1502

August 21, 1997

The President
The White House
Washington, DC 20500

Dear Mr. President:

I am writing to thank you for your commitment to expanding the federal role in assuring access to higher education. The sheer size and breadth of the education tax incentives contained in the Tax Payer Relief Act are remarkable achievements that will go far toward encouraging millions of Americans to invest in themselves and their country through higher education.

Your leadership made an enormous difference, and I am very grateful.

Sincerely yours,

Neil Rudenstine

Neil L. Rudenstine

SUNTUM_M @ A1
08/15/97 01:39:00 PM

Record Type: Record

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

cc:
Subject: EMBARGOED 1997/08/16 RADIO ADRESS BY THE PRESIDENT

THE WHITE HOUSE

Office of the Press Secretary

Embargoed for Release
Until 10:06 A.M.
Saturday, August 16, 1997

RADIO ADDRESS BY THE PRESIDENT
TO THE NATION

THE PRESIDENT: Good morning. As families across America start to prepare for the new school year, I'd like to talk about how students and parents can make the most of the historic higher education opportunities in our new balanced budget.

The balanced budget I signed into law last week meets the nation's obligation to offer opportunity to every American who's willing to work for it. It opens the doors to college to a new generation, with the largest investment in higher education since the G.I. Bill 50 years ago. We have achieved a truly remarkable goal. For the first time ever, all children in America who study hard will have the opportunity to go on to college. Let me tell you just a few of the ways our budget will make that possible.

First, the budget offers HOPE Scholarships -- a tax credit of up to $1,500, as much as the average community college tuition, that will help to make the first two years of college as universal as four years of high school are today.

Second, the budget creates a new Lifetime Learning Credit targeted at college juniors and seniors, graduate students and adults who want to enhance their skills. Under this initiative, for example, a homemaker who wants to return to school full time to become a teacher can get a 20 percent tax credit on the first $5,000 of her tuition bill. By the year 2003 that credit will grow even larger, applying to up to $10,000 in tuition and fees.

Third, beginning this January, parents and grandparents can withdraw money from their Individual Retirement Accounts, without any penalty, to pay for higher education expenses. They can also open up brand new education IRAs which will allow them to invest $500 per child every year to build up money, tax-free, for college.

Fourth, our budget agreement provides the largest increase in Pell Grants in two decades, and gives about 350,000 more students the scholarships they deserve. These new initiatives will greatly expand educational opportunity for American families. But there is another crucial part of the college equation, and that is responsibility -- the responsibility of every student and every parent to prepare for the future.

As Hillary and I have learned, parents can't wait to plan for college until their children are in their junior or senior years of high school. In fact, education experts say it's essential that parents sit down with their kids as early as the 6th grade to start charting a course toward college. In the crucial middle school years, parents must encourage their children to take challenging classes. Research shows, for example, that students who take algebra and geometry by the end of the 9th grade are much more likely to go on to college than those who don't.

In the new economy of the 21st century, what our children earn will depend more than ever on what they can learn. Almost 90 percent of the new jobs being created today require more than a high school level of literacy and math skills. Yet, more than

half of the people entering the workforce are not prepared with these skills. So we still have a lot of work to do. Throughout the fall, my administration will work very hard to make sure that parents and students learn how to take advantage of the new higher education opportunities they now have.

As a first step, Education Secretary Dick Riley and his staff have prepared an extremely useful guide for parents of children in middle school, junior high and high school. It's called, "Getting Ready for College Early." You an get a free copy by calling the Department of Education at 1-800-USA-LEARN, 1-800-USA-LEARN.

From the day I took office I have been working on a simple idea: when my child is my age I want our country to be a place where every person who works hard has a chance to live out his or her God-given abilities and dreams. With the education opportunities contained in our historic balanced budget, we have taken a large step toward that goal.

Thank you for listening.

END

Message Sent To: ____

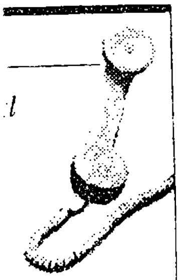
THE WASHINGTON POST
your **Money**

HOPE

4/7/97

rets

o Scams



ou know.

on giving out
ildren. If
omputer.

nnot give a
needed.

THE WASHINGTON POST

: company to place
ut never give out
nber if you didn't
it sounds authentic
hich you regularly

people you know.
me so sophisticat-
ible to tell who is
So avoid flashy
the telephone or

th someone who
the phone. With
g so well, lots of
offer you phony
lies. It takes a
t through legiti-
a novice, would
eal estate deal,
npany or frozen
nent? (Seriously,
one ... offer
s.)
o exe ... self
your time. Just
n the other end is
rom your hard-

at ho...

JANE BRYANT QUINN

Budget Law Complicates Education Decisions

Last of two articles

The budget law wrote some new rules for financing higher education. The choices, for borrowing and saving, are going to complicate decision-making. But the new rules will save money for a majority of students and parents. Here's what's starting on Jan. 1:

▪ **The tax deduction on loans for higher education.**

You qualify for the maximum deduction on the interest you pay if you are single with adjusted gross income of less than $40,000 or married with income of less than $60,000. As incomes rise, the deduction declines, phasing out at $55,000 for singles and $75,000 for marrieds. After 2002, the income levels will be adjusted for inflation.

The maximum deduction is $1,000 for 1998, $1,500 for 1999, $2,000 for 2000 and $2,500 for 2001 and each year thereafter.

Next year, that roughly equals the interest on a $12,000 Stafford student loan; by 2001, the deduction will cover a loan in the $30,000 range, says Benjamin Tobias of Tobias Financial Advisors in Plantation, Fla.

You can take the deduction only for interest paid during the first five years in which payments are required. If you started repayments in 1996, the write-off ends with your 2000 tax return.

You get the write-off even if you don't itemize deductions. That will be a big help to new graduates who normally take the standard deduction.

Interest is deductible on loans taken for your own education, that of your spouse or of a dependent. Note: You can't deduct interest on loans given by relatives.

What's your best borrowing strategy going to be? Take the cheapest loans you can get. For most students, that would be subsidized Staffords (now at 8.25 percent) if you qualify for student aid. Some states and colleges lend at Stafford rates or even below.

Next, turn to unsubsidized Staffords and Plus loans for parents—ask about them at the college financial-aid office.

Once you've borrowed the maximum deductible education loan, borrow against your home equity. Interest is deductible on home equity loans as large as $100,000.

Divorcing parents might want to rearrange their separation agreement. If one parent claims the child as a tax dependent and the other borrows money for college, as often happens in divorce settlements, neither of them will get the deduction.

▪ Tax-favored savings accounts.

There's a new education individual retirement account (which has nothing to do with retirement). If you qualify, you can invest up to $500 a year for each of your children under 18.

You can't take tax deductions on your contribution, but the earnings are entirely tax free if used for higher education.

Singles qualify for a full contribution with adjusted gross incomes as high as $95,000. When you earn more, the allowable contribution shrinks, phasing out at $110,000. Marrieds get a full contribution with incomes as high as $150,000, phasing out at $160,000.

This isn't big money. Still, any tax-free account is better than a taxable one. If the child doesn't use all the money, you can transfer it to another one of your children. If the beneficiary reaches 30 without using the money, it must be withdrawn by the beneficiary, and taxed.

The new law also lets you take money from a regular IRA for education expenses without paying the usual 10 percent tax penalty if you are under 59½.

What's your best savings strategy now?

Education IRAs are worth establishing only if you start when your child is very young, says financial planner Warren Mackensen of Hampton, N.H.

In the year you use the IRA money, you can't also use the new education tax credits—the Hope Scholarship Credit or Lifetime Learning Credit. If your education IRA is small, these credits will be worth more.

It's not yet known whether mutual fund companies will even offer low-fee education IRAs, because they're so small, Benjamin Tobias says.

Neither you nor anyone else can contribute to an education IRA and a state prepaid tuition plan for the same child in the same year. If you're sure your child can benefit from the tuition plan, it's the better choice because you can put in more money.

Anyone, regardless of income, can put up to $2,000 of after-tax money into a regular IRA, let it accumulate tax-deferred, then use it for college, paying income taxes on the gains as they're withdrawn.

The same withdrawal rules apply to the new Roth IRAs or IRAs funded with pretax dollars. But they're best left as retirement accounts.

BASIS POINTS

PHOTOCOPY PRESERVATION

No one ever knows where the rumors start but, at the end

traders sold bonds on the rumor. The Fed chairman ...

TREASURY FRIDAY WEEK AGO YEAR AGO

Pauline_Abernathy @ ed.gov
08/25/97 10:01:00 PM

Record Type: Record

To: Michael Cohen, Robert M. Shireman, William R. Kincaid

cc:
Subject: Implementation of new tax provisions

With enactment of the tax cuts for higher education, many people are asking questions about their implementation (e.g. how people can file for them, when, using what form, what documentation, how they interact with other financial aid, etc.).

The Department has begun working with Treasury on these issues, and two people in OPE are leading our work on implementation of the higher education tax cuts: Dan Madzelan in Maureen McLaughlin's office and Brian Kerrigan in Betsy Hicks' office. Feel free to call them if you have any questions or suggestions on tax implementation. It is very important to ask one of them to review any written document on the tax cuts -- now that the tax cuts are law, the Treasury Dept. and IRS are concerned that any written materials be consistent with their plans, policies, and procedures. Treasury is working with us to ensure that the tax cuts are implemented in ways that address the needs of the education community, and we need to be sensitive to their concerns as well.

The two Treasury tax analysts working on the education tax cuts asked me to share their names and numbers with you; they are Clarissa Potter (622-0999) and Catherine Livingston (622-1343).

Of course, Maureen and I are still happy to try to answer any questions on the tax cuts as well! -- Pauline

TALKING POINTS: RELEASE OF DISTRIBUTIONAL TABLES

August 22, 1997

The Treasury Department is today releasing distributional tables for the major provisions of the Taxpayer Relief Act of 1997. Accompanying these tables are similar, previously released tables for the major provisions of the tax bills that passed the House and Senate, as well as for the President's June 30 tax proposals. (There are eight tables in all, two for each of the four packages.)

The distributional tables show that:

- **48.3 percent of the benefits of the major provisions of the Taxpayer Relief Act go to the middle 60 percent of families in the income distribution**. This is between the 66.9 percent of the President's June 30 tax package and 32.1 and 34.2 percent in the bills that passed the House and Senate, respectively.

- **In the first five years of the tax bill, 81.2 percent of the total gross tax cuts go to the HOPE tax credit, the Lifelong Learning credit, the child credit and saving provisions** -- all tax reductions that primarily benefit middle-class taxpayers. Even in 2007, the last year in the ten-year budget window, 65.1 percent of the gross tax cuts go to these middle-class provisions.

- **The Taxpayer Relief Act gives larger percentage tax cuts to middle-income families than to upper-income families**. For example, the second lowest quintile will get a 5.4 percent cut in their tax payments, while the highest quintile will get a 2.8 percent tax cut. So, unlike the House and Senate plans, which would have given the largest percentage cuts to families in the top 20 percent of the income distribution, the budget follows the President's plan and gives larger percentage tax cuts to middle-income families than to the highest income families.

It is important to remember that these tax provisions were a critical component of the compromise that produced the bipartisan balanced budget agreement.

- **This is the first balanced budget in a generation**, building on the success of President Clinton's 1993 economic plan which helped to reduce the federal deficit from $290 billion in 1992 to an expected $37 billion this year.
- **The largest increase in higher education funding since the G.I. Bill of 1945**, including higher education tax cuts and the largest Pell Grant increase in two decades
- **The largest investment in health care for children -- $24 billion -- since the passage of Medicaid in 1965**
- **The balanced budget protects our nation's most vulnerable people.** The budget includes $12 billion to restore both disability and health benefits to legal immigrants who are currently receiving benefits or become disabled in the future.
- **13 million children from families with incomes below $30,000 will receive the $500 child tax credit**, thanks to the President's insistence that these hard-working families be eligible.

ALICE SHUFFIELD

5/15

Bob —

Here is our draft SAP on H.R. 1385, which goes to the House Floor tomorrow morning.

POTUS 4/29 letter also attached.

Look ok by you?

Alice

DRAFT -- NOT FOR RELEASE

May 15, 1997
(House)

H.R. 1385 - Employment, Training, and Literacy Enhancement Act of 1997
(Rep. McKeon (R) CA and 6 others)

The Administration is pleased that H.R. 1385, as reported by the House Committee on Education and the Workforce, incorporates many of the principles articulated in the President's G.I. Bill for America's Workers. These principles, which are central to reforming Federal job training programs, support the common goal of building an integrated workforce development system. The new system embodied in H.R. 1385, based on a firm foundation of individual opportunity, empowerment, and improved performance information, represents a good first step toward improved accountability to taxpayers.

Although the Administration supports House passage of H.R. 1385, it does not agree with every provision of the bill, such as those affecting adult education and vocational rehabilitation. Therefore, the Administration looks forward to ~~working in the Senate to~~ address these concerns and to enact legislation that best meets mutually shared objectives.

Pay-As-You-Go Scoring

H.R. 1385 would affect direct spending; therefore, it is subject to the pay-as-you-go requirement of the Omnibus Budget Reconciliation Act of 1990. OMB estimates that the pay-as-you-go effect would be zero.

* * * * * * * * * *

(Do Not Distribute Outside Executive Office of the President)

This draft position was developed by LRD (Connie Bowers) in consultation with HR (Barry White/Larry Matlack/Maureen Walsh/Kathy Stack/Aromie Noe). The Departments of Labor (Morin), Education (Hansen), Justice (Jones), HHS (Montgomery) and the Interior (Simmons), the Office of Personnel Management (Wolf), Social Security Administration (Warner), Office of Government Ethics (Ley), and OIRA (Oleinick) agree with this position. This draft statement was also sent to the following agencies, which did not comment: the Department of Housing and Urban Development, the National Commission on Disability, and the National Institute for Literacy.

BACKGROUND

Administration Position To Date. On April 30th, the President sent a letter to the House Committee on Education and the Workforce for consideration at the Committee's markup of H.R. 1385. That letter commended the bipartisan effort to craft legislation that would achieve many of the objectives shared by the Administration and Congress. It stated that "while we do not agree on every provision of the bill, especially those affecting adult education and vocational rehabilitation, this legislation advances our common goal of building an integrated workforce development system consistent with most of the principles I articulated in my G.I. Bill for America's Workers." The President's letter noted that the bill is a "good first step" toward making the job training system more accountable.

In the 104th Congress, the Senate and House passed different versions of workforce development legislation, but the conference bill failed to reach a floor vote. H.R. 1385 does not contain some of the controversial features that stymied the legislation last year (i.e., it does not affect in-school vocational education programs and it would not repeal the School-to-Work Opportunities Act).

SUMMARY OF H.R. 1385

Block Grants

H.R. 1385 would consolidate existing Federal employment, training, and literacy programs into three block grants to States and localities for: (1) adult employment and training for disadvantaged adults and dislocated workers who are chronically unemployed or who have lost their jobs as a result of economic shifts or corporate downsizing; (2) disadvantaged youth, including high school dropouts; and (3) adult education and family literacy to assist low-income people to obtain skills necessary to become employed (e.g., those trying to make the transition from public assistance to the workforce).

While the grant programs for disadvantaged youth under the Job Training Partnership Act would be consolidated into the State block grants, Federal administration of the Job Corps would be maintained. That program provides residential vocational education and training for disadvantaged youth aged 16-24.

Federal Role

The Secretary of Labor would oversee the employment and training programs and the Secretary of Education would oversee the adult education and literacy programs. The Secretaries would: (1) allocate funds, by formula, to States; (2) receive and review State plans; (3) carry out authorized national activities (including research, program assessment and evaluation, and demonstrations); (4) issue regulations; and (5) carry out duties with respect to State accountability. With regard to State accountability, the Secretaries would: (1) negotiate expected levels of performance with the States identifying challenging levels of performance for "core indicators"; (2) promulgate uniform definitions for each core indicator; and (3) award performance incentive grants.

State Role

To receive block grant funds, States would be required to develop a single, three-year State plan for the three block grants, along with other programs authorized under the Wagner-Peyser Act. The State plan would be developed through a collaborative process in each State, with the

Governor convening relevant public and private sector groups. This would replace the current JTPA requirements that designated State Councils be established in each State. The State plan would be submitted to the Secretaries for review and must be approved consistent with the provisions of the Act. State responsibilities would include: (1) identification of goals and benchmarks; (2) designation of local workforce development areas and criteria for appointment of local boards; and (3) development of criteria for the Statewide full-service employment and training delivery system.

The bill was amended in Committee to require State legislatures to appropriate the block grant funds. The bill fails to provide presumptive authority to State educational agencies for the administration of adult education and family literacy funds.

Local Role

The bill would require the establishment of local business-led workforce development boards, replacing currently authorized Private Industry Councils (PICs) established under JTPA. These boards would: (1) develop local plans; (2) select and certify eligible providers; (3) select and award grants on a competitive basis to eligible providers of disadvantaged youth activities; (4) work with Governors in identifying eligible providers of training services; and (5) develop a budget for carrying out adult training and disadvantaged youth programs and conduct oversight over such programs. Local boards, elected officials, and the Governor would conduct negotiations and agree on local benchmarks toward meeting State performance goals.

Skill Grants

The bill would require adult training to be provided through skill grants (vouchers), distributed through the full service employment and training system. Trainees would be provided choice in their selection of eligible providers. Participating training programs would be required to report annually on their performance to the State-identified agency.

Performance Accountability

The bill would require each State to establish its own long-term goals for each of the three block grants through which it receives funds. Goals would be measured through indicators of performance or "benchmarks," which include measures of specific "core indicators" of performance. Each State's benchmarks would be negotiated between the State and the Federal Government, taking into account factors such as how the State's performance levels compare with other States and how they compare to the model levels of performance. However, the bill does not provide guidelines for settling these negotiations. Currently, under the JTPA, the Secretary of Labor establishes national standards for job training programs, which are then adjusted by the States.

Vocational Rehabilitation

H.R. 1385 would reauthorize for three years the Vocational Rehabilitation Act, which provides training and rehabilitation money to States for the mentally and physically disabled. It would amend that act to better coordinate it with other employment and training programs.

ISSUES FOR RESOLUTION IN THE SENATE

The Department of Labor (DOL) has the following concerns:

- ***Lack of an assured summer jobs component.*** DOL supports consolidation of the summer and year-round training programs for disadvantaged youth into a single grant. However, the Department believes that summer jobs must be an essential element of that grant. While H.R. 1385 would authorize summer jobs as an allowable activity, DOL believes that the legislation should ensure that each local area provides summer job opportunities to disadvantaged youth. Labor notes that for many youth, a summer job is their first opportunity to work and their first critical step in learning the work ethic.

- ***Inadequate worker representation on local boards.*** DOL supports the provision in the bill for local workforce development boards to have a strong role in the administration of the new workforce development system. However, DOL believes that it is essential that such boards explicitly include representatives of organized labor, in order to enhance the board's ability to link the workforce development system to the labor market.

The Department of Education (ED) has the following concerns:

- ***Inadequate accountability.*** ED is concerned that H.R. 1385 would not ensure that States can be held accountable for providing high-quality, effective programs that yield satisfactory outcomes for their participants. ED believes the Secretaries should approve State plans based on their quality and promise to meet the purposes of the Act, not solely on their technical compliance. In addition, ED believes that the Secretaries and States should negotiate, and reach agreement on, challenging levels of program performance, including all the "core indicators" of such performance. (Note: DOL does not share this concern.)

- ***State Governance.*** ED believes the bill should make clear that State educational agencies will continue to play the lead role -- as they do under current law -- in planning and implementing adult education programs. This would maintain stable administrative structures that help to link such programs to other education efforts and funding resources.

- ***Legislative Authority***. ED believes the bill should retain a free-standing Adult Education Act that contains all the statutory provisions necessary for understanding, and implementing, the programs authorized. H.R. 1385, while nominally reauthorizing the Adult Education Act, would strip it of provisions relating to the definition of terms, State plan requirements, and accountability measures, which would be placed in another law. ED believes there is no programmatic justification for this complex and confusing legislative approach.

- ***OMB certification of agency compliance with information technology accessibility procurement guidelines.*** Rep. Eschoo (D-CA) may offer an amendment that would require the Director of OMB to certify agency compliance with information technology accessibility procurement guidelines. This amendment would place compliance enforcement responsibility with OMB, which does not have the personnel resources necessary to do this effectively.

The Department of Justice also has concerns about certain changes to the nondiscrimination provisions of the Job Training Partnership Act and believes that some of the provisions regarding Native Americans are in need of refinement. Justice would like to submit its comments to the Senate, pending the outcome of interagency review.

PAY-AS-YOU-GO SCORING

According to HRD (Fairhall) and BASD (Sullivan), H.R. 1385 is subject to the pay-as-you-go (PAYGO) provisions of the Omnibus Budget Reconciliation Act of 1990. The estimated PAYGO effect of the bill is zero. H.R. 1385 would authorize programs under the Rehabilitation Act that are scored as *mandatory* under the Budget Enforcement Act. The provisions in H.R. 1385 would simply extend appropriations authorizations of such sums as may be necessary. As funding levels would be subject to appropriations, the PAYGO effect would be zero.

LEGISLATIVE REFERENCE DIVISION DRAFT
May 15, 1997 - 11:15 am

THE WHITE HOUSE

WASHINGTON

April 29, 1997

Dear Mr. Chairman:

There has been widespread agreement on the need to reform Federal job training programs to create a world class workforce development system. While we have engaged in a healthy debate on the best means of achieving that reform, I appreciate your willingness to incorporate many of my core principles in H.R. 1385 -- bipartisan legislation to realize our mutual goal.

Although we do not agree on every provision of this bill, especially those affecting adult education and vocational rehabilitation, H.R. 1385, as introduced by Representatives Howard McKeon and Dale Kildee, advances our common goal of building an integrated workforce development system consistent with most of the principles I articulated in my G.I. Bill for America's Workers. Those principles include: individual empowerment coupled with good information to guide customer choice; leaner government through program consolidation and one-stop service delivery; better accountability for results; and the State and local flexibility needed to shape local systems in partnership with business-led local workforce development boards.

I am pleased that this legislation incorporates principles that are similar to my G.I. Bill tenets. Your approach will permit continued progress toward reforming, streamlining, and integrating job training and employment services within a one-stop workforce development system. Most importantly, this new system will be based on a firm foundation of individual opportunity, empowerment, and improved performance information -- representing a good first step towards improved accountability to consumers and taxpayers for results. The inclusion of skill grants will empower those seeking training or retraining, ultimately giving them greater control over their career development.

It is time for us to work together to craft a system that allows all Americans to obtain the skills needed to succeed in the 21st Century workforce. My Administration stands ready to work with you and the Congress to assure that this vital reform legislation meets our shared objectives.

Sincerely,

Bill Clinton

The Honorable William F. Goodling
Chairman
Committee on Education and the Workforce
House of Representatives
Washington, D.C. 20515

Office of the First Lady
The White House
PH: (202) 456-6266
FAX: (202) 456-6244

To: Bob Shireman **Title (Affiliation):** NEC

Telephone Number: ( ) 456-2803 **FAX Number:** ( ) 6-2223

From: Abby Hendel **Telephone Number:** ( ) 6-6266

Number of Pages (Including Cover): 3 **Date Sent:** 5/19

Comments: Thanks for your help!

Established 1909

Office of the President

March 6, 1996

Ms. Hillary Rodham Clinton
The White House
Washington, D. C., 20500

Dear Ms. Clinton

You may or may not recall that I was Vice President for Agriculture at the University of Arkansas and spent about ten days in the fall of 1985 with you and then Governor Clinton on a trade mission to the Orient. Since then, we have both moved on to larger responsibilities. You and he are in the White House and I am President of my alma mater -- a regional state university in Oklahoma.

It is as a college president that I am writing to you. I well remember -- and respect -- the contribution that you made to the quality of education in the state of Arkansas. I also remember that the advisor to whom Bill Clinton listened most carefully was his wife. Most of the President's proposed programs I can fully support. The Hope Scholarship proposal of a $1,500 tax credit for first year students I perceive to be a sound national investment. While I can support the concept of tax deductibility for tuition and fees, the $5,000 limit for 1997 and 1998 -- increasing to $10,000 per year in 1999 -- is in my judgement excessive.

The tuition and fee expense in most publicly supported colleges and universities is considerably below $5,000 per year -- indeed, at Oklahoma Panhandle State University, the *total* cost for tuition, fees, book rental, and room and board in an on-campus dormitory is less than $4,000 annually!

The $10,000 annual tax deduction for college tuition and fees is objectionable for three reasons. First, it would encourage governing boards to increase tuition and fees beyond the levels that are absolutely necessary. Second, it would encourage students to select private rather than public institutions. This would drain resources from public institutions, forcing either increased public investment in the operation of these institutions or escalation in the fees extracted from the reduced numbers of students enrolled. Third, this excessive $10,000 limit would tend to foster an elitist attitude that is philosophically repugnant to my old populist roots. The Reagan-Bush era fostered a quite enough of an elitist attitude in this country, thank you very much.

PO Box 430, Goodwell, Oklahoma 73939 Telephone 405-349-2611 Fax 405-349-2302

Nationally, students in publicly supported higher education currently pay about one-third of the total cost of their education (In Oklahoma, they pay about one-fourth). The 1945-65 baby boom dramatically expanded the need for higher education beginning in the early 1960's. This need was met through increased public rather than private investment. The wisdom of utilizing the tax structure to encourage students to select private institutions when the public sector has already invested in the facilities and already pays two-thirds of the operating costs of public institutions is questionable. It is even more questionable in view of the reality that there exists a substantial excess capacity in higher education -- most of which is the result of previous public investment that addressed a need that the private institutions were either unable or unwilling to meet.

A well educated populace is unquestionably a key to the nation's ability to compete in a global economy. But that objective can be accomplished at considerably less public expense through public institutions of higher education. May I suggest that the tax deductibility of college tuition and fees be limited to $115 per semester credit hour (or $77 per credit hour in institutions utilizing the quarter system) in which the student is enrolled? This approach would permit tax deductions of up to about $3,450 annually per family member enrolled in a full-time course of study. This would address the problems of middle class families maintaining access to higher education. It would further address the problems of families that have more than one offspring in college and those in which one or both spouses need to seek further education through part-time study.

Yours very truly,

John W. Goodwin

John W. Goodwin
President

CRITICISMS OF AMERICA'S HOPE SCHOLARSHIPS

WOULD ONLY HELP THOSE ALREADY PLANNING TO GO TO COLLEGE

- *Washington Post:* "Several economists said yesterday that money spent on the Clinton educational credit would mostly end up lining the pockets of students planning to further their education anyway." [Source: Washington Post, 6/05/96]

- **Robert Reischaur, former director of the Congressional Budget Office.** Called the Clinton proposal "a certifiably bad idea." Like tax breaks generally, he argues, it will subsidize activities - in this case, college education - that many people would have undertaken without the sweetener." [Source: Wall Street Journal, 6/05/96]

TUITION INFLATION

- *Washington Post:* "One expert criticized the tax break as a disguised government subsidy whose primary effect would be inflated tuition costs." [Source: *Washington Post*, 6/05/96]

- **American Association of State Colleges and Universities.** "The American Association of State Colleges and Universities said it is `very likely over time' that some schools, or the state officials who regulate their prices, would raise tuition to that amount to capitalize on new federal money. [Washington Post, June 8, 1996]"

- **Washington Post.** "Even some higher education officials who said the president's latest proposal could greatly improve access to college, particularly for poor and working-class families, expressed concern that it could lead as well to more tuition increases." [Washington Post, June 8, 1996]

GRADE INFLATION

- **Washington Post.** "The fear, echoed by officials in other departments, is that community college teachers all over the country would feel responsible for students losing out on a college education if they don't give B grades or higher." [Source: *Washington Post*, 6/5/96]

WON'T HELP INCREASE ACCESS OR INCREASE ENROLLMENT

- ***Investor's Business Daily.*** "Clinton's tax plan likely will go the way of the middle-class tax cut, fast forgotten once the election was won. Even if it becomes law, it still might not help. In fact, subsidies and tax breaks may make it easier for colleges to keep jacking up prices." [Source: Investor's Business Daily, 6/12/96]

- **Aldona & Gary Robbins on Why HOPE is Not Necessary:** "Today, 62% of high school graduates go on to college, up from 45% in 1960. The tuition tax credit would boost that only slightly, at considerable cost." (Investor's Business Daily)

- **Aldona & Gary Robbins on Ineffectiveness of HOPE:** "The combined credit-deduction would cut average tuition costs by only 10% a year. And it would shave just 3% off the average student's total costs for a year of post-secondary education. If people exhibit the same price sensitivity with respect to college education as they do for most other goods and services, enrollment would rise by 3%.... On average, every extra dollar spent on higher education from 1973 to 1993 drove up the real cost per student by 40 cents. So we can only expect the tuition tax credit to cut the price of college by 6%, not 10%. That drops the expected rise in enrollment from 3% to 1.8%." (Investor's Business Daily)

LITTLE BANG FOR THE BUCK

- **Aldona & Gary Robbins on High Cost of HOPE:** "[S]tudents who already go to college would also qualify for the tax relief, so the plan provides extremely little bang for the buck. To get three more students to go to college, it would spend $4,500 (3 x $1,500) plus $150,000 for the 100 students who would have gone to college anyway. In other words, the Treasury would be out $33.33 for every $1 that reaches a new student. The president claims that a student with two years of college will earn an extra $250,000 over his or her lifetime. That makes spending the $3,000 on tax credits seem wise. But the aid to 33 students who would have attended in any event makes the true cost $103,000. Even allowing for tax income from the $250,000 in extra earnings, the U.S. government is out $60,000 for each new student....On average, every extra dollar spent on higher education from 1973 to 1993 drove up the real cost per student by 40 cents....[that] boosts the government's cost per new student from $60,000 to $125,000." (Investor's Business Daily)

- ***Barry Farnsworth,* Brookings Institute.** "These sorts of things tend to have very low bang for the buck...we already have an elaborate system in place for offering financial assistance to those who qualify." [Source: *Washington Post*, 6/05/96]

- ***Barry Farnsworth,* Brookings Institute.** "Academic evidence suggests "the real problem isn't money, it's either that students have no interest in more schooling or they underestimate its future benefits," [Source: *Washington Post*, 6/05/96]

LITTLE SHORT TERM GAIN

- Aldona & Gary Robbins on HOPE Only Having Impact in Long-Term: "[T]he gains would not show up in the labor force for a long time. It would take 20 years to increase the share of workers with some post-secondary education by 0.5 percentage point and 35 years to raise the share by one percentage point." (Investor's Business Daily)

STRAIGHT TAX CUTS ARE BETTER

- **Aldona & Gary Robbins on Tax Cuts Instead of HOPE:** "We could raise the value of investment in human capital by lowering the taxes on labor income and by raising the demand for labor services and, therefore, wage rates. A cut in marginal tax rates would do both." (Investor's Business Daily)

GENERAL

- ***Washington Post***: "But Clinton's proposal for new students tax breaks earned low marks from many economists, some of the members of the president's economic team." [Source: *Washington Post*, 6/05/96]

- ***Washington Post:*** "As one aide put it: "There was a sense from some that this was good social policy and good tax policy, perhaps, but that it was not good education policy." [Source: *Washington Post*, 6/05/96]

- **Pete Sepp, National Taxpayers Union.** "On the one hand, he's giving a tax credit to the kids to go to school, and on the other hand, he's taxing the companies who would otherwise be able to hire them....He's simply offsetting one credit for a bunch of tax increases. It won't do much for the economy. It doesn't really address the reasons college tuitions are increasing," [Source: *Washington Post*, 6/05/96]

Robert M. Shireman
05/06/97 09:10:12 PM

Record Type: Record

To: Jake Siewert/OPD/EOP

cc:
Subject: Re: Josh Shenk, U.S. News -- Questions on Education Proposals

Jake: I'm happy to talk Josh through these, or you can give him this info.

Q. Evolution of tax credit -- originally refundable? Dropped?

A: As originally designed, the HOPE Scholarship was a refundable tax credit. Refundability is necessary to ensure that a credit is available to individuals -- generally low income -- who do not have sufficient tax liability to take advantage of a tax credit. But in the case of HOPE, those low-income individuals *should* be eligible for a Pell Grant instead, making refundability of HOPE unnecessary (the proposal has always been designed so that anyone who receives $1500 or more in Pell Grants is not eligible for the tax credit). In analyzing the HOPE proposal during the development of the FY 98 Budget (Nov-Jan), we determined that there was one major group of low-income individuals who are not eligible for Pell Grants and therefore would need refundability in order to benefit from HOPE: independent students (generally over age 24) without dependents other than a spouse. Since grants, provided up-front, are the best way to help low-income students, we decided to spend more than $4 billion over the five-year budget to add this group to the Pell Grant program. This allowed us to drop refundability.

Q. Were Pell grants added later in process?

The expansion of the Pell Grant program to 218,000 additional independent students was part of the decision to drop refundability of the HOPE Scholarship. The increase in the Pell Grant maximum to $3,000 was not related to HOPE, but was an option that was under consideration throughout the budget process.

Questions and Answers

PELL GRANTS

Moving funds from middle-income HOPE recipients?

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

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

Need Determination Rule Change

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

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

Change in Announced Pell Policy

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

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

STUDENT LOANS

Reduced Origination Fees

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

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

Student Loan Interest Rates

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

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

Competition of Direct and Guaranteed Loans

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

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

STUDENT LOANS (Continued)

Bank-Paid Fee Proposal

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

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

HOPE SCHOLARSHIPS AND TUITION TAX DEDUCTION

IRS Role of Information Collection

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

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

Non-Traditional Grading System

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

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

Reporting Burden on Schools

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

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

Grade Inflation

Q: Won't this cause grade inflation?

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

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

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

Tuition Inflation

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

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

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

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

Mismatch between Academic and Tax Years

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

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

Part-Year Attendance

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

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

Distributional Effects

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

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

Expanded Access to Postsecondary Education

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

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

Shift from a Refundable to Non-Refundable Credit

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

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

Impacts of Non-Refundable Credits on Needy Students

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

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

Timing of Tax Credit Benefits

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

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

Students Who Stop and Then Resume Their Education

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

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

Duration of Keeping Student Information

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

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

Eligible Institutions

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

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

Changes in HEA Resulted from New Tax Proposals

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

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

Authority to Write Regulations

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

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

Older or Dislocated Workers

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

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

Courses for Hobbies vs. Courses for Career Development

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

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

Felony Drug Conviction

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

A: Yes.

GPA Requirement

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

A: Yes, but not the credit.

Half-Time Requirement

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

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

Foreign Students Not Eligible for Credit or Deduction

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

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

Prevention of Multiple Claims for Same Student

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

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

Interaction of Credit and Deduction

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

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

Claiming the Credit and/or Deduction

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

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

New Tax Form For The Credit and Deduction

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

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

Temporary vs. Permanent Tax Breaks

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

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

WORK-STUDY

Number of Work-Study Jobs Created in FY1998

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

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

View on Making Work-Study Earnings Non-Taxable

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

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

Requirement for Spending Increased Funding on Community Service Jobs

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

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

HONORS SCHOLARSHIPS

Means Test for Honors Scholarships

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

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

Honors vs. Byrd Scholarships

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

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

Student Loan Forgiveness Proposal

Beneficiaries of The New Propsoal

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

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

REPUBLICAN PROPOSALS

Republican vs. President's Packages

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

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

Permanent vs. Temporary Extension of Section 127

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

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

Bob Dole Education Investment Account

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

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

Deductibility of Student Loan Interest Payment

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

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

Making Qualified State Tuition Programs Tax-Free

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

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

Evaluating the Georgia HOPE Scholarship Program

Impact on Students Attending Public Colleges and Universities

Gary T. Henry and Daniel T. Bugler

April 1997 ***Atlanta, Georgia***

Two years after starting college, recipients of Georgia's HOPE scholarship program are more likely to still be enrolled in college, have higher grade point averages (GPA), and have earned more credit hours than their counterparts. The Council for School Performance, housed in the Applied Research Center in the School of Policy Studies at Georgia State University, conducted the first assessment of the impact of the HOPE scholarship on college performance. After following the 1994-95 HOPE recipients into their third year of college, the results show a positive impact of the program on all three outcomes included in the study.

HOPE provides Georgia high school graduates who earn an overall high school GPA of 3.0 or higher with free tuition, fees, and a book allowance at public colleges and universities. Only HOPE scholars with a high school GPA between 3.0 and 3.16 were selected for this evaluation. This allowed researchers to isolate the effect of the HOPE scholarship on the recipients by selecting a comparison group with similar characteristics. The comparison group was matched by their core high school GPA (includes academic courses only) and institution type[1]. The students in the comparison group did not receive the HOPE scholarship because they did not apply or did not meet all of the HOPE eligibility requirements.

Two questions were analyzed in this evaluation: (1) Does HOPE motivate higher levels of performance and higher rates of persistence among students in college? (2) Does HOPE allow students greater choice in selecting institutions of higher education? Other factors such as institution type, sex, race, and high school preparation were included in this analysis because they also affect college performance. This study compares students with similar backgrounds to isolate the impact of HOPE on college performance. In future studies, we will examine another potential impact of HOPE, its effect on high school performance.

Does HOPE motivate higher performance in college?

After two years of college, HOPE recipients whose high school GPAs were between 3.0 and 3.16, referred to as borderline HOPE scholars, had higher GPAs, more credit hours, and higher persistence rates than a matched sample of non-HOPE recipients. HOPE recipients are motivated to earn a B or better in college to retain the financial reward of free tuition, fees, and books. In some cases, the possibility of earning a scholarship would motivate capable students to simply work harder. Since HOPE eligibility depends on a set and measurable standard (a GPA of 3.0 or higher at the completion of 45, 90, and 135 quarter hours), these students have both a definitive goal and intermediate feedback as they acquire credits each quarter.

[1] Institution type is based on Board of Regents' categories, which include national universities, regional universities, state universities, and two-year colleges. National universities are Georgia State University, Georgia Institute of Technology, and University of Georgia. Regional universities are Georgia Southern and Valdosta State. State universities include Albany State, Clayton State, and others.

Because HOPE is relatively new, the research follows the progress of students through only two years of post-secondary education. Three commonly used measures of college performance have been used: persistence in college after two years of study, number of earned college credits, and college GPA. Persistence is defined as whether the student is enrolled in a Georgia public college or university in the fall quarter of 1996, two years after beginning collegiate studies. College credits consist of quarter credit hours for work contributing to a degree obtained through the summer quarter of 1996. Finally, college GPA is the cumulative grade point average of the student through the same time period.

Highlights of the study's findings are:

- After two years of study, HOPE students have slightly higher college GPAs and significantly more college credits. They are also less likely to drop out of college.
- Students who are better prepared in high school do better in college, earning higher college GPAs and more college credits. They are also less likely to drop out of college.
- Students who are required to take learning support courses have lower college GPAs and fewer college credits, but they are more likely to stay in college.
- The type of institution attended has no effect on college GPAs. However, students in two- and four-year institutions progress more slowly and drop out more frequently than their counterparts in Georgia's national and regional universities.
- Female students have higher college GPAs and more college credits than male students. They are also less likely to drop out of college.

What is the impact of HOPE on college GPA?

Borderline HOPE students have slightly higher college GPAs after two years of college controlling for all other factors. The difference amounts to about one-tenth of a point on a four-point scale. The borderline HOPE students in this study have an average 1.90 GPA in college. Overall, 1994-95 HOPE scholars have an average college GPA of 2.41. Because higher GPAs also lead to more credit hours earned and greater likelihood of staying in school, this HOPE impact yields additional benefits.

Other factors that might influence college performance were included in the analysis. As expected, high school preparation affects college performance. Students with higher SAT verbal scores have higher GPAs, while students who are required by Board of Regents policies to take learning support courses have lower GPAs. Unexpectedly, we find that students with college prep diplomas had lower GPAs than those who did not acquire the college prep seal. Female students have higher GPAs than males, but African-American students have lower GPAs than other students. Those who transfer to other institutions have lower college GPAs, probably because dissatisfaction with the school or with their own performance would likely cause students to transfer. After controlling for these other factors, the type of institution attended has no independent effect on GPA averages except at two year institutions, where GPA averages are about one-tenth of a point higher.

What is the impact of HOPE on college credits earned?

After two complete years of college, the borderline HOPE students have earned about 48 credit hours, compared with 35.3 for their matched non-HOPE students. Overall, 1994-95 HOPE scholars have earned 64 credit hours in two years of study. The difference that is directly attributable to HOPE is a little over one course. or seven credit hours. As noted above, students with HOPE have higher GPAs, which also contributes to earning more credits.

Again, we find other factors also influence the credit hours earned. As expected, high school preparation affects college performance. Those with higher SAT scores earn more credits, and those requiring learning support courses studies earn 4.2 fewer credit hours than those who do not. Also as expected, institutional type affects college performance. Students at state universities and state two-year colleges earn fewer credit hours than students at national institutions, while students at regional universities earn the most. Those who transfer to other institutions earn 11 fewer credit hours than those who do not transfer. African-American students earn 4.1 more credit hours than other students. Female students earn 2.1 more credit hours than their male counterparts.

What is the impact of HOPE on persistence in college?

In the fall of 1996, 60.8% of the borderline HOPE scholars started into their third year of post-secondary education, compared with 51.1% of their comparison group. For all HOPE scholars that entered with this class, 73.7% are still in college in a Georgia public college or university. After controlling for other factors, three percentage points more of the HOPE scholars are likely to be in school than their counterparts.

After controlling for other factors, a one-point increase in college GPA (on a four-point scale) translates into a 18% increase in persistence rate. Students who transfer are also more likely to stay in school, which may offset their lower GPAs and fewer number of earned credits. It is likely that a number of these students have attended two-year institutions and are transferring at this point to continue their baccalaureate studies.

Again high school preparation affects college performance. Students with higher SAT scores are more likely to remain in school. As with transfer students, we can see a positive effect of remedial courses that shows up relative to persistence. Students who are required to take non-credit learning support courses are more likely to be in school after two years than those who do not--controlling for other factors. Learning support courses appear to serve an important role in helping students cope and persevere with their college studies.

Finally, it is important to note that after controlling for receipt of HOPE, high school preparation, and other influences on performance, African Americans and females are more likely to persist in college after two years. African Americans are seven percent more likely than other racial groups to persist in college, and females are five percent more likely than males to persist in college, after controlling for other influences.

What is the impact of HOPE on African-American students?

One of the intended consequences of the HOPE scholarship program is to increase the attainment of a college education by traditionally underrepresented groups. Educational opportunity is at the core of strongly held American values and often posed as the most widely accepted antidote to systematic discrimination among Americans. Some analysts of the HOPE program have speculated that the program would negatively affect traditionally underrepresented groups because these groups are less likely to meet the B or better eligiblity standard for high school GPA.

The results of this research showed that African Americans with HOPE performed at higher levels than those without HOPE. Those with HOPE had higher achievement levels in high school, have higher college GPAs, have earned more college credit hours, and were even more likely to still be in college after two years of study. Table 1 shows the higher levels of achievement among African-American HOPE recipients. Sixty percent (60.3%) of those with HOPE are still in school, versus 46.9% of those without HOPE. Cumulative GPAs are .23 points higher among HOPE recipients. And those with HOPE have earned 16.8 more credit hours, the equivalent of three college classes. HOPE appears to be motivating African Americans to work harder in high school and, by giving these students more time for study, increasing college persistence levels and allowing them to complete college in less time.

Table 1. Impact of HOPE on African-American Students

	African Americans with HOPE Scholarship	African Americans without HOPE Scholarship
High School Preparation		
High school GPA (core)	2.49	2.44
Combined SAT scores	806	732
Performance in College		
Still in school after 2 years	60.3%	46.9%
Cumulative college GPA	1.75	1.52
Total college credits	45.9	29.1

What is the impact of HOPE on institutional choice?

One of the most highly publicized impacts of HOPE is that it has increased the likelihood that Georgia residents will attend Georgia institutions. Colleges from Georgia's border states report enrolling fewer top flight Georgia students. Apparently, the some of the most competitive high school graduates have chosen to remain in the state, thereby increasing first-year student enrollments at national universities in the state (University of Georgia, Georgia Institute of Technology, and Georgia State University) from about 6,200 in the 1991-92 school year to about 6,700 in 1995-96, and increasing the average SAT scores of enrolled students in the same time period from an average combined score of 1039 to 1073.

However, the main focus of this section is on the range of choice facilitated by HOPE for students who attend college within the state. There are two means by which HOPE could expand students' choice of institutions of higher education. The HOPE scholarship may increase access to higher education for those students who had previously been excluded due to financial restrictions. In addition, students who might have attended a local institution to defray room and board expenses may be able to afford an institution further away, where these expenses can now be partially off set. It may be that some of these students will be able to choose a more competitive institution in Georgia and live there rather than at home.

For the samples of students used in this study, HOPE students differ from non-HOPE students in significant ways. A comparison of HOPE and non-HOPE (see Table 2) students revealed that the non-HOPE students are more likely to attend state two-year colleges (42.7%) than HOPE students (23.5%). HOPE students were more likely to attend state universities (37% for HOPE vs. 33% for non-HOPE sample), as well as regional universities (26.7% for HOPE vs. 12% for non-HOPE). Just over 12% for both groups attend national universities. It is important to note that overall 28% of all HOPE recipients attended the state's national universities.

Table 2. Effect of HOPE on Institutional Choice (Borderline HOPE and non-HOPE Samples Matched on Core High School GPA)

	Percent Attending		Combined SAT Scores		Required Learning Support	
Choice of Institution	HOPE	without HOPE	HOPE	without HOPE	HOPE	without HOPE
Enrolled in National University (UGA, GA Tech, GA State)	12.8%	12.3%	1013	1036	31.5%	27.3%
Enrolled in Regional University (GA Southern, Valdosta State)	26.7%	12.0%	879	856	29.6%	43.0%
Enrolled in State University (e.g. Albany State, Clayton State)	37.0%	33.0%	864	809	39.1%	51.9%
Enrolled in State Two-year College (e.g. Dalton Col., Waycross Col.)	23.5%	42.7%	839	749	43.4%	59.6%

SAT averages increase from the least to most competitive institutions, based on the four categories of institutions. HOPE students have higher SAT scores than the non HOPE sample in all types of institutions except the national universities. Fewer HOPE students required learning support courses in all institutional types except the national universities. This analysis suggests that more competitive students were able to move to more competitive state and regional universities. HOPE scholarship recipients seem to exercise greater choice in selecting their institution than other graduates with similar core course GPAs. This is especially true with respect to choosing two-year institutions, which tend to attract students who have a limited range of choice.

How comparable are the groups of HOPE and non-HOPE students in this study?

The first group included 2.080 borderline HOPE students (HOPE GPA 3.0-3.16) who graduated from Georgia high schools in 1994 and enrolled in the freshman class of 1994-95 in University System of Georgia Institutions. The comparison group was created by matching the HOPE sample with a group of 2.057 students from the freshman class who did not receive HOPE. The groups were matched using core course high school GPAs to control for differences in the level of high school preparation in the two groups and institutional choice to control for differences due to the type of institution attended.

Overall, HOPE students are more likely than the matched non-HOPE sample to have a college prep diploma (93.1% for HOPE vs. 79.7% for non-HOPE). The non-HOPE sample has a slightly higher percentage of women and African Americans, and more students requiring learning support (48.5% vs. 36.6% for HOPE students). HOPE students transferred between Georgia colleges at a slightly higher rate (14.5% versus 12.4% for non-HOPE).

A major concern in this matched group design is that differences exist between the groups that are not related to the program. To reduce this possibility, the research design included other factors that may affect college level performance. Three types of variables in our final statistical models were used to control for (1) the effects of institutional choice (variables for type of institution attended and whether or not the student transferred during the two years looked at in this study); (2) level of high school preparation (SAT scores, type of high school degree, and required learning support courses); and (3) demographic variables that have been shown to relate to college performance (race and sex). After controlling for these factors, HOPE remained a significant impact on college GPA, credits, and persistence.

Table 3. Comparisons of Borderline HOPE and Non-HOPE Samples Matched by Core High School GPA and Type of Institution Attended

	With HOPE	Without HOPE
Demographic Characteristics		
Female students	49.8%	54.0%
African-American students	30.4%	32.5%
High School Preparation		
Learning support	36.6%	48.5%
College prep endorsement	93.1%	79.7%
Choice of Institution		
Transferred to new institution	14.5%	12.4%
Performance in College		
Still in school after two years	60.8%	51.1%
Cumulative college GPA	1.90	1.76
Total college credits	48.0	35.3

How do the borderline HOPE students compare to HOPE students overall?

The HOPE students used in this study were drawn from borderline recipients. On average, these students have lower performance levels than do all HOPE students, and they exhibit different rates of attendance at Georgia institutions. For example, over 28% of all HOPE scholars enrolled at national universities within the state while only 12.8% of the borderline students enrolled in national universities. For all variables, the performance of the HOPE scholars overall exceeded the performance of the borderline students (see Table 4).

Table 4. Comparison of Borderline HOPE students with all HOPE

	Borderline HOPE students GPA 3.0-3.16 (N=2,080)	All HOPE students (N=10,301)
Choice of Institution		
Enrolled in national university	12.8%	28.2%
Enrolled in regional university	26.7%	19.9%
Enrolled in state university	37.0%	32.4%
Enrolled in state two-year college	23.5%	19.5%
High School Preparation		
Learning support	36.6%	20.9%
Combined SAT scores	881	976
High school GPA (core)	2.48	3.04
Demographic Characteristics		
Female students	49.8%	60.9%
African-American students	30.4%	21.1%
Performance in College		
Cumulative college GPA after 2 years	1.90	2.41
Total college credits after 2 years	48.0	64.0
Still in college/university after 2 years	60.8%	73.7%

**for HOPE students newly enrolled in Georgia's university system in fall 1994*
***does not include sample of HOPE students used in this study*

In addition to differences in enrollment patterns, we expect the borderline HOPE students to have lower achievement levels. Table 4 shows the differences between the borderline HOPE students sampled for this study and all HOPE students. The HOPE students as a group are more likely than the study group to be female, white, enrolled in national universities, and not required to take learning support. Naturally, the achievement levels of the HOPE students overall are much higher than the study sample. In high school, their SAT scores and GPAs were higher. In college these differences persist. The HOPE students who are excluded from this study have higher college GPAs, have more college credit hours, and are more likely to be in college after two years of study.

Are the HOPE recipients retaining their scholarships?

For students who are on track to graduate in four years and have completed over 90 credit hours, 66% of all HOPE recipients have a GPA high enough to retain their scholarship. Of those who have crossed only the first threshold, that is, those that have acquired 45 but less than 90 credit hours, 25% are maintaining the 3.0 or better GPA. For the borderline HOPE scholars in this study, only 29.8% of those who have earned 90 credit hours and 9.5% of those with 45 to 89 credit hours have the required average. With this group it is interesting to note that despite losing their HOPE scholarship, they are staying in college at higher than expected rates. Even though they must use their own resources or other forms of financial aid, it seems that by gaining a HOPE scholarship, they are more likely to stay in school.

Table 5. Comparing Borderline HOPE Students to HOPE Students Overall: Percent of Students Retaining HOPE (GPA>3.0) at 45, 45-89, and 90+ Credit Hours

Credit Hours Earned	College GPA Greater than or equal to 3.0 (retain Hope)			
	Less than 45 credit hours	45-89 credit hours	More than 89 credit hours	Total
Borderline HOPE (HS GPA 3.0-3.16)	1.3% (N=1133)	9.5% (N=808)	29.5% (N=139)	6.4% (N=2080)
All Students with HOPE	4.3% (N=3897)	25.0% (N=4057)	66.0% (N=2347)	26.5% (N=10301)

Conclusion

After two years of college, HOPE registers an impact on GPA, credits earned, and persistence. It seems to have a positive effect even among the group that is most likely to lose the financial benefits of the program. The study findings are limited due to the two years available for study since the income eligibility for the program has been significantly raised (the household income cap was $100,000 for the 1994-95 HOPE scholars). The study should be continued for three more years to examine the impact of HOPE on college graduation rates. At least as important is the impact of HOPE in motivating higher performance levels in high school. Results from this and other studies show that high school preparation is key to success in college. If HOPE is effective in encouraging higher levels of high school preparation, its impact on college performance could be much larger than estimated in this evaluation. The Council for School Performance is currently evaluating HOPE's impact on high school motivation and performance.

Description of Methods for the Evaluation of the HOPE Scholarship Program

Selection of borderline HOPE recipients: Study population from which this group was selected included 15,089 HOPE Scholars from the Georgia Student Finance Commission's database. This data was then matched with data from the Board of Regents SIRS database. When we limited the study to 1994 graduates, and excluded those who were listed as transfers and those with incomplete data, 10,301 HOPE students remained. HOPE students selected for this study were those with an overall high school GPA of 3.0 to 3.16, yielding 2,080 students. On core courses these students had a GPA of 1.2 to 4.0. The HOPE recipients with lower GPAs were selected because these are the students who are less likely perform sufficiently well to maintain their scholarship. While it is nearly impossible to find good comparisons at the upper ranges of performance, at the lower levels of HOPE eligibility it is possible to select a reasonably matched group.

Selection of matched comparison group: The study population for this group was 39,097 non-HOPE students from the Board of Regents SIRS database who enrolled in college in the summer and fall of 1994. When we eliminated transfer students, graduate students, and non-traditional students, 12,328 students remained. These students were matched with the 2,080 HOPE students by core course GPA and the type of institution attended, yielding 2,057 students (at state universities there were 23 fewer non-HOPE students with a core course GPA of 2.5 to 2.7, so our analysis used weighted averages to account for the difference in sample size). We included institution type attended as a matching criteria because of different rates of institutional enrollments among borderline HOPE students and the group with which they were originally matched.

Analysis: The percentages and averages for the groups presented in the tables and narratives are simple averages of the two groups. Because the matching program had not controlled for all pre-existing differences, a number of variables were included in least squares regression equations to control for observable differences. Those results are presented after the percentages in the narrative. The regression equations are also used to provide estimates of the impact of the other factors on each of the three outcomes that were analyzed. All regression analysis used weighted scores because of the differences in sample sizes between the HOPE and non-HOPE samples.

The mission of the Council for School Performance is to provide impartial and accurate information so that schools and the communities they serve will have appropriate benchmarks for performance and accountability. The Council will be a positive body to promote quality and progress in all schools, helping communities attain local, state and national education goals by sharing innovative educational practices and local successes.

Council for School Performance P. O. Box 4039 Georgia State University Atlanta, GA 30302-4039
Voice: 404.651.3523 Fax: 404.651-3524

Author: Daniel Bernal at WDCB01
Date: 4/11/97 07:54 PM
Priority: Normal
TO: Maureen McLaughlin at WDCA01
TO: Susan Frost
Subject: Kathy Livingston

------------------------------------ Message Contents ------------------------------------

Maureen-

I sent the following to Kathy Livingston via fax:

The following pages are the letters of support we have received for the President's higher ed initiatives. It is important to note that not all organizations endorse all parts of the agenda (i.e. HOPE Scholarship's B minus and drug-free requirements).

On our 28 page document entitled "American Colleges and Universities Support President Clinton's Higher Education Initiatives," there are 303 presidents and 273 trustees listed from the various letters. In total, 395 colleges and universities are represented on the list.

PLEASE NOTE: These figures are approximations. New letters come in every day, and while we try to keep track, some names are missing or repeated. It would be safe to say over 300 presidents, almost 300 trustees, and almost 400 colleges.

Hope this is helpful.

Identical to 3/5/97 H.W+M testimony

DEPARTMENT OF EDUCATION

Statement by
David A. Longanecker
Assistant Secretary for Postsecondary Education
on
Postsecondary Education Tax Proposals
before the
Finance Committee
U.S. Senate

April 16, 1997

Mr. Chairman and Members of the Committee:

I am pleased to submit this testimony to you on the Administration's postsecondary education tax initiatives. Our discussion comes at a time when, more than ever before in our history, education is the fault line between those who will prosper in the new economy and those who will be left behind. We know that most of today's good jobs require more skills and training than a high school diploma affords. Effective and accessible postsecondary education is critically important both for individuals and for the strength of America's economy and democracy. That is why President Clinton made excellence in education our national mission in his State of the Union address, and why he has issued a bold "Call to Action for American Education in the 21st Century."

Our Nation faces great challenges when we strive to ensure access to effective education. In the next decade, increasing numbers of high school graduates will significantly expand demand for postsecondary education. More and more older students will return to college to get the education they need to succeed in the new economy. And a growing population of disadvantaged students will need financial and other kinds of support.

Over the past several decades, the Federal government has firmly established its commitment to ensuring access to effective postsecondary education -- but we have an unfinished agenda. We must do more in order to meet the challenges of the twenty-first century.

We believe that we can best address our commitment to higher education and the challenges we face with a comprehensive, three-pronged agenda made up of our tax initiatives, fiscal year 1998 budget proposals, and our proposals to reauthorize the Higher Education Act (HEA). The higher education proposals from the President's budget, including the higher education tax incentives, were transmitted to Congress on March 20 as "The Hope and Opportunity for Postsecondary Education (Hope) Act of 1997." This legislation was introduced in the House as H.R. 1233 by Congressmen Clay and Rangel, and in the Senate as S. 559 by Senators Daschle and Kennedy. Our budget proposals were described in our budget documents, and we hope to share the HEA proposals with Congress this spring. These three components, which we propose in the context of a balanced Federal budget, form our coordinated higher education strategy for the twenty-first century.

Tax Proposals

Our tax initiatives are designed to assist students and families and to encourage postsecondary education. We believe that these proposals will effectively complement the traditional student financial aid programs. The tax proposals are critical to our goal of establishing a national ethic of learning to high standards and a national expectation that at least two years of education after high school is the norm for which all students should strive. We want to make at least 14 years of education the standard in America.

Our HOPE Scholarship proposal, modeled after a successful program in Georgia, would provide students who are enrolled at least half-time and have no prior drug-related felony convictions with a maximum $1,500 tax credit for tuition and required fees for their first year of postsecondary education. Students would receive another $1,500 for the second year if they stayed drug-free and earned at least a B minus grade point average. This credit would put $18.6 billion in the hands of students and their parents over the next five years. It would help 4.2 million students in 1998 alone, allowing them to pay the equivalent of the full cost of tuition at a typical community college and encouraging them to work hard and achieve excellence.

In 1998, 8.1 million other students would have available to them a $5,000 tax deduction for higher education expenses. The deduction would increase to $10,000 beginning in 1999. Families would save $17.6 billion over the next five years with this deduction. Because the credit and the deduction are designed to help middle-income families pay for college, eligibility would be phased out for families with incomes between $80,000 and $100,000, and for individuals with incomes between $50,000 and $70,000.

We must also do more to encourage families to save for their children's education. That is why we have proposed greater flexibility in using Individual Retirement Accounts so that funds saved in these accounts can be used for postsecondary education expenses, free from early withdrawal tax penalties. In addition, we have proposed an expansion in eligibility for tax-deductible IRA contributions. From 1997 through 1999, eligibility would be phased out for families with incomes between $70,000 to $90,000 and for individuals with incomes between $45,000 and $65,000. Beginning in 2000, the phase-out ranges would match the ranges of the proposed tax credit and deduction. This expansion would double the previous eligible income levels. Families who save through an expanded IRA and then use the savings for higher education could deduct up to $10,000 of their withdrawals a year, making savings for college virtually tax free.

We also suggest several smaller but important tax incentives. We propose extending the tax exclusion for employer-provided education assistance of up to $5,250 for both undergraduate and graduate students. In addition, for 1998-2000, small businesses would be given a new incentive to provide educational assistance to their employees. Employers would receive a ten-percent tax credit for amounts paid under an employer-provided educational assistance program for education provided by a third party. The President's budget also provides tax relief for loan forgiveness so that students whose loans are forgiven by charitable or educational institutions in return for a community or public service commitment, and borrowers whose Direct Loans are forgiven after 25 years in the Income Contingent Repayment plan, are not taxed on the forgiven loan amount.

Our tax initiatives are designed to benefit working families who are struggling to pay for college. Since 1979, the bottom three quintiles (fully sixty percent) have seen only modest growth in their real incomes. Over that same period, college costs increased by 165 percent. It is no wonder that so many middle-income families are worried about their financial circumstances and wondering how they are going to pay for college.

Moreover, evidence tells us that we need to improve access to college for both low- and middle-income students, who have much lower rates of participation in postsecondary education than higher-income students. In 1994, only 45 percent of high school graduates from low-income families and 58 percent from middle-income families went directly to college, compared to 77 percent of students from high-income families.

We also believe that our tax initiatives will improve college completion rates, as grants do. Ensuring initial access to postsecondary education is not enough. We want students to complete their education. Our data show that low- and middle-income students are less likely than higher-income students to earn bachelor's degrees within five years, and one of the main reasons that students drop out of college is lack of money. By putting more resources in the hands of students and families, we can help to increase degree attainment. In addition, many adult workers could be expected to return to school on a part-time basis in order to improve their job skills and credentials.

One often overlooked benefit of using tax incentives to provide educational assistance is their predictability. Students are more likely to pursue and complete postsecondary education when they are aware early in their schooling of predictable and consistent financial aid. Taxpayers who see a specific line item reference to the HOPE tax credit and the deduction on their tax forms year after year will be well aware of these sources of college financing. As a result, we expect to see increases in the participation and completion rates of low- and middle-income families.

Thus, the tax proposals will help working families who are struggling to pay for college. They will improve both access and college completion among middle-income students. They will reward savings and help reduce the need to borrow. And they will encourage adult workers to pursue re-training and life-long learning.

Fiscal Year 1998 Budget Proposals

We know, however, that the tax code may not be the best vehicle for helping the neediest students, who often do not have significant tax liabilities. That is why we have dedicated ourselves to doing all we can to increase the availability of need-based grants, as well. Our fiscal year 1998 budget proposals are important for this reason. I would like to address them briefly since they complement our tax initiatives. The tax and budget proposals together are integral to our commitment to accessible and effective higher education for all students.

Our budget request would make an unprecedented $47 billion in student financial aid available to some eight million students in fiscal year 1998, with a particular focus on the programs that help the neediest students.

The Pell Grant program is one of our highest priorities, and our proposal would provide nearly $7.8 billion in Pell Grants to four million needy students in fiscal year 1998 -- and at least $40 billion over the next five years. We would increase the maximum award to $3,000 in fiscal year 1998 and expand the eligibility of independent students. This kind of federal commitment to need-based grants is critical to our goal of enhancing access, for grant support remains the most effective way to ensure access and to encourage graduation among financially disadvantaged students.

Our budget will also make a number of changes in the Federal Family Education Loan (FFEL) and Direct Loan programs that will help the increasing numbers of students who borrow to finance their education. Our proposal would cut fees from four to two percent for need-based loans, and to three percent for other loans -- thus saving four million low- and middle- income students $2.6 billion over five years. These fee reductions will put more money in the hands of students when they are paying tuition and other college costs. In addition, because lender costs during the in-school, grace, and deferment periods are very low, our budget would reduce the interest rate during those periods by one percentage point, thereby reducing both Federal costs and borrower costs on unsubsidized loans. We would provide these benefits to students while saving taxpayers $3.5 billion over five years by streamlining the guaranty agency system to make it more efficient and cost-effective and by eliminating excess lender profits.

Reauthorization of the Higher Education Act

Our tax and budget proposals are designed to work together to ensure that low- and middle-income students have the opportunity to go to college. They are complemented by the third piece of our higher education strategy, the reauthorization of the Higher Education Act (HEA). Because these three pieces are part of a coordinated effort, I now would like to touch briefly on our strategy for reauthorizing the HEA.

The HEA, which authorizes our postsecondary education programs, is scheduled for reauthorization. We believe that the current HEA provides a strong foundation of support for higher education. Its programs work well and have opened the doors to college for millions of students over the last several decades. That is why we support these programs so strongly in our fiscal year 1998 budget. Our task now is to consider how to make the HEA better and to ensure that it can address the challenges of the twenty-first century.

In developing our postsecondary education strategy, we are consulting the people most affected by our programs. In December, we held a series of public meetings in six cities across the country so that we could listen to and learn from all parts of the higher education community. We have been very encouraged by the high level of support we have heard both for our tax proposals and for the programs of the HEA.

While we are in the process of developing our ideas and do not have complete reauthorization proposals yet, we do know that whatever decisions we make will be designed to benefit students. We also know that our overall proposal will be aggressive, but realistic. We will identify priorities and suggest targeted program reforms rather than a "wish list" of new programs that we cannot fund in the context of a balanced budget.

Let me share with you now the four principles, reinforced by our tax and budget proposals, that guide the development of our reauthorization proposal.

The first principle is access -- opportunity with responsibility. We must continue our efforts to ensure that all students, including disabled and economically disadvantaged students, have access to higher education. At the same time, we must help families and students take responsibility for their own education. Postsecondary institutions, too, have the responsibility to protect the value of their students' access by providing high-quality programs, supporting students, restraining tuition increases, and being fiscally responsible in their management of federal funds. And States must take responsibility for investing in the education of their students in spite of tight state budgets and limited resources. We are considering several changes to the HEA that will enhance access.

For example, we will do our best to guarantee that the HEA provides a strong Pell Grant program for years to come. We will complement our increased funding for the program this year by authorizing future maximum awards that are ambitious but also paid for within our balanced budget proposal. Likewise, strong student loan programs are necessary to ensure access. Our proposal will continue our commitment to both the FFEL and Direct Loan programs. We can best serve students by maintaining a healthy and fair competition between the two programs while promoting efficiencies in the guaranty agency and lender systems.

Our second reauthorization principle is the support of effective education, high standards, and high achievement. Federal programs should continue to promote and enhance outstanding educational opportunities and encourage students to take advantage of those opportunities to the best of their abilities. We should also encourage the effective use of new technologies to meet the changing needs of students by providing access to high quality postsecondary education.

For example, in promoting effective education and high standards, we will propose changes to Title V of the HEA that focus on recruiting the next generation of teachers, preparing them well, and supporting them in their first few critical years. Teaching is a key variable in students' learning; without effective teaching, the highest standards in the world will not ensure that our children are well educated. We must give teachers the education and support that they need to teach to higher standards.

The reauthorized HEA should simplify program delivery and improve management, and that is our third guiding principle for reauthorization. Students and postsecondary institutions should continue to receive outstanding customer service in a predictable and seamless way so that they are assured of aid and can plan ahead. Federal programs should be simplified and burden reduced as much as possible.

We have already begun efforts to simplify program delivery through initiatives such as Easy Access for Students and Institutions (EASI). Students deserve a friendly system when they seek information about financial aid and apply for it. We are examining ways that the HEA could encourage a streamlined delivery system for student financial aid.

And our fourth principle is that we must improve outreach to potential students and ensure strong links among elementary and secondary education, postsecondary education, and employment. As the President emphasized in his "Call to Action," this principle is key to our goal of making college more accessible and more affordable for Americans. Too many young people lose their way between high school and the world of work. We must reach out to potential students as part of our effort to change the way that young people and their families participate in postsecondary education -- so that *everyone* places a high priority on continuing his or her education. With this in mind, we will strengthen the TRIO programs, which provide students with needed information and support so that they will be ready to go to college.

Conclusion

As this testimony indicates, our vision for higher education includes tax incentives to help families pay for college, as well as major increases in funding for important postsecondary education programs and a Higher Education Act that is even stronger than it is today. This Administration is calling for a significant increase in our national commitment to postsecondary education, and I hope you will give strong consideration to our proposals.

Independent Student, No Dependents
First Two Years of Postsecondary Education
Maximum Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	5,000	10,000	15,000	20,000	25,000	30,000	35,000	40,000	60,000
Standard deduction or 18% of AGI	4,250	4,250	4,250	4,250	4,500	5,400	6,300	7,200	10,800
Personal exemption	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Taxable income	0	3,050	8,050	13,050	17,800	21,900	26,000	30,100	46,500
Current law tax before EITC	0	458	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Earned income tax credit	341	3	0	0	0	0	0	0	0
Net current law tax	(341)	455	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Current law Pell grant	1,990	0	0	0	0	0	0	0	0
Proposal									
Tuition deduction	0	3,050	5,000	0	0	0	0	0	0
Credit	0	0	0	1,500	1,500	1,500	1,500	1,500	750
Tax before EITC	0	0	458	458	1,170	1,785	2,478	3,626	8,968
Earned income tax credit	341	3	0	0	0	0	0	0	0
Net tax	(341)	(3)	458	458	1,170	1,785	2,478	3,626	8,968
Tax reduction									
Amount	0	458	751	1,500	1,500	1 500	1,500	1,500	750
Percentage	0	100	62	77	56	46	38	29	8
Pell grant	3,000	3,000	1,550	0	0	0	0	0	0
Tuition amount for maximum aid	3,000	6,050	6,550	1,500	1,500	1,500	1,500	1 500	1,500
Maximum aid	3,000	3,458	2,301	1,500	1,500	1,500	1,500	1,500	750
Maximum increased aid	1,010	3,458	2,301	1,500	1,500	1,500	1,500	1,500	750

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Independent Student, No Dependents, $1,200 of Tuition
First Two Years of Postsecondary Education
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

		5,000	10,000	15,000	20,000	25,000	30,000	35,000	40,000	60,000
AGI (all earnings)		5,000	10,000	15,000	20,000	25,000	30,000	35,000	40,000	60,000
Standard deduction or 18% of AGI		4,250	4,250	4,250	4,250	4,500	5,400	6,300	7,200	10,800
Personal exemption		2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Taxable income		0	3,050	8,050	13,050	17,800	21,900	26,000	30,100	46,500
Current law tax before EITC		0	458	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Earned income tax credit		341	3	0	0	0	0	0	0	0
Net current law tax		(341)	455	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Current law Pell grant		1,990	0	0	0	0	0	0	0	0
Proposal										
	Tuition deduction	0	0	0	0	0	0	0	0	0
	Credit	0	0	0	1,200	1,200	1,200	1,200	1,200	600
	Tax before EITC	0	458	1,208	758	1,470	2,085	2,778	3,926	9,118
	Earned income tax credit	341	3	0	0	0	0	0	0	0
	Net tax	(341)	455	1,208	758	1,470	2,085	2,778	3,926	9,118
	Tax reduction									
	Amount	0	0	0	1,200	1,200	1,200	1,200	1,200	600
	Percentage	0	0	0	61	45	37	30	23	6
	Pell grant	3,000	3,000	1,550	0	0	0	0	0	0
	Tuition amount	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
	Aid	3,000	3,000	1,550	1,200	1,200	1,200	1,200	1,200	600
	Increased aid	1,010	3,000	1,550	1,200	1,200	1,200	1,200	1,200	600

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Independent Student, No Dependents, $4,000 of Tuition
First Two Years of Postsecondary Education
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	5,000	10,000	15,000	20,000	25,000	30,000	35,000	40,000	60,000
Standard deduction or 18% of AGI	4,250	4,250	4,250	4,250	4,500	5,400	6,300	7,200	10,800
Personal exemption	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Taxable income	0	3,050	8,050	13,050	17,800	21,900	26,000	30,100	46,500
Current law tax before EITC	0	458	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Earned income tax credit	341	3	0	0	0	0	0	0	0
Net current law tax	(341)	455	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Current law Pell grant	1,990	0	0	0	0	0	0	0	0
Proposal									
Tuition deduction	0	1,000	2,450	0	0	0	0	0	0
Credit	0	0	0	1,500	1,500	1,500	1,500	1,500	750
Tax before EITC	0	308	840	458	1,170	1,785	2,478	3,626	8,968
Earned income tax credi	341	3	0	0	0	0	0	0	0
Net tax	(341)	305	840	458	1,170	1,785	2,478	3,626	8,968
Tax reduction									
Amount	0	150	368	1,500	1,500	1,500	1,500	1,500	750
Percentage	0	33	30	77	56	46	38	29	8
Pell grant	3,000	3,000	1,550	0	0	0	0	0	0
Tuition amount	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Aid	3,000	3,150	1,918	1,500	1,500	1,500	1,500	1,500	750
Increased aid	1,010	3,150	1,918	1,500	1,500	1,500	1,500	1,500	750

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Independent Student, No Dependents, $6,500 of Tuition
First Two Years of Postsecondary Education
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	5,000	10,000	15,000	20,000	25,000	30,000	35,000	40,000	60,000
Standard deduction or 18% of AGI	4,250	4,250	4,250	4,250	4,500	5,400	6,300	7,200	10,800
Personal exemption	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Taxable income	0	3,050	8,050	13,050	17,800	21,900	26,000	30,100	46,500
Current law tax before EITC	0	458	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Earned income tax credit	341	3	0	0	0	0	0	0	0
Net currant law tax	(341)	455	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Current law Pell grant	1,990	0	0	0	0	0	0	0	0
Proposal									
Tuition deduction	0	3,050	4,950	0	0	0	0	0	0
Credit	0	0	0	1,500	1,500	1,500	1,500	1,500	750
Tax before EITC	0	0	465	458	1,170	1,785	2,478	3,626	8,968
Earned income tax credi	341	3	0	0	0	0	0	0	0
Net tax	(341)	(3)	465	458	1,170	1,785	2,478	3,626	8,968
Tax reduction									
Amount	0	458	743	1 500	1,500	1,500	1,500	1,500	750
Percentage	0	100	62	77	56	46	38	29	8
Pell grant	3,000	3,000	1,550	0	0	0	0	0	0
Tuition amount	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6.500	6,500
Aid	1,010	3,458	2,293	1,500	1,500	1,500	1,500	1 500	750
Increased aid	3,000	3,458	2,293	1,500	1,500	1,500	1,500	1,500	750

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Independent Student, No Dependents, $13,500 of Tuition
First Two Years of Postsecondary Education
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	5,000	10,000	15,000	20,000	25,000	30,000	35,000	40,000	60,000
Standard deduction or 18% of AGI	4,250	4,250	4,250	4,250	4,500	5,400	6,300	7,200	10,800
Personal exemption	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Taxable income	0	3,050	8,050	13,050	17,800	21,900	26,000	30,100	46,500
Current law tax before EITC	0	458	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Earned income tax credit	341	3	0	0	0	0	0	0	0
Net current law tax	(341)	455	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Current law Pell grant	1,990	0	0	0	0	0	0	0	0
Proposal									
Tuition deduction	0	3,050	5,000	0	0	0	0	0	0
Credit	0	0	0	1,500	1,500	1,500	1,500	1,500	750
Tax before EITC	0	0	458	458	1,170	1,785	2,478	3,626	8,968
Earned income tax credi	341	3	0	0	0	0	0	0	0
Net tax	(341)	(3)	458	458	1,170	1,785	2,478	3,626	8,968
Tax reduction									
Amount	0	458	751	1,500	1,500	1,500	1,500	1,500	750
Percentage	0	100	62	77	56	46	38	29	8
Pell grant	3,000	3,000	1,550	0	0	0	0	0	0
Tuition amount	13,500	13,500	13,500	13.500	13,500	13,500	13,500	13,500	13,500
Aid	3,000	3.458	2,301	1 500	1,500	1,500	1,500	1,500	750
Increased aid	1,010	3.458	2,301	1,500	1,500	1.500	1,500	1,500	750

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Independent Student, No Dependents
Other Years of Postsecondary Education
Maximum Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	5,000	10,000	15,000	20,000	25,000	30,000	35,000	40,000	60,000
Standard deduction or 18% of AGI	4,250	4,250	4,250	4,250	4,500	5,400	6,300	7,200	10,800
Personal exemption	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Taxable income	0	3,050	8,050	13,050	17,800	21,900	26,000	30,100	46,500
Current law tax before EITC	0	458	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Earned income tax credit	341	3	0	0	0	0	0	0	0
Net current law tax	(341)	455	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Current law Pell grant	1,990	0	0	0	0	0	0	0	0
Proposal									
Tuition deduction	0	3,050	5,000	5,000	5,000	5,000	5,000	5,000	2,500
Credit	0	0	0	0	0	0	0	0	0
Tax before EITC	0	0	458	1,208	1,920	2,535	3,150	3,765	9,018
Earned income tax credit	341	3	0	0	0	0	0	0	0
Net tax	(341)	(3)	458	1,208	1,920	2,535	3,150	3,765	9,018
Tax reduction									
Amount	0	458	750	750	750	750	828	1,361	700
Percentage	0	100	62	38	28	23	21	27	7
Pell grant	3,000	3,000	1,550	0	0	0	0	0	0
Tuition amount for maximum aid	3,000	6,050	6,550	5,000	5,000	5,000	5,000	5,000	5,000
Maximum aid	3,000	3,458	2,300	750	750	750	828	1,361	700
Maximum increased aid	1,010	3,458	2,300	750	750	750	828	1,361	700

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Independent Student, No Dependents, $1,200 of Tuition
Other Years of Postsecondary Education
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	5,000	10,000	15,000	20,000	25,000	30,000	35,000	40,000	60,000
Standard deduction or 18% of AGI	4,250	4,250	4,250	4,250	4,500	5,400	6,300	7,200	10,800
Personal exemption	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Taxable income	0	3,050	8,050	13,050	17,800	21,900	26,000	30,100	46,500
Current law tax before EITC	0	458	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Earned income tax credit	341	3	0	0	0	0	0	0	0
Net current law tax	(341)	455	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Current law Pell grant	1,990	0	0	0	0	0	0	0	0
Proposal									
Tuition deduction	0	0	0	1,200	1,200	1,200	1,200	1,200	600
Credit	0	0	0	0	0	0	0	0	0
Tax before EITC	0	458	1,208	1,778	2,490	3,105	3,720	4,790	9,550
Earned income tax credi	341	3	0	0	0	0	0	0	0
Net tax	(341)	455	1,208	1,778	2,490	3,105	3,720	4,790	9,550
Tax reduction									
Amount	0	0	0	180	180	180	258	336	168
Percentage	0	0	0	9	7	5	6	7	2
Pell grant	3,000	3,000	1,550	0	0	0	0	0	0
Tuition amount	1,200	1,200	1,200	1.200	1,200	1,200	1,200	1,200	1,200
Aid	3,000	3,000	1,550	180	160	180	258	336	168
Increased aid	1,010	3,000	1,550	180	180	180	258	336	168

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Independent Student, No Dependents, $4,000 of Tuition
Other Years of Postsecondary Education
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)		5,000	10,000	15,000	20,000	25,000	30,000	35,000	40,000	60,000
Standard deduction or 18% of AGI		4,250	4,250	4,250	4,250	4,500	5,400	6,300	7,200	10,800
Personal exemption		2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Taxable income		0	3,050	8,050	13,050	17,800	21,900	26,000	30,100	46,500
Current law tax before EITC		0	458	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Earned income tax credit		341	3	0	0	0	0	0	0	0
Net current law tax		(341)	455	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Current law Pell grant		1,990	0	0	0	0	0	0	0	0
Proposal										
	Tuition deduction	0	1,000	2,450	4,000	4,000	4,000	4,000	4,000	2,000
	Credit	0	0	0	0	0	0	0	0	0
	Tax before EITC	0	308	840	1,358	2,070	2,685	3,300	4,006	9,158
	Earned income tax credi	341	3	0	0	0	0	0	0	0
	Net tax	(341)	305	840	1,358	2,070	2,685	3,300	4,006	9,158
	Tax reduction									
	Amount	0	150	368	600	600	600	678	1,120	560
	Percentage	0	33	30	31	22	18	17	22	6
	Pell grant	3,000	3,000	1,550	0	0	0	0	0	0
	Tuition amount	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
	Aid	3,000	3,150	1,918	600	600	600	678	1,120	560
	increased aid	3,000	3,150	1,918	600	600	600	678	1,120	560

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Independent Student, No Dependents, $6,500 of Tuition
Other Years of Postsecondary Education
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	5,000	10,000	15,000	20,000	25,000	30,000	35,000	40,000	60,000
Standard deduction or 18% of AGI	4,250	4,250	4,250	4,250	4,500	5,400	6,300	7,200	10,800
Personal exemption	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Taxable income	0	3,050	8,050	13,050	17,800	21,900	26,000	30,100	46,500
Current law tax before EITC	0	458	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Earned income tax credit	341	3	0	0	0	0	0	0	0
Net current law tax	(341)	455	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Current law Pell grant	1,990	0	0	0	0	0	0	0	0
Proposal									
Tuition deduction	0	3,050	4,950	5,000	5,000	5,000	5,000	5,000	2,500
Credit	0	0	0	0	0	0	0	0	0
Tax before EITC	0	0	465	1,208	1,920	2,535	3,150	3,765	9,018
Earned income tax credi	341	3	0	0	0	0	0	0	0
Net tax	(341)	(3)	465	1,208	1,920	2,535	3,150	3,765	9,018
Tax reduction									
Amount	0	458	743	750	750	750	828	1,361	700
Percentage	0	100	61	38	28	23	21	27	7
Pell grant	3,000	3,000	1,550	0	0	0	0	0	0
Tuition amount	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500
Aid	3,000	3,458	2,293	750	750	750	828	1,361	700
Increased aid	1,010	3,458	2,293	750	750	750	828	1,361	700

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Independent Student, No Dependents, $13,500 of Tuition
Other Years of Postsecondary Educatior
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	5,000	10,000	15,000	20,000	25,000	30,000	35,000	40,000	60,000
Standard deduction or 18% of AGI	4,250	4,250	4,250	4,250	4,500	5,400	6,300	7,200	10,800
Personal exemption	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Taxable income	0	3,050	8,050	13,050	17,800	21,900	26,000	30,100	46,500
Current law tax before EITC	0	458	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Earned income tax credit	341	3	0	0	0	0	0	0	0
Net current law tax	(341)	455	1,208	1,958	2,670	3,285	3,978	5,126	9,718
Current law Pell grant	1,990	0	0	0	0	0	0	0	0
Proposal									
Tuition deduction	0	3,050	5,000	5,000	5,000	5,000	5,000	5,000	2,500
Credit	0	0	0	0	0	0	0	0	0
Tax before EITC	0	0	458	1,208	1,920	2,535	3,150	3,765	9,018
Earned income tax cred	341	3	0	0	0	0	0	0	0
Net tax	(341)	(3)	458	1,208	1,920	2,535	3,150	3,765	9,018
Tax reduction									
Amount	0	458	750	750	750	750	828	1,361	700
Percentage	0	100	62	38	28	23	21	27	7
Pell grant	3,000	3,000	1,550	0	0	0	0	0	0
Tuition amount	13,500	13,500	13,500	13,500	13,500	13,500	13,500	13,500	13,500
Aid	3,000	3,458	2,300	750	750	750	828	1,361	700
Increased aid	1,010	3,458	2,300	750	750	750	828	1,361	700

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Married Couple, One Dependent Student
First Two Years of Postsecondary Education
Maximum Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	15,000	20,000	25,000	30,000	35,000	40,000	50,000	60,000	70,000
Standard deduction or 18% of AGI	7,100	7,100	7,100	7,100	7,100	7,200	9,000	10,800	12,600
Personal exemption	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100
Taxable income	0	4,800	9,800	14,800	19,800	24,700	32,900	41,100	49,300
Current law tax before EITC	0	720	1,470	2,220	2,970	3,705	4,935	6,165	8,292
Earned income tax credit	1,839	1,039	241	0	0	0	0	0	0
Net current law tax	(1,839)	(319)	1,229	2,220	2,970	3,705	4,935	6,165	8,292
Current law Pell grant	2,700	2,700	2,220	1,550	750	0	0	0	0
Proposal									
Tuition deduction	0	4,800	5,000	5,000	5,000	0	0	0	0
Credit	0	0	0	0	0	1,100	1,500	1,500	1,500
Tax before EITC	0	0	720	1,470	2,220	2,605	3,435	4,665	6,792
Earned income tax credit	1,839	1,039	241	0	0	0	0	0	0
Net tax	(1,839)	(1,039)	479	1,470	2,220	2,605	3,435	4,665	6,792
Tax reduction									
Amount	0	720	750	750	750	1,100	1,500	1,500	1,500
Percentage	0	na	61	34	25	30	30	24	18
Pell grant	3,000	3,000	2,520	1,850	1,050	400	0	0	0
Tuition amount for maximum aid	3,000	7,800	7,520	6,850	6,050	1,500	1,500	1,500	1,500
Maximum aid	3,000	3,720	3,270	2,600	1,800	1,500	1,500	1,500	1,500
Maximum increased aid	300	1,020	1,050	1,050	1,050	1,500	1,500	1,500	1,500

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Married Couple, One Dependent Student, $1,200 of Tuition
First Two Years of Postsecondary Education
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	15,000	20,000	25,000	30,000	35,000	40,000	50,000	60,000	70,000
Standard deduction or 18% of AGI	7,100	7,100	7,100	7,100	7,100	7,200	9,000	10,800	12,600
Personal exemption	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100
Taxable income	0	4,800	9,800	14,800	19,800	24,700	32,900	41,100	49,300
Current law tax before EITC	0	720	1,470	2,220	2,970	3,705	4,935	6,165	8,292
Earned income tax credit	1,839	1,039	241	0	0	0	0	0	0
Net current law tax	(1,839)	(319)	1,229	2,220	2,970	3,705	4,935	6,165	8,292
Current law Pell grant	2,700	2,700	2,220	1,550	750	0	0	0	0
Proposal									
Tuition deduction	0	0	0	0	0	0	0	0	0
Credit	0	0	0	0	150	800	1,200	1,200	1,200
Tax before EITC	0	720	1,470	2,220	2,820	2,905	3,735	4,965	7,092
Earned income tax credi	1,839	1,039	241	0	0	0	0	0	0
Net tax	(1,839)	(319)	1,229	2,220	2,820	2,905	3,735	4,965	7,092
Tax reduction									
Amount	0	0	0	0	150	800	1,200	1,200	1,200
Percentage	0	0	0	0	5	22	24	19	14
Pell grant	3,000	3,000	2,520	1,850	1,050	400	0	0	0
Tuition amount	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Aid	3,000	3,000	2,520	1,850	1,200	1,200	1,200	1,200	1,200
Increased aid	300	300	300	300	450	1,200	1,200	1,200	1,200

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Married Couple, One Dependent Student, $4,000 of Tuition
First Two Years of Postsecondary Education
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	15,000	20,000	25,000	30,000	35,000	40,000	50,000	60,000	70,000
Standard deduction or 18% of AGI	7,100	7,100	7,100	7,100	7,100	7,200	9,000	10,800	12,600
Personal exemption	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100
Taxable income	0	4,800	9,800	14,800	19,800	24,700	32,900	41,100	49,300
Current law tax before EITC	0	720	1,470	2,220	2,970	3,705	4,935	6,165	8,292
Earned income tax credit	1,839	1,039	241	0	0	0	0	0	0
Net current law tax	(1,839)	(319)	1,229	2,220	2,970	3,705	4,935	6,165	8,292
Current law Pell grant	2,700	2 700	2,220	1,550	750	0	0	0	0
Proposal									
Tuition deduction	0	1.000	1,480	2,150	0	0	0	0	0
Credit	0	0	0	0	450	1,100	1,500	1 500	1,500
Tax before EITC	0	570	1,248	1,898	2,520	2,605	3,435	4 665	6,792
Earned income tax credi	1,839	1,039	241	0	0	0	0	0	0
Net tax	(1,839)	(469)	1,007	1,898	2,520	2,605	3,435	4.665	6,792
Tax reduction									
Amount	0	150	222	322	450	1 100	1,500	1,500	1,500
Percentage	0	na	18	15	15	30	30	24	18
Pell grant	3,000	3,000	2,520	1 850	1,050	400	0	0	0
Tuition amount	4,000	4,000	4,000	4 000	4,000	4.000	4,000	4,000	4,000
Aid	3,000	3,150	2,742	2 173	1,500	1,500	1,500	1,500	1,500
Increased aid	300	450	522	623	750	1,500	1,500	1,500	1,500

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Married Couple, One Dependent Student, $6,500 of Tuition
First Two Years of Postsecondary Education
Proposed Tuition Aid, by income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	15,000	20,000	25,000	30,000	35,000	40,000	50,000	60,000	70,000
Standard deduction or 18% of AGI	7,100	7,100	7,100	7,100	7,100	7,200	9,000	10,800	12,600
Personal exemption	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100
Taxable income	0	4,800	9,800	14,800	19,800	24,700	32,900	41,100	49,300
Current law tax before EITC	0	720	1,470	2,220	2,970	3,705	4,935	6,165	8,292
Earned income tax credit	1,839	1,039	241	0	0	0	0	0	0
Net current law tax	(1,839)	(319)	1,229	2,220	2,970	3,705	4,935	6,165	8,292
Current law Pell grant	2,700	2,700	2,220	1,550	750	0	0	0	0
Proposal									
Tuition deduction	0	3,500	3,980	4,650	5,000	0	0	0	0
Credit	0	0	0	0	0	1,100	1,500	1,500	1,500
Tax before EITC	0	195	873	1,523	2,220	2,605	3,435	4,665	6,792
Earned income tax credi	1,839	1,039	241	0	0	0	0	0	0
Net tax	(1,839)	(844)	632	1,523	2,220	2,605	3,435	4,665	6,792
Tax reduction									
Amount	0	525	597	698	750	1,100	1,500	1,500	1,500
Percentage	0	na	49	31	25	30	30	24	18
Pell grant	3,000	3,000	2,520	1,850	1,050	400	0	0	0
Tuition amount	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500
Aid	3,000	3,525	3,117	2,548	1,800	1,500	1,500	1,500	1,500
Increased aid	300	825	897	998	1,050	1,500	1,500	1,500	1,500

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Married Couple, One Dependent Student, $13,500 of Tuition
First Two Years of Postsecondary Education
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	15,000	20,000	25,000	30,000	35,000	40,000	50,000	60,000	70,000
Standard deduction or 18% of AGI	7,100	7,100	7,100	7,100	7,100	7,200	9,000	10,800	12,600
Personal exemption	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100
Taxable income	0	4,800	9,800	14,800	19,800	24,700	32,900	41,100	49,300
Current law tax before EITC	0	720	1,470	2,220	2,970	3,705	4,935	6,165	8,292
Earned income tax credit	1,839	1,039	241	0	0	0	0	0	0
Net current law tax	(1,839)	(319)	1,229	2,220	2,970	3,705	4,935	6,165	8,292
Current law Pell grant	2,700	2,700	2,220	1,550	750	0	0	0	0
Proposal									
Tuition deduction	0	4,800	5,000	5,000	5,000	0	0	0	0
Credit	0	0	0	0	0	1,100	1,500	1,500	1,500
Tax before EITC	0	0	720	1,470	2,220	2,605	3,435	4,665	6,792
Earned income tax credi	1,839	1,039	241	0	0	0	0	0	0
Net tax	(1,839)	(1,039)	479	1,470	2,220	2,605	3,435	4,665	6,792
Tax reduction									
Amount	0	720	750	750	750	1,100	1,500	1,500	1,500
Percentage	0	na	61	34	25	30	30	24	18
Pell grant	3,000	3,000	2,520	1,850	1,050	400	0	0	0
Tuition amount	13,500	13,500	13,500	13,500	13,500	13,500	13,500	13,500	13,500
Aid	3,000	3,720	3,270	2,600	1,800	1,500	1,500	1,500	1,500
Increased aid	300	1,020	1,050	1,050	1,050	1,500	1,500	1,500	1,500

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Married Couple, One Dependent Student
Other Years of Postsecondary Education
Maximum Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	15,000	20,000	25,000	30,000	35,000	40,000	50,000	60,000	70,000
Standard deduction or 18% of AGI	7,100	7,100	7,100	7,100	7,100	7,200	9,000	10,800	12,600
Personal exemption	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100
Taxable income	0	4,800	9,800	14,800	19,800	24,700	32,900	41,100	49,300
Current law tax before EITC	0	720	1,470	2,220	2,970	3,705	4,935	6,165	8,292
Earned income tax credit	1,839	1,039	241	0	0	0	0	0	0
Net current law tax	(1,839)	(319)	1,229	2,220	2,970	3,705	4,935	6,165	8,292
Current law Pell grant	2,700	2,700	2,220	1,550	750	0	0	0	0
Proposal									
Tuition deduction	0	4,800	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Credit	0	0	0	0	0	0	0	0	0
Tax before EITC	0	0	720	1,470	2,220	2,955	4,135	5,415	6,892
Earned income tax credit	1,839	1,039	241	0	0	0	0	0	0
Net tax	(1,839)	(1,039)	479	1,470	2,220	2,955	4,135	5,415	6,892
Tax reduction									
Amount	0	720	750	750	750	750	750	750	1,400
Percentage	0	na	61	34	25	20	15	12	17
Pell grant	3,000	3,000	2,520	1,850	1,050	400	0	0	0
Tuition amount for maximum aid	3,000	7,800	7,520	6,850	6,050	5,400	5,000	5,000	5,000
Maximum aid	3,000	3,720	3,270	2,600	1,800	1,150	750	750	1,400
Maximum increased aid	300	1,020	1,050	1,050	1,050	1,150	750	750	1,400

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Married Couple, One Dependent Student, $1,200 of Tuition
Other Years of Postsecondary Education
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	15,000	20,000	25,000	30,000	35,000	40,000	50,000	60,000	70,000
Standard deduction or 18% of AGI	7,100	7,100	7,100	7,100	7,100	7,200	9,000	10,800	12,600
Personal exemption	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100
Taxable income	0	4,800	9,800	14,800	19,800	24,700	32,900	41,100	49,300
Current law tax before EITC	0	720	1,470	2,220	2,970	3,705	4,935	6,165	8,292
Earned income tax credit	1,839	1,039	241	0	0	0	0	0	0
Net current law tax	(1,839)	(319)	1,229	2,220	2,970	3,705	4,935	6,165	8,292
Current law Pell grant	2,700	2,700	2,220	1,550	750	0	0	0	0
Proposal									
Tuition deduction	0	0	0	0	0	800	1,200	1,200	1,200
Credit	0	0	0	0	450	0	0	0	0
Tax before EITC	0	720	1,470	2,220	2,520	3,585	4,755	5,985	7,956
Earned income tax credi	1,839	1,039	241	0	0	0	0	0	0
Net tax	(1,839)	(319)	1,229	2,220	2,520	3,585	4,755	5,985	7,956
Tax reduction									
Amount	0	0	0	0	450	120	180	180	336
Percentage	0	na	0	0	15	3	4	3	4
Pell grant	3,000	3,000	2,520	1,850	1,050	400	0	0	0
Tuition amount	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Aid	3,000	3,000	2,520	1,850	1,500	520	180	180	336
Increased aid	300	300	300	300	750	520	180	180	336

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Married Couple, One Dependent Student, $4,000 of Tuition
Other Years of Postsecondary Education
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	15,000	20,000	25,000	30,000	35,000	40,000	50,000	60,000	70,000
Standard deduction or 18% of AGI	7,100	7,100	7,100	7,100	7,100	7,200	9,000	10,800	12,600
Personal exemption	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100
Taxable income	0	4,800	9,800	14,800	19,800	24,700	32,900	41,100	49,300
Current law tax before EITC	0	720	1,470	2,220	2,970	3,705	4,935	6,165	8,292
Earned income tax credit	1,839	1,039	241	0	0	0	0	0	0
Net current law tax	(1,839)	(319)	1,229	2,220	2,970	3,705	4,935	6,165	8,292
Current law Pell grant	2,700	2,700	2,220	1,550	750	0	0	0	0
Proposal									
Tuition deduction	0	1,000	1,480	2,150	2,150	0	4,000	4,000	4,000
Credit	0	0	0	0	450	1,100	0	0	0
Tax before EITC	0	570	1,248	1,898	2,520	2,605	4,335	5,565	7,172
Earned income tax credi	1,839	1,039	241	0	0	0	0	0	0
Net tax	(1,839)	(469)	1,007	1,898	2,520	2,605	4,335	5,565	7,172
Tax reduction									
Amount	0	150	222	322	450	1,100	600	600	1,120
Percentage	0	na	18	15	15	30	12	10	14
Pell grant	3,000	3,000	2,520	1,850	1,050	400	0	0	0
Tuition amount	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Aid	3,000	3,150	2,742	2,173	1,500	1,500	600	600	1,120
Increased aid	300	450	522	623	750	1,500	600	600	1,120

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Married Couple, One Dependent Student, $6,500 of Tuition
Other Years of Postsecondary Education
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	15,000	20,000	25,000	30,000	35,000	40,000	50,000	60,000	70,000
Standard deduction or 18% of AGI	7,100	7,100	7,100	7,100	7,100	7,200	9,000	10,800	12,600
Personal exemption	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100
Taxable income	0	4,800	9,800	14,800	19,800	24,700	32,900	41,100	49,300
Current law tax before EITC	0	720	1,470	2,220	2,970	3,705	4,935	6,165	8,292
Earned income tax credit	1,839	1,039	241	0	0	0	0	0	0
Net current law tax	(1,839)	(319)	1,229	2,220	2,970	3,705	4,935	6,165	8,292
Current law Pell grant	2,700	2,700	2,220	1,550	750	0	0	0	0
Proposal									
Tuition deduction	0	3 500	3,980	4,650	3,950	0	5,000	5,000	5,000
Credit	0	0	0	0	0	1,100	0	0	0
Tax before EITC	0	195	873	1,523	2,378	2,605	4,185	5,415	6,892
Earned income tax credi	1,839	1,039	241	0	0	0	0	0	0
Net tax	(1,839)	(844)	632	1 523	2,378	2,605	4,185	5 415	6,892
Tax reduction									
Amount	0	525	597	698	593	1 100	750	750	1,400
Percentage	0	na	49	31	20	30	15	12	17
Pell grant	3,000	3,000	2,520	1,850	1,050	400	0	0	0
Tuition amount	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500
Aid	3,000	3,525	3,117	2,548	2,600	1,500	750	750	1,400
Increased aid	300	825	897	998	1,850	1,500	750	750	1,400

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Married Couple, One Dependent Student, $13,500 of Tuition
Other Years of Postsecondary Education
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	15,000	20,000	25,000	30,000	35,000	40,000	50,000	60,000	70,000
Standard deduction or 18% of AGI	7,100	7,100	7,100	7,100	7,100	7,200	9,000	10,800	12,600
Personal exemption	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100
Taxable income	0	4,800	9,800	14,800	19,800	24,700	32,900	41,100	49,300
Current law tax before EITC	0	720	1,470	2,220	2,970	3,705	4,935	6,165	8,292
Earned income tax credit	1,839	1,039	241	0	0	0	0	0	0
Net current law tax	(1,839)	(319)	1,229	2,220	2,970	3,705	4,935	6,165	8,292
Current law Pell grant	2,700	2,700	2,220	1,550	750	0	0	0	0
Proposal									
Tuition deduction	0	4,800	5,000	5,000	5,000	0	5,000	5,000	5,000
Credit	0	0	0	0	0	1,100	0	0	0
Tax before EITC	0	0	720	1,470	2,220	2,605	4,135	5,415	6,892
Earned income tax credi	1,839	1,039	241	0	0	0	0	0	0
Net tax	(1,839)	(1,039)	479	1,470	2,220	2,605	4,135	5,415	6,892
Tax reduction									
Amount	0	720	750	750	750	1,100	750	750	1,400
Percentage	0	na	61	34	25	30	15	12	17
Pell grant	3,000	3,000	2,520	1,850	1,050	400	0	0	0
Tuition amount	13,500	13,500	13,500	13,500	13,500	13,500	13,500	13,500	13,500
Aid	3,000	3,720	2,600	2,600	2,600	1,500	750	750	1,400
ncreased aid	300	1,020	380	1,050	1,850	1,500	750	750	1,400

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Married Couple, One Dependent Freshman, One Dependent Senior
Maximum Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	15,000	20,000	25,000	30,000	35,000	40,000	50,000	60,000	70,000
Standard deduction or 18% of AGI	7,100	7,100	7,100	7,100	7,100	7,200	9,000	10,800	12,600
Personal exemption	10,800	10,800	10,800	10,800	10,800	10,800	10,800	10,800	10,800
Taxable income	0	2,100	7,100	12,100	17,100	22,000	30,200	38,400	46,600
Current law tax before EITC	0	315	1,065	1,815	2,565	3,300	4,530	5,760	7,536
Earned income tax credit	3,185	2,132	1,079	26	0	0	0	0	0
Net current law tax	(3,185)	(1,817)	(14)	1,789	2,565	3,300	4,530	5,760	7,536
Current law Pell grant	5,400	5,400	4,980	4,500	3,680	2,900	800	0	0
Proposal									
Tuition deduction	0	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Credit	0	0	0	0	0	0	810	1,500	1,500
Tax before EITC	0	0	315	1,065	1,815	2,550	2,970	3,510	4,740
Earned income tax credit	3,185	2,132	1,079	26	0	0	0	0	0
Net tax	(3,185)	(2,132)	(764)	1,039	1,815	2,550	2,970	3,510	4,740
Tax reduction									
Amount	0	315	750	750	750	750	1,560	2,250	2,796
Percentage	0	na	na	42	29	23	34	39	37
Pell grant	6,000	6,000	5,560	5,100	4,280	3,500	1,380	0	0
Tuition amount for maximum aid	6,000	11,000	10,580	10,100	9,280	8,500	7,190	6,500	6,500
Maximum aid	6,000	6,315	6,330	5,850	5,030	4,250	2,940	2,250	2,796
Maximum increased aid	600	915	1,350	1,350	1,350	1,350	2,140	2,250	2,796

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Note: Each student receives half of the Pell grant amount. Credits and deductions are calculated accordingly.

Married Couple, One Dependent Freshman, One Deperdent Senior, $1,200 of Tuition per Student
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AG (all earnings)	15,000	20,000	25,000	30,000	35,000	40,000	50,000	60,000	70,000
Standard deduction or 18% of AGI	7,100	7,100	7,100	7,100	7,100	7,200	9,000	10,800	12,600
Personal exemption	10,800	10,800	10,800	10,800	10,800	10,800	10,800	10,800	10,800
Taxable income	0	2,100	7,100	12,100	17,100	22,000	30,200	38,400	46,600
Current law tax before EITC	0	315	1,065	1,815	2,565	3,300	4,530	5,760	7,536
Earned income tax credit	3,185	2,132	1,079	26	0	0	0	0	0
Net current law tax	(3,185)	(1,817)	(14)	1,789	2,565	3,300	4,530	5,760	7,536
Current law Pell grant	5,400	5,400	4,980	4,500	3,680	2,900	800	0	0
Proposal									
Tuition deduction	0	0	0	0	0	0	510	900	900
Credit	0	0	0	0	0	0	510	1,500	1,500
Tax before EITC	0	315	1,065	1,815	2,565	3,300	3,944	4,125	5,784
Earned income tax credi	3,185	2,132	1,079	26	0	0	0	0	0
Net tax	(3,185)	(1,817)	(14)	1,789	2,565	3,300	3,944	4,125	5,784
Tax reduction									
Amount	0	0	0	0	0	0	587	1,635	1,752
Percentage	0	0	0	0	0	0	13	28	23
Pell grant	6,000	6,000	5,580	5,100	4,280	3,500	1,380	0	0
Tuition amount	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Aid	6,000	6,000	5,580	5,100	4,280	3,500	1,967	1,635	1,752
Increased aid	600	(3,900)	(3,900)	600	(3,900)	600	1,167	1,635	1,752

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Note: Each student receives half of the Pell grant amount. Credits and deductions are calculated accordingly.

Married Couple, One Dependent Freshman, One Dependent Senior, $4,000 of Tuition per Student
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

	15,000	20,000	25,000	30,000	35,000	40,000	50,000	60,000	70,000
AGI (all earnings)	15,000	20,000	25,000	30,000	35,000	40,000	50,000	60,000	70,000
Standard deduction or 18% of AGI	7,100	7,100	7,100	7,100	7,100	7,200	9,000	10,800	12,600
Personal exemption	10,800	10,800	10,800	10,800	10,800	10,800	10,800	10,800	10,800
Taxable income	0	2,100	7,100	12,100	17,100	22,000	30,200	38,400	46,600
Current law tax before EITC	0	315	1,065	1,815	2,565	3,300	4,530	5,760	7,536
Earned income tax credit	3,185	2,132	1,079	26	0	0	0	0	0
Net current law tax	(3,185)	(1,817)	(14)	1,789	2,565	3,300	4,530	5,760	7,536
Current law Pell grant	5,400	5,400	4,980	4,500	3,680	2,900	800	0	0
Proposal									
Tuition deduction	0	2,000	2,420	2,900	3,720	4,500	3,310	5,000	5,000
Credit	0	0	0	0	0	0	810	1,500	1,500
Tax before EITC	0	15	702	1,380	2,007	2,625	3,224	3,510	4,636
Earned income tax credi	3,185	2 132	1,079	26	0	0	0	0	0
Net tax	(3,185)	(2 117)	(377)	1,354	2,007	2,625	3,224	3,510	4,636
Tax reduction									
Amount	0	300	363	435	558	675	1,307	2,250	2,900
Percentage	0	na	na	24	22	20	29	39	38
Pell grant	6,000	6,000	5,580	5,100	4,280	3,500	1,380	0	0
Tuition amount	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Aid	6,000	6,300	5,943	5,535	4,838	4,175	2,687	2,250	2,900
Increased aid	600	(3,600)	(3,537)	1,035	(3,342)	1,275	1,887	2,250	2,900

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Note: Each student receives half of the Pell grant amount. Credits and deductions are calculated accordingly.

Married Couple, One Dependent Freshman, One Dependent Senior, $6,500 of Tuition per Student
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	15,000	20,000	25,000	30,000	35,000	40,000	50,000	60,000	70,000
Standard deduction or 18% of AGI	7,100	7,100	7,100	7,100	7,100	7,200	9,000	10,800	12,600
Personal exemption	10,800	10,800	10,800	10,800	10,800	10,800	10,800	10,800	10,800
Taxable income	0	2 100	7,100	12,100	17,100	22,000	30,200	38,400	46,600
Current law tax before EITC	0	315	1,065	1,815	2,565	3,300	4,530	5,760	7,536
Earned income tax credit	3,185	2,132	1,079	26	0	0	0	0	0
Net current law tax	(3,185)	(1,817)	(14)	1,789	2,565	3,300	4,530	5 760	7,536
Current law Pell grant	5,400	5,400	4,980	4 500	3,680	2 900	800	0	0
Proposal									
Tuition deduction	0	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Credit	0	0	0	0	0	0	810	1,500	1,500
Tax before EITC	0	(435)	315	1,065	1,815	2,550	2,970	3,510	4,740
Earned income tax credi	3,185	2,132	1,079	26	0	0	0	0	0
Net tax	(3,185)	(2,567)	(764)	1,039	1,815	2,550	2,970	3,510	4,740
Tax reduction									
Amount	0	750	750	750	750	750	1,560	2,250	2,796
Percentage	0	na	na	42	29	23	34	39	37
Pell grant	6,000	6,000	5,580	5,100	4,280	3,500	1,380	0	0
Tuition amount	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000
Aid	6,000	6,750	6,330	5,850	5,030	4,250	2,940	2,250	2,796
Increased aid	600	(3,150)	(3,150)	1,350	(3,150)	1,350	2,140	2,250	2,796

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Note: Each student receives half of the Pell grant amount. Credits and deductions are calculated accordingly.

Married Couple, One Dependent Freshman, One Dependent Senior, $13,500 of Tuition per Student
Proposed Tuition Aid, by Income at 1998 Levels
(amounts in dollars)

AGI (all earnings)	15,000	20,000	25,000	30,000	35,000	40,000	50,000	60 000	70,000
Standard deduction or 18% of AGI	7,100	7 100	7,100	7 100	7,100	7,200	9,000	10 800	12,600
Personal exemption	10,800	10 800	10,800	10 800	10,800	10 800	10,800	10.800	10,800
Taxable income	0	2,100	7,100	12 100	17,100	22 000	30,200	38,400	46,600
Current law tax before EITC	0	315	1,065	1 815	2,565	3 300	4,530	5,760	7,536
Earned income tax credit	3,185	2,132	1,079	26	0	0	0	0	0
Net current law tax	(3,185)	(1,817)	(14)	1.789	2,565	3,300	4,530	5,760	7,536
Current law Pell grant	5,400	5,400	4,980	4,500	3,680	2,900	800	0	0
Proposal									
Tuition deduction	0	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Credit	0	0	0	0	0	0	810	1,500	1,500
Tax before EITC	0	0	315	1,065	1,815	2,550	2,970	3,510	4,740
Earned income tax credi	3,185	2,132	1,079	26	0	0	0	0	0
Net tax	(3,185)	(2,132)	(764)	1,039	1,815	2,550	2,970	3,510	4,740
Tax reduction									
Amount	0	315	750	750	750	750	1,560	2,250	2,796
Percentage	0	na	na	42	29	23	34	39	37
Pell grant	6,000	6,000	5,580	5,100	4,280	3,500	1,380	0	0
Tuition amount	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000
Aid	6,000	6,315	6,330	5,850	5,030	4,250	2,940	2,250	2,796
Increased aid	600	915	1,350	1,350	1,350	1,350	2,140	2,250	2,796

Department of the Treasury
Office of Tax Analysis

March 5, 1997

Note: Each student receives half of the Pell grant amount. Credits and deductions are calculated accordingly.

HIGHER EDUCATION CLAIM BACKUP

Outlays for Payments to Students

	VA: Education for Veterans	ED & other non-VA	HOPE Tax Expenditures	TOTAL		Nominal $ Increase	% Increase	Constant (1992) $ Increase
1945	0			**0**		——	——	——
46	1,342			**1,342**		1,342	100	12,854
47	3,566			**3,566**		2,224	166	17,806
48	3,174			**3,174**		(392)	(11)	(3,063)
49	3,207			**3,207**		33	1	257
50	2,739			**2,739**		(468)	(15)	(3,511)
51	1,953			**1,953**		(786)	(29)	(6,055)
52	1,326			**1,326**		(627)	(32)	(4,697)
53	668			**668**		(658)	(50)	(5,752)
54	546			**546**		(122)	(18)	(817)
55	678			**678**		132	24	1,146
56	781			**781**		103	15	888
57	787			**787**		6	1	51
58	711			**711**		(76)	(10)	(644)
59	585			**585**		(126)	(18)	(657)
60	392			**392**		(193)	(33)	(959)
61	246			**246**		(146)	(37)	(708)
62	159			**159**		(87)	(35)	(417)
63	102			**102**		(57)	(36)	(263)
64	77			**77**		(25)	(25)	(114)
65	58			**58**		(19)	(25)	(85)
66	54	45		**99**		41	71	179
67	305	226		**531**		432	436	1,824
68	478	460		**938**		407	77	1,648
69	701	570		**1,271**		333	36	1,278
70	1,015	503		**1,518**		247	19	893
71	1,659	904		**2,563**		1,045	69	3,556
72	1,960	1,067		**3,027**		464	18	1,486
73	2,800	1,199		**3,999**		972	32	2,963
74	3,249	1,054		**4,303**		304	8	857
75	4,591	1,604		**6,195**		1,892	44	4,825
76	5,527	2,394		**7,921**		1,726	28	4,111
77	4,483	3,314		**7,797**		(124)	(2)	(273)
78	3,362	3,059		**6,421**		(1,376)	(18)	(2,833)
79	2,825	3,767		**6,592**		171	3	325
80	2,450	5,089		**7,539**		947	14	1,627
81	2,395	6,166		**8,561**		1,022	14	1,592
82	2,113	5,758		**7,871**		(690)	(8)	(1,005)
83	1,854	6,601		**8,455**		584	7	812
84	1,564	7,036		**8,600**		145	2	192
85	1,352	7,800		**9,152**		552	6	705
86	1,172	8,036		**9,208**		56	1	70
87	1,105	7,469		**8,574**		(634)	(7)	(766)
88	1,071	8,139		**9,210**		636	7	744
89	1,046	9,906		**10,952**		1,742	19	1,957
90	828	10,442		**11,270**		318	3	344
91	849	11,272		**12,121**		851	8	878
92	1,042	10,500		**11,542**		(579)	(5)	(579)
93	1,140	13,463		**14,603**		3,061	27	2,986
94	1,409	7,231		**8,640**	(1)	(5,963)	(41)	(5,683)
95	1,429	13,385		**14,814**		6,174	71	5,746
96	1,427	11,407		**12,834**		(1,980)	(13)	(1,801)
97	1,610	8,281		**9,891**	(2)	(2,943)	(23)	(2,608)
98	1,633	11,171	4,100	**16,904**		7,013	71	6,051
98	*1,633*	*11,171*		***12,804***		*2,913*	*29*	*2,514*

source: Historical Tables, FY 1998 Budget

(1) the reduction from 1993 to 1994 is due in part to a $2 billion Sallie Mae payment to the Federal Government, $1.5 billion reduction in the cost of the Pell program, and $1.4 billion in credit and liquidating account changes.

(2) the reduction from 1996 to 1997 is due primarily to a reestimate of the pre-1998 student loan cohorts, which reduced the costs of the programs by $2.5 billion.