

FOIA MARKER

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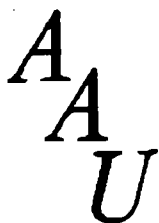
Folder Title:
HOPE [Hope and Opportunity for Postsecondary Education] Scholarship [1]

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

**Estimated 1997-98 Tuition and Fees Required at
Public 2-Year Institutions**

Percentage of Students Paying

State	Percent with Tuition \$1,000 or Less	Percent with Tuition \$1,200 or Less	Percent with Tuition \$1,400 or Less	Percent with Tuition \$1,500 or Less	Percent with Tuition \$1,501 or More
Alabama	45%	49%	66%	80%	20%
Alaska	0%	0%	0%	0%	100%
Arizona	100%	100%	100%	100%	0%
Arkansas	72%	90%	98%	100%	0%
California	98%	98%	100%	100%	0%
Colorado	16%	24%	37%	48%	52%
Connecticut	0%	0%	0%	0%	100%
Delaware	0%	0%	100%	100%	0%
Florida	10%	58%	98%	98%	2%
Georgia	46%	60%	92%	94%	6%
Hawaii	100%	100%	100%	100%	0%
Idaho	0%	100%	100%	100%	0%
Illinois	2%	17%	48%	86%	14%
Indiana	0%	0%	0%	0%	100%
Iowa	0%	0%	0%	0%	100%
Kansas	9%	16%	94%	100%	0%
Kentucky	12%	85%	90%	90%	10%
Louisiana	52%	68%	100%	100%	0%
Maine	0%	0%	0%	0%	100%
Maryland	0%	0%	0%	0%	100%
Massachusetts	0%	0%	0%	0%	100%
Michigan	0%	0%	12%	20%	80%
Minnesota	0%	0%	0%	0%	100%
Mississippi	49%	100%	100%	100%	0%
Missouri	6%	12%	70%	98%	2%
Montana	0%	0%	44%	60%	40%
Nebraska	0%	40%	99%	99%	1%
Nevada	36%	90%	90%	90%	10%
New Hampshire	0%	0%	0%	0%	100%
New Jersey	0%	0%	0%	0%	100%
New Mexico	99%	99%	99%	99%	1%
New York	0%	0%	0%	0%	100%
North Carolina	100%	100%	100%	100%	0%
North Dakota	0%	0%	17%	17%	83%
Ohio	0%	0%	0%	0%	100%
Oklahoma	14%	56%	80%	80%	20%
Oregon	0%	2%	45%	55%	45%
Pennsylvania	0%	1%	1%	7%	93%
Rhode Island	0%	0%	0%	0%	100%
South Carolina	24%	88%	89%	89%	11%
South Dakota	0%	0%	0%	0%	100%
Tennessee	10%	100%	100%	100%	0%
Texas	81%	92%	93%	94%	6%
Utah	0%	2%	20%	34%	66%
Vermont	0%	0%	0%	0%	100%
Virginia	0%	0%	0%	0%	100%
Washington	2%	2%	8%	60%	40%
West Virginia	2%	42%	42%	44%	56%
Wisconsin	0%	0%	0%	0%	100%
Wyoming	29%	100%	100%	100%	0%
Percent Total	35%	47%	59%	66%	34%
Average Tuition	\$556	\$697	\$822	\$887	\$2,067
Total Average Tuition					\$1,288



Association of American Universities

President

June 24, 1997

The Honorable Richard W. Riley
Secretary of Education
Washington, DC 20202

Dear Mr. Secretary:

I write to express my personal appreciation, as well as that of the member research universities of the Association of American Universities, for your continued commitment to promote federal education programs that help expand access to postsecondary education for all Americans.

I specifically want to thank you for the work that you and the President have done to ensure that higher education is a central part of any tax bill. It is your leadership that has helped ensure that the balanced budget agreement included a call for significant funding for higher education through the tax code.

We continue to support strongly your call for a Hope tax credit and a tuition tax deduction. Both of these important provisions would help make higher education more affordable for countless students and their families.

Along with these important tax proposals, we believe that any higher education tax package should include four additional elements—savings incentives, permanent extension of Section 127 employee educational assistance for both undergraduates and graduates, a student loan interest deduction, and removal of the \$150-million cap on tax-exempt bonds. These provisions are complementary to the Administration's main proposals, and include tax changes that the higher education community has been pursuing for more than a decade.

I am pleased to see that as the legislative process has proceeded, the tax bills under discussion by Congress have included several of the provisions listed above. The Senate Finance Committee-approved bill, for instance, includes five of these six elements. That bipartisan bill could serve as a base from which additional changes could be made that would produce a bill acceptable to Congress, the Administration, and the higher education community.

A well-crafted tax law that includes these higher education provisions, in my view, would be one of the most important pieces of higher education legislation ever enacted by the federal government, comparable in scope and importance to the GI Bill and the Higher Education Act itself. It could prove to be among President Clinton's finest and most remembered legacies.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Cornelius L. Pings'.

Cornelius L. Pings
President

CJP/LAS/rdk



COMMITTEE FOR EDUCATION FUNDING

FAX TRANSMITTAL FORM

DATE: 6/23/97

TO: Robert Shireman
National Economic Council
Attn: Sonia Matthews

FROM: Ed Kealy

The Committee For Education Funding
Phone (202) 383-0083
Fax (202) 383-0097

Number of Pages (excluding cover) 0

MESSAGE:

The Committee for Education Funding requests that Bob Shireman speak at our CEF Full Committee Meeting this Friday, June 27 at 10:00 a.m. together with Susan Frost of the U.S. Department of Education. The topic that they will discuss is the FY '99 Budget Process. Please contact us as soon as possible regarding this request. Thank you.

Ed Kealy

"Read the Future--Invest in Education"
1997 Congressional Awards Dinner-September 22nd

Note: This fax transmission contains confidential information from the Committee for Education Funding intended only for the addressee(s). If you are not the intended recipient, do not disclose, copy, or distribute any part of this transmission. Instead, please notify the Committee immediately at:

**Association of American Universities
National Association of Independent Colleges and Universities**

June 18, 1997

The Honorable William V. Roth, Jr.
Chairman
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Roth:

We are writing to express our great appreciation for including several tax proposals important to the higher education community in your Chairman's mark. The bipartisan support for helping families pay for higher education reflects the importance of a college education in today's society.

We believe that the higher education-related tax provisions being considered by the Senate Finance Committee tomorrow will make higher education more accessible for undergraduate and graduate students, and will help ensure that the nation has the highly educated, well-trained workforce it will need for the 21st century.

We would like to commend you in particular for including a number of very important provisions in your bill, including the restoration of the student loan interest deduction, the permanent extension of section 127 for both undergraduate and graduate classes, meaningful savings incentives, and the elimination of the \$150 million tax-exempt bond cap.

We appreciate the leadership you have demonstrated in crafting this package of higher education tax proposals. We look forward to working with you further to implement your ideas as well as the key elements of President Clinton's proposals.

Sincerely,

Cornelius J. Pings
President
Association of American Universities

David L. Warren
President
National Association of Independent
Colleges and Universities

AMERICAN COUNCIL ON EDUCATION

OFFICE OF THE PRESIDENT

June 19, 1997

The Honorable William V. Roth
Chairman
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Senator Roth:

On behalf of the higher education associations listed below, I write to convey our strong support for your proposals to use the tax code to help families save for college, pay for college, and ease student loan repayment burdens.

We believe that the higher education tax proposal being discussed in the Senate Finance Committee improves upon the House legislation significantly. It will make higher education more accessible for undergraduate and graduate students, and will help ensure that the nation has the highly educated, well-trained work force it will need for the 21st century.

We are grateful that your proposal includes five critically important items that we have long supported:

- (1) A Hope scholarship tax credit to help make the first two years of college available to all Americans.
- (2) Reinstatement of a student loan interest deduction to help students repay their loans following graduation. We are pleased that your bill provides an "above the line" deduction to ensure that all borrowers can benefit.
- (3) A permanent extension of Section 127 of the tax code for employer-provided educational assistance for both undergraduate and graduate students. This will ensure that working adults can participate in employer-supported higher education without tax consequences.
- (4) Saving incentives to encourage families to plan ahead for college.
- (5) Elimination of the tax-exempt bond cap that increases the long-term borrowing costs of private colleges and universities.

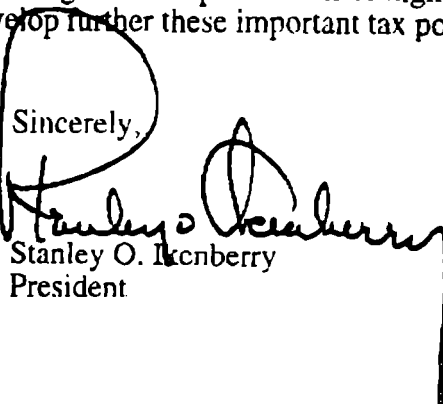
June 19, 1997

Page 2

As the legislative process moves forward, we hope to work with you and the other members of the Committee to make several refinements in the package. We would like to make certain that the Hope tax credit proposal does not work to disadvantage of students enrolled at community colleges and other low-cost institutions. In addition, we believe the bill should include some form of assistance for students and families to encourage lifelong learning, perhaps along the lines of the tuition tax deduction proposed by the President and exclude from federal tax liability any student loan balance that is forgiven by the federal government after 25 years of repayment.

Once again, we are grateful for your strong leadership on behalf of higher education and look forward to working with you to develop further these important tax policies.

Sincerely,



Stanley O. Kenberry
President

On behalf of the following associations:

American Council on Education

American Association of Community Colleges

American Association of State Colleges and Universities

National Association of State Universities and Land-Grant Colleges



June 19, 1997

The Honorable William J. Clinton
President of the United States
Washington, D.C. 20500

Dear Mr. President:

A year ago, when you first unveiled your Hope scholarship and deduction proposals, I wrote to thank you for your vision and to pledge our commitment to work with you in the months ahead. We are now at a critical juncture in that process.

Recently, I have read several news accounts that characterize the support of the higher education community for your proposals as guarded. On behalf of the 900 colleges and universities that compose the National Association of Independent Colleges and Universities, I want to tell you that nothing could be further from the truth. We deeply appreciate the efforts you have made, and we continue to believe that the tax code is an appropriate and effective vehicle for helping families save for college, pay for college, and ease their student loan repayment burdens.

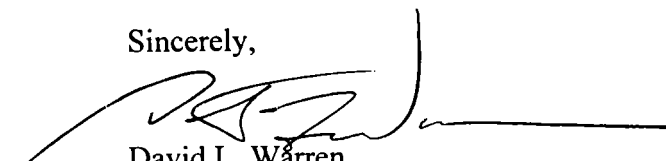
We are strong supporters of traditional need-based student aid as well. And as your 1998 budget proposal indicates, you have kept your commitment to substantially increase funding for Pell Grants. Now we must keep working together on the tax side to help those who need additional help.

As I said in my letter a year ago, we in the independent sector are particularly sensitive to the struggles of families trying to find the means to send their children to the college of their choice. It is fitting that the federal government should extend a helping hand to make this possible, since our nation's economic future increasingly depends on a highly educated citizenry. As we approach the twenty-first century, we must redouble our efforts to make education the centerpiece of our nation's commitment to future generations. Each aspect of your proposal -- the Pell increase, the tax credit and the deduction -- significantly enhances the prospect of meeting that goal.

So on behalf of the 900 college presidents I represent, I urge you to stay the course and work with Congress to ensure that this generational opportunity for America's college students does not pass us by.

With deep respect and appreciation,

Sincerely,



David L. Warren
President



tombutts @ umich.edu

06/20/97 07:55:00 PM

Record Type: Record

To: Robert M. Shireman

cc:

Subject: Update on Senate Finance Co

fyi

>Date: 20 Jun 1997 17:58:08 -0400
>From: "CFR List" <CFRList@aaumail.aau.edu>
>Sender: "LaJuan Jeffries" <lajuan_jeffries@aau.edu>
>Subject: Update on Senate Finance Co
>To: "cfr list" <cfrlist@aaumail.aau.edu>, "L" <L@aau.edu>
>
>MEMORANDUM
> Association of American Universities
> 1200 New York Avenue, Suite 550, Washington, DC 20005
> (202) 408-7500 * Fax (202) 408-8184
> WWW site: www.tulane.edu/~aau

>-----
> Subject: Update on Senate Finance Committee Tax Bill
> Date: June 20, 1997
> To: AAU Presidents and Chancellors
> From: Cornelius Pings

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>
><<<<<<< Attached TEXT file named "CJP Memo to Pres/roth bill" follows >>>>>>>

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>MEMORANDUM

>
>To: AAU Presidents and Chancellors
>From: Cornelius J. Pings
>Subject: Update on Senate Finance Committee Tax Bill
>Date: June 20, 1997

>
>Yesterday evening, the Senate Finance Committee 18-2 approved a tax bill that
>includes about \$32 billion in tax breaks for higher education. A brief

>summary of the higher education provisions in the bill is attached.

>

>The Senate Finance bill, by and large, is a good bill for higher education
>and is viewed as such by most of the higher education community. Attached is
>a letter to this effect that was sent by AAU and the National Association of
>Independent Colleges and Universities to Senate Finance Committee Chairman
>Bill Roth (R-DE). A similar letter was sent to Chairman Roth by other
>presidential higher education associations.

>

>As I reported earlier, five of the six presidential higher education
>associations have agreed upon six elements we want to see in a tax bill this
>year. Although we represent different constituencies and have had divergent
>opinions on some points, the six associations are working hard to reach
>agreement and adopt common positions where we can.

>

>The Senate Finance plan is a significant improvement over the House Ways and
>Means tax bill, which was marked up last week, for several reasons:

>

>oThe plan does not phase out Internal Revenue Code Section 117(d) and
>therefore does not tax the tuition waivers received by RAs and TAs or college
>employees.

>

>oThe plan does not remove the tax exemption for TIAA-CREF.

>

>oThe plan includes five of the six elements that we have asked the Committee
>to include in a tax package: a Hope tax credit, savings incentives, a
>student loan interest deduction, permanent extension of Section 127
>employer-provided education assistance for both undergraduate and graduate
>education, and removal of the \$150 million cap on tax-exempt bonds. (The
>plan does not include a tuition tax deduction.)

>

>oThe plan treats graduate education on par with undergraduate education.

>

>This is not to say that the Roth plan cannot be improved. We would like to
>see the plan include a tuition tax deduction. Also, we support the view of
>the higher education community that the Hope tax credit should be made more
>accessible to low-income families. However, it is our view that the Senate
>Finance Committee bill takes us a giant step forward towards our stated goal
>of the six elements we would like to see in a tax bill, and we are hopeful
>that as the process continues, the legislation will include the modifications
>that we suggest above.

>#012#AAU will also be working closely with the Administration. We should
>remember that the Administration's leadership on behalf of tax breaks
>targeted to higher education has brought us to the point we are at now.
>Moreover, the improvements we would like to see in the Senate Finance
>Committee bill-modification of the tax credit and addition of a tuition tax
>deduction-are core elements of the Administration plan.

>

>The full Senate and House are expected to consider their tax bills next week.
>We will keep you apprised of amendments and other developments that could
>affect the higher education portion of either bill.

>

>cc: Council on Federal Relations

>

>Enclosures#012#Summary of Senate Finance Committee Chairman William Roth's

>(R-DE) Tax Proposal: Provisions Affecting Higher Education

>

>

>

>Hope Scholarship: Administration's HOPE scholarship tax credit as modified --

>drop B average requirement, credit is 50% of up to \$3,000 (75% of up to

>\$2,000 for students attending community colleges and technical schools)

>adjusted out of pocket tuition expenses and books required for attendance

>(phaseout \$40,000 - \$50,000 singles/ \$80,000 - \$100,000 joint), require high

>school diploma or equivalent thereof to claim HOPE scholarship credit.

>

>Student loan interest deduction: (\$2,500 above-the-line deduction, phaseout

>\$40,000-\$50,000 singles/\$80,000-\$100,000 joint), deduction amounts are

>indexed, income limits indexed beginning in 2003.

>

>Section 127 Made Permanent: Permanent extension of employer-provided

>educational assistance (Section 127) for graduates and undergraduates.

>Effective date: taxable years beginning after December 31, 1996.

>

>IRA Expansion: Penalty-free withdrawals from all IRAs for post-secondary and

>graduate education.

>

>Education IRAs: Allow contributions of \$500 child tax credit, and \$2,000

>nondeductible contributions; tax-free inside buildup; tax-free withdrawals if

>used for tuition, room and board and graduate education; create prepaid plans

>for private education institutions (\$2,000 per year).

>

>Tax-free Treatment of State-sponsored Tuition Plans: Allow tax-free

>withdrawals from qualified State-sponsored tuition programs, expanded to

>include room and board.

>

>Repeal \$150 Million Bond Cap: Repeal \$150 million limit on tax-exempt

>section 501(c)(3) bonds for new capital expenditures.

>

>\$500 Child Tax Credits: \$500 tax credits paid to children between ages 13

>and 17 must be deposited in an education savings account.

>

>No Change to Tuition Reduction Benefits: The provision in the House Ways and

>Means Committee bill phasing out tax-free tuition reduction benefits for

>university employees, including graduate students, under Internal Revenue

>Code Section 117(d), is not included in the Senate Finance Committee bill.

>

>Preserves TIAA-CREF Tax-Exempt Status: A provision in the House Ways and

>Means Committee bill removes TIAA-CREF's tax-exempt status, which will have

>the effect of lowering the value of pensions held by TIAA-CREF. This

>provision is not included in the Senate Finance Committee bill.#012#AAU/NAICU

>Letter to Senator William Roth (R-DE) and Daniel Patrick Moynihan (D-NY)

>

>

>
>June 18, 1997
>
>The Honorable William V. Roth, Jr.
>Chairman
>Committee on Finance
>United States Senate
>219 Dirksen Senate Office Building
>Washington, D.C. 20510
>
>Dear Chairman Roth:
>
>We are writing to express our great appreciation for including several tax
>proposals important to the higher education community in your Chairman's
>mark. The bipartisan support for helping families pay for higher education
>reflects the importance of a college education in today's society.
>
>We believe that the higher education-related tax provisions being considered
>by the Senate Finance Committee tomorrow will make higher education more
>accessible for undergraduate and graduate students, and will help ensure that
>the nation has the highly educated, well-trained workforce it will need for
>the 21st century.
>
>We would like to commend you in particular for including a number of very
>important provisions in your bill, including the restoration of the student
>loan interest deduction, the permanent extension of section 127 for both
>undergraduate and graduate classes, meaningful savings incentives, and the
>elimination of the \$150 million tax-exempt bond cap.
>
>We appreciate the leadership you have demonstrated in crafting this package
>of higher education tax proposals. We look forward to working with you
>further to implement your ideas as well as the key elements of President
>Clinton's proposals.
>
>Sincerely,
>
>
>Cornelius J. Pings
>President
>Association of American Universities
>
>David L. Warren
>President
>National Association of Independent Colleges and Universities
>
>
>*Identical Letter Sent to Senator Daniel Patrick Moynihan, Ranking Member of
>the Senate Finance Committee.
>

Education Daily

March 19, 1997

RISING TUITION COSTS BLUNTED BY DEEP STUDENT DISCOUNTS

Less than 10 percent of college students pay the full tuition sticker price, a new survey says.

The discount rate for freshman—mostly in the form of institution-supported aid—has risen 31 percent since 1990, helping to deflate rapid tuition increases, according to the study released last week by the National Association of College and University Business Officers (NACUBO).

For instance, published tuition prices at the three types of schools surveyed increased an average of 42 percent to 48 percent over seven years. But the net tuition charge increased only 25 percent to 33 percent over that period.

Across-The-Board Aid

A look at 232 four-year schools that have submitted data for the NACUBO study since 1991 found steep discounts for all three types of institutions studied: small colleges with relatively low tuition; small colleges with relatively high tuition; and large colleges and universities.

Small colleges with relatively high tuition posted an average tuition of \$19,102. Full-time freshmen, however, paid an average of \$12,041, a discount of more than \$7,000 (see chart, above).

At smaller colleges with low tuition, 82 percent of freshmen received discounts. Smaller schools with high tuition gave discounts to 67 percent of their freshmen, and large colleges and universities discounted tuition for 59 percent of freshmen.

Catching Congress's Eye

Escalating tuition costs have caught the attention of Congress, which worries that increasing federal student aid will fuel even more tuition increases. They often cite a General Accounting Office study that found tuition increased 234 percent since 1980 (ED, Aug. 20, 1996).

The National Association of Independent Colleges and Universities (NAICU) released a study earlier this month citing the need for more institutionally provided student aid as a key reason for tuition increases (ED,

March 4).

Timothy McDonough, NAICU spokesman, said that the institutional aid has allowed private institutions to maintain access to a variety of students. Private institutions "know a majority of students will not be able to pay full price," he said. "But those who can afford to pay more, pay more. It's decided by student."

McDonough said the high sticker price for private schools is more reflective of the true cost of educating a student than the lower tuition rates of public schools. "Public tuition prices are artificially lower" because of state subsidies, he said, and the benefit goes to students from all income levels.

"1996 Tuition Discounting Executive Summary" is \$24.95 for members and \$34.95 for nonmembers from National Association of College and University Business Officers Publications, P.O. Box 96164, Washington D.C. 20090-6164. (202)861-2580.

— Rebecca S. Weiner

Education Daily

March 19, 1997

WOMEN'S RESEARCH GROUP SUGGESTS CHANGES FOR SAT

Afeminist research group last week urged the College Board to better emphasize algebra on the SAT to help cure alleged gender biases.

The test should include more algebra questions and fewer geometry questions because girls score better on algebra, said Phyllis Rosser, an associate with the Center for Women Policy Studies in Washington, D.C.

At a news conference to urge the changes, group officials said high school girls will lose \$2 million in college scholarships this year because of continuing bias in the Scholastic Assessment Test.

Center President Leslie Wolfe noted

that girls earn better grades than boys in high school and in college, but they receive only 40 percent of National Merit Scholarships.

Those scholarships are determined partly by students' Preliminary SAT scores.

The group said Educational Testing Service, which administers the test, also should give students more time to take it.

"Girls tend to work the math problems, while boys usually use test-taking tricks or simply guess," said Rosser, who published a study on the SAT gender gap in 1989.

The College Board, which sponsors the test, recently agreed to add a multiple-choice writing portion to the

Preliminary SAT to address the gender-bias complaints (ED, Oct. 3, 1996).

But Fred Moreno, director of public affairs for the College Board, said he is growing tired of the accusations. "What would make the test unbiased — that every student score the same?" He said differences between boys' and girls' scores on the SAT are caused by "differences in academic preparation" and social factors. "The education system is not equal for all students."

For more information, contact Center for Women Policy Studies, 1211 Connecticut Ave. NW, Suite 312, Washington, D.C. 20036, (202)872-1770. — Dave Boyer

Citadel should've waited, panel says

Time needed to alter policy on women

CHARLESTON, S.C. (AP) — The Citadel should have waited longer after a court battle before admitting four female cadets, two of whom later charged they were harassed and hazed, a school-appointed committee said yesterday.

The state military college announced last week that one male cadet had been dismissed, three resigned, and 10 others were given lesser punishments for hazing and harassing two female cadets. One male cadet was cleared.

The Citadel changed its all-male admissions policy last summer, two days after the U.S. Supreme Court ruled a similar all-male policy at Virginia Military Institute was unconstitutional. Just six weeks later, four women were on campus.

"We believe the college should have waited a year before bringing them in," James Grimsley, former Citadel president, said yesterday. That would have allowed time to recruit more women and to better judge how the plan would work, he said.

Mr. Grimsley was among a group of community leaders asked in January to review the school's plan for admitting and training women.

Two of the women, Jeanie Mentavlos and Kim Messer, left school after the first semester.

They said their clothes were set on fire while they were wearing them, cleanser was poured on their

heads, they were forced to drink alcohol, and they were forced to stand in a closet while being shoved and kicked.

The committee led by Mr. Grimsley also said the Citadel's governing board needs to better state how the school should function as a coeducational college. It also called for a review of freshman training and said cadets must be convinced that women are part of the school's future.

A consultant appointed by U.S. District Judge C. Weston Houck is expected to file a separate report later this week.

On Monday, The Citadel's incoming president said he is confident school officials have punished everyone responsible for the hazing.

"I don't believe there has been anything that has been covered up or anything that has been missed," retired Marine Maj. Gen. John S. Grinalds said at his first news conference after meeting with cadets Monday. He takes office this summer.

Gen. Grinalds, 59, said he has some ideas for bringing in more women but wants to learn more about the school before suggesting any changes.

Gen. Grinalds, a Rhodes scholar with degrees from Oxford University and Harvard Business School, also is a West Point graduate and headmaster of Woodberry Forest School, an all-male boarding school in Virginia.

USA TODAY • WEDNESDAY, MARCH 19, 1997 • A3

CITADEL REVIEW: The Citadel should have waited before admitting four female cadets, two of whom have charged that they were harassed and hazed, a school-appointed committee said. The South Carolina military college changed its all-male admissions policy last summer, two days after the U.S. Supreme Court ruled a similar policy at the Virginia Military Institute was unconstitutional. Six weeks later, four women were on campus. Two remain.

The DLC Briefing

A New Democrat Perspective on the Issues from the Democratic Leadership Council

June 12, 1997

The DLC Briefing is a new service providing a concise New Democrat perspective on national issues that are of immediate interest to policymakers. Please contact 202-546-0007 with comments or suggestions.

Tax Cuts

What's Happening

The House Ways & Means Committee this week is marking up tax legislation. The plan offered by Chairman Bill Archer (R-TX) includes: a \$500 per child tax credit; a tax credit for one-half of college expenses up to \$3,000 a year; a large tax preference for educational savings accounts; a new form of IRA; deep reductions in capital gains tax rates; an increase in the individual exemption for the estate tax; and repeal of the corporate alternative minimum tax (AMT). Ways & Means Ranking Democrat Charles Rangel (D-NY) and Minority Leader Dick Gephardt (D-MO) have announced an alternative Democratic package, with lower capital gains tax relief, stricter income eligibility for IRAs and college assistance, a refundable child credit, and a non-refundable four-year credit for college expenses.

The Senate Finance Committee is expected to mark up its own tax cut bill next week, with the goal of completing the conference agreement by the July 4 recess—although that may be too ambitious.

New Democrat Principles

- While taxes should not be excessive, they should be sufficient to finance the services and investments the American people want and need.
- Government policy should enable families to retain the resources they need to raise and educate their children, obtain health insurance, buy a home, and save for retirement.
- Economic policy should focus on the factors that actually create growth in the New Economy; especially research, innovation, education, and workforce skills.

The Politics

The tax bill is at the heart of unhappiness with the budget agreement among some liberal Democrats and conservative Republicans, with the former reviving the battle cry of "no spending cuts to pay for tax cuts for the rich," and the latter complaining that the agreement provides for insufficient tax cuts. Thus, this legislation will be the real test in Congress of whether the budget agreement will hang together.

Republicans are under pressure from a host of GOP constituency groups with pent-up demands for tax breaks, since this is the first real opportunity they've had to cut taxes since 1981.

The Gephardt/Rangel Democratic alternative package surprised and pleased many centrist Democratic Members of the House, both on its merits and because it remained within the framework of a budget agreement that Gephardt and Rangel both opposed. Opposition within the House Democratic Caucus will probably be limited to those who are still not totally reconciled to the overall agreement. But assuming the

*The DLC Briefing, Democratic Leadership Council, 318 C Street, NE, Washington, DC 20002 P: 800-546-0027
(In DC: 202-546-0007). F: 202-546-0626, E-mail: webmaster@dlcopp.org, WWW: <http://www.dlcopp.org>*

Democratic plan is defeated on the House floor, Democrats will split anew on final passage of a tax bill.

With much of the instant analysis of varying tax plans focusing on the income distribution of benefits, it is important to remind potential Democratic class warriors that the President's 1996 victory coalition included voters earning \$30-75,000 (48 percent of the electorate). House Democrats won voters with less than \$30,000 but only ran even among voters with incomes between \$30-50,000, and lost among voters with incomes between \$50-75,000.

The New Democrat Take

At a time when many Members of Congress view the Budget Revolution's agreement to cut taxes as an invitation to dole out favors to various constituency groups, everyone should maintain a clear perspective on the economic, social, and political implications of the various proposed tax changes.

First, it is important to remember that the economic and political benefits of the agreement to balance the budget are greater than the potential costs of any single element. Within reason, any tax package that's part of an agreement is better than no tax package if that also means the budget agreement collapses.

Second, the budget agreement was a bipartisan compromise, and for the Republican-controlled Congress tax cuts are a matter of faith (and a source of campaign support). That inevitably means the tax package will include provisions Democrats do not like, because they do not share the GOP's interest in focusing tax relief on high-income people and profitable corporations, or its 1950s-style economic theories that see marginal tax rates on capital as the key to growth.

Third, the partisan competition over tax-cut packages already evident in the House must not be allowed to degenerate into a destructive bidding war. The long-range revenue costs of every proposed tax cut must be carefully evaluated, keeping in mind that just beyond the 10-year purview of this budget agreement entitlement spending is likely to mushroom as Baby Boomers begin to retire.

Fourth, everyone must face up to the actual economic and social effects of these tax cut proposals. For example, the child-credit proposals offered by both the Administration and Rep. Archer are social policy for middle-class and affluent families only. Neither proposal provides any support for families too poor to owe income tax. Archer's plan goes further, by deducting low-income families' earned income tax credits from any child credit.

Both sides' proposals for college-cost tax credits and deductions also exclude children from poor and low-income families, since once again the proposals are not refundable. Yet, most research shows that with current public and private aid, college costs do not affect enrollments by children from middle-class families, but only college attendance by children from low-income families. These proposals, therefore, will accomplish the worthy goal of providing tax relief for families that already send their children to college, but fail to actually expand access to college.

Similarly, the GOP proposals for deep cuts in capital gains tax rates have much less economic punch than is often claimed, and primarily reward the same higher-income people who receive most of the benefits from the GOP's proposed changes in the estate tax and the corporate AMT.

Democrats should fight to make the tax package an instrument for positive social and economic policy, as well as tax relief. The college tax breaks in particular could be made refundable. (The House Democratic alternative proposal makes the child credit refundable, but not the college tax credit.) Aside from its social benefits, this approach would make it clear that the Republican plan focuses tax cuts on the wealthy, with a smattering of benefits for the middle class, while Democrats are addressing the needs of those struggling to enter the middle class, along with those striving to stay in it.

It's not enough to make the college tax break refundable. The proposal should be revised so it does not drive up tuition as colleges incorporate the value of the tax deduction or tax credit into their pricing. For example, Congress should: (1) limit the use of the new college tax credit to those attending in-state public institutions, which are less able to boost tuition than private colleges; and (2) require beneficiaries to perform significant community service. These changes would focus much more of the assistance on those who, without it, could not attend college at all—and go a long way toward guaranteeing that every qualified American can go to college.

On the child credit, a better approach than layering a new tax credit on top of the current dependent's exemption would be to replace the exemption with a new \$750 per-child tax credit. This would focus the new support on families with moderate incomes without providing additional support to more affluent families. Finally, Democrats should try to ensure that the cut in the capital gains tax rate is only prospective. If the claim is that the lower tax rate will spur more investment, it surely need not apply to past investments.

Talking points

- Keeping the budget agreement intact is critical to maintaining economic growth, and responds to the powerful public consensus for fiscal discipline. Every effort should be made to work out a bipartisan compromise on tax cuts consistent with the agreement.
- Tax cuts should not be structured in a way that creates budget deficits in the future.
- Tax cuts aimed at creating economic growth should, to the maximum extent possible, focus on the factors that actually create growth—especially research, innovation, education, and workforce skills.
- Tax benefits aimed at helping Americans afford college should: (a) include families who now cannot afford college, (b) be designed so that the benefit is not canceled by higher tuition; and (c) embody the principle of reciprocal responsibility by asking beneficiaries to "give something back" through community service.
- To the extent that tax cuts aim at tax relief, the benefits should be focused on middle and lower income Americans—those fighting hardest to get ahead, and those affected most severely by decades of rising payroll taxes.

• • •



tombutts @ umich.edu

06/18/97 01:19:00 PM

Record Type: Record

To: Robert M. Shireman

cc:

Subject: Hope Scholarship proposals

>X-Priority: 3

>Date: Tue, 17 Jun 1997 18:05:16 -0400

>Reply-To: NASULGC Council on Governmental Affairs <CGA-NEWS@UMDD.UMD.EDU>

>Sender: NASULGC Council on Governmental Affairs <CGA-NEWS@UMDD.UMD.EDU>

>From: "Van Eyck, Laila" <VanEyckL@NASULGC.NCHE.EDU>

>Subject: Hope Scholarship proposals

>To: CGA-NEWS@UMDD.UMD.EDU

>

>MEMORANDUM

>

>TO: CGA

>FROM: Jerry Roschwalb

>We have received the following memo from our colleagues at AASCU

>regarding the tax proposals and thought you would be interested in

>seeing it.

>

>-----

>URGENT ALERT - ACTION

>

>TO: AASCU Council of State Representatives

>

>FROM: Ed Elmendorf/Barmak Nassirian

>

>SUBJECTS:

>

>1.MAKE HOPE SCHOLARSHIPS REFUNDABLE

>

>2.STUDENTS IN STATE UNIVERSITIES ARE NOT DISCRIMINATED AGAINST IN TERMS
>OF ELIGIBILITY FOR HOPE SCHOLARSHIPS

>

>DATE: June 17, 1997

>

>IMMEDIATE ACTION NEEDED TO ENSURE THAT STUDENTS FROM LOWER INCOME
>FAMILIES ALSO RECEIVE HOPE SCHOLARSHIPS.

>MESSAGE: ALL AASCU MEMBERS WITH SENATORS ON THE FINANCE COMMITTEE
>SHOULD CALL TODAY AND ASK THAT THEIR SENATORS SUPPORT MAKING HOPE
>SCHOLARSHIPS REFUNDABLE.

>Background:

>President Clinton originally proposed a REFUNDABLE "Hope Scholarship"

>program to provide for up to \$1,500 in tax credits for the first two
>years of college. In its FY 1998 Budget Request, however, the

>Administration changed Hope Scholarships into a NON-REFUNDABLE tax
>credit.

>The effect of this change is that the amount of a family's tax liability
>determines their maximum eligibility for Hope. Therefore, low-income
>families with no tax liability would get no Hope Scholarships, and those
>with minimal tax liability would benefit very little from the billions
>of dollars in tax benefits.

>UPDATE:

>A bipartisan consensus is emerging in the Senate to make Hope
>Scholarships refundable, so as to allow the program to provide
>educational benefits to the neediest families. An amendment for this
>purpose may be offered when the Senate Finance Committee takes up its
>tax bill.

>WHAT IS NEEDED:

>One or both of your Senators is a member of the Finance Committee (list
>provided below), PLEASE CALL THEM TODAY. Ask to speak with their
>Education staffer, and request the Senator's support for making Hope
>Scholarships refundable. Explain that federal dollars will make the
>greatest difference for precisely those families who would be denied
>eligibility for Hope as proposed. We have provided statistics for all
>states that show what percentage of families would receive no Hope
>Scholarships, and what percentage would receive less than \$1,500 because
>of non-refundability.

>PLEASE CITE YOUR STATE'S STATISTICS IN YOUR PHONE CALL.

>Members of the Senate Finance Committee: Republicans: William Roth (DE),
>John Chafee (RI), Charles Grassley (IA), Orrin Hatch (UT), Alfonse
>M.D'Amato (NY) Don Nickels(OK), Phil Gramm(TX), Trent Lott (MS), James
>Jeffords (VT). Connie Mack (FL)
>Democrats: Daniel Patrick Moynihan (NY) Max Baucus MT) John Breaux (LA),
>Kent Conrad(ND), Bob Graham (FL) Carol Mosley-Braun (IL), Richard Bryan
>(NV), Bob Kerry (NE)

> Families w/ Children

> No Tax Liability Less than \$1,500

>

> (Hope=0) in tax liability

>Alabama	36.4%	49.0%
>Alaska	22.6%	34.5%
>Arizona	35.9%	50.5%
>Arkansas	35.3%	54.1%
>California	33.7%	46.1%
>Colorado	20.4%	34.1%
>Connecticut	22.5%	32.1%
>Delaware	25.1%	40.2%
>Dist. of Col.	48.8%	61.7%
>Florida	34.3%	48.0%
>Georgia	28.1%	42.5%
>Hawaii	22.3%	34.4%
>Idaho	30.0%	44.1%
>Illinois	28.1%	39.3%
>Indiana	30.4%	46.9%
>Iowa	23.9%	39.1%
>Kansas	26.5%	42.7%

>Kentucky	35.9%	51.9%
>Louisiana	41.9%	53.3%
>Maine	27.0%	41.3%
>Maryland	20.8%	33.3%
>Massachusetts	23.1%	33.8%
>Michigan	28.1%	39.9%
>Minnesota	21.3%	32.5%
>Mississippi	44.0%	56.2%
>Missouri	31.5%	46.0%
>Montana	29.4%	45.9%
>Nebraska	21.8%	36.9%
>Nevada	24.5%	37.9%
>New Hampshire	20.4%	33.7%
>New Jersey	19.6%	29.5%
>New Mexico	39.6%	54.1%
>New York	32.4%	44.4%
>North Carolina	31.2%	45.1%
>North Dakota	24.3%	40.1%
>Ohio	28.0%	40.1%
>Oklahoma	35.2%	49.6%
>Oregon	27.1%	44.5%
>Pennsylvania	25.8%	38.0%
>Rhode Island	28.6%	42.5%
>South Carolina	38.1%	50.9%
>South Dakota	31.5%	44.0%
>Tennessee	31.1%	48.9%
>Texas	35.4%	49.0%
>Utah	19.8%	36.2%
>Vermont	22.8%	38.3%
>Virginia	23.6%	39.9%
>Washington	26.5%	38.2%
>West Virginia	39.4%	55.0%
>Wisconsin	23.9%	34.0%
>Wyoming	25.8%	38.9%

>

>(Source: Center on Budget and Policy Priorities)Please share this alert

>with others and

>make them aware of the need for quick action,

>

>2) STUDENTS IN STATE UNIVERSITIES SHOULD NOT BE DISCRIMINATED AGAINST IN
>TERMS OF ELIGIBILITY FOR HOPE SCHOLARSHIPS

>

>IMMEDIATE ACTION NEEDED TO ENSURE THAT STUDENTS IN STATE UNIVERSITIES
>ARE NOT DISCRIMINATED AGAINST IN TERMS OF ELIGIBILITY FOR HOPE
>SCHOLARSHIPS.

>

>MESSAGE: ALL AASCU MEMBERS SHOULD CALL AND URGE THAT THEIR SENATORS
>CORRECT THE FORMULA FOR HOPE SCHOLARSHIPS CONTAINED IN THE SENATE
>FINANCE COMMITTEE CHAIRMAN'S MARK.

>

>Background

>Earlier today we sent you an urgent message asking for your immediate

>action on refundability of Hope Scholarships. THAT MESSAGE IS STILL IN
>EFFECT.
>
>We have just learned that the Senate Finance Committee will unveil a
>convoluted formula for determining eligibility for Hope Scholarships
>that IS DESIGNED TO DISCRIMINATE AGAINST STUDENTS ATTENDING PUBLIC
>4-YEAR COLLEGES AND UNIVERSITIES.
>
>Specifically, the Finance Committee version will limit the amount of
>"out-of-pocket" tuition expenses to 75% of such expenses for COMMUNITY
>COLLEGE students, and 50% for students in PUBLIC, FOUR-YEAR INSTITUTIONS
>(up to a maximum of \$1,500 for all students). This will effectively
>guarantee that students at state colleges and universities will receive
>lower awards than students at community colleges and at private
>institutions.
>
>Keep in mind that this 50% limitation WILL AFFECT EVERY PUBLIC
>INSTITUTION, EVEN THOSE WITH TUITION AND FEES THAT EXCEED \$3,000. This
>is because even at more expensive public institutions, the amount of
>grant aid brings "out-of-pocket" expenses to below \$3,000 for a
>significant number of aid recipients, who will then see their Hope
>Scholarships sharply reduced by the 50% limitation.
>
>UPDATED MESSAGE
>We ask that even if you have already called about refundability, PLEASE
>take the time to call again and protest this discriminatory provision.
>We rarely ask you to do this, but this issue is grave enough that we
>strongly urge you to make a second call.
>
>PLEASE keep in mind that our EARLIER MESSAGE ON REFUNDABILITY SHOULD
>STILL BE UNEQUIVOCALLY COMMUNICATED.
>
>If you still haven't called, please do so, and deliver both messages.
>

Thomas A. Butts
Associate Vice President for University Relations
University of Michigan
202-554-0578, FAX 202-554-0582, tombutts@umich.edu

FAX

U.S. Department of Education

Office of Public Affairs
600 Maryland Ave. S.W. room 2200

Washington, D.C. 20202

Telephone: (202) 401-1576

FAX: (202) 401-3130 OR (202) 401-0954

Date _____

Number of pages including cover sheet _____

To:

Bob Shiremann

Phone:

Fax Phone:

456-02223

CC:

David Frank and

From:

Stephanie Babcock

Phone: 401-2311

REMARKS

☐ Urgent☐ For your review☐ Reply ASAP☐ Please comment

Per your request. Many of
the wire services attended.



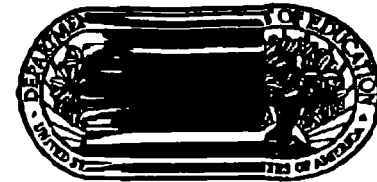
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Media Sign-In



JUN 11 1997

3:11PM

US ED PUBLIC AFFAIRS

NO. 3126 P. 2

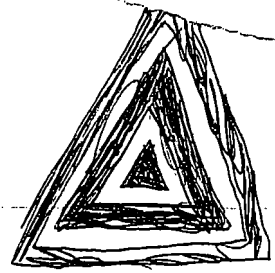
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Meredith Wenzel	Federal News	347-4000
Tim Aumann	Reuters	310-5693
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ETHEL TISH	7272	703-420
Roz Herbert	NAS/LE	778.081
JAMES NELSON	Fox News	824-630
Dan Lederman	Chamber of Higher Education	468.1017
Ed Reim	Bridge News	383-510
Alice Love	AP	776-95
Paula Churchoff	CCN	661-3545
Rich Miller	Reuters	898 8370
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Generally positive -

- *

* - Turron for dedication

Library learning

Sec
will call

- Reliability

* - 50%

Sarah / David Aenech

Sec. 117 - relig & good students.

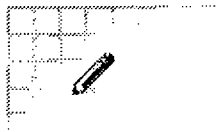
TIAA-CREF

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- no

② takes on savings & debentures help
then i vs.
K gets MS...



Record Type: Record

To:

cc:

Subject: McCurry briefing today

This doesn't tell us a lot, but it does help on the broader tax message. The comment about Archer being better than Roth on education -- I don't know how that is justified.

Q Tax. Senate tax plan -- reaction.

MR. MCCURRY: They're too high, they need to be lower.

Q Reaction.

MR. MCCURRY: They've got a long ways to go. The Senate is going to be doing a lot of work. You heard the President say earlier today that we're seeing some things develop in the markup of the tax bill that are positive -- certainly, the bipartisan work being done on the child health provision the President endorsed earlier today as a positive thing. But we remain concerned that some of the direction of the bill is heading in the wrong direction -- too much in the benefit of Senator Roth's marked skews towards the highest income. And we think the benefits of tax relief ought to be focused on low and middle income. But there is a long ways to go and lots of different iterations of this discussion before they get to a final conference report.

Q Do the Democrats have a unified position yet?

MR. MCCURRY: They're coalescing around some things. I think there is a lot of support on the Democratic side of the committee for the compromise child health measure that was talked about earlier today, and they've got some ideas on other subjects where they've got positions in common, but they'll be contributing

ideas and ultimately beginning to work with their House counterparts to fashion a bill that will be suitable to the President.

Q So you like Roth but you only like it in comparison to the House version?

MR. MCCURRY: There are some things that are good about Roth and some things that are not so good about Roth, some things that are better in his version and in the House mark, some things that are not as good. I think everyone knows what they are. We prefer Roth's approach to the House approach on things like the child credit, because the provision in Archer's bill that would have penalized six million families who pay for child care is not in the Roth bill. There's no indexing of capital gains in the Roth bill, which is really one of those things that would explode the out-year costs of the tax bill, which is something the Speaker and the Majority Leader specifically said to the President would not be done, pursuant to the balanced budget agreement. But on the other hand, the provisions on education, tax relief, probably not as good in Senator Roth's bill.

So we will work to fashion a bill that's suitable, providing administration input and we look forward to passage at the end of the day of measures that the President can sign.

**HIGHLIGHTS OF CHAIRMAN ROTH'S MARK ON REVENUE RECONCILIATION
PROPOSALS
June 17, 1997**

RELIEVES THE TAX BURDEN ON AMERICAN FAMILIES

☐ \$500 Child Tax Credit-

A nonrefundable tax credit for children under age 17 (under age 18 in 2003). -

Parents with children 12 and under will receive the full credit to offset taxes owed under current law. -

Parents with children ages 13 to 16 must deposit the \$500 credit into an Education IRA or prepaid tuition plan. This provision is optional for children under age 13. -

The credit is phased out beginning at \$75,000 of adjusted gross income (AGI) for single individuals and \$110,000 of AGI for married couples.

ASSISTANCE IN PAYING THE COSTS OF HIGHER EDUCATION

☐ Education IRAs -

Parents may establish an education IRA for each child and make nondeductible contributions of up to \$2,000 annually (\$2,500 if eligible for the \$500 tax credit). -

Income accumulates and may be withdrawn tax-free if used for undergraduate or graduate education expenses.

☐ Hope Scholarship Tax Credit-

Nonrefundable 50 percent tax credit for up to \$3,000 of tuition expenses and books (75 percent of up to \$2,000 of community college expenses) . Students must have a high school diploma or its equivalent. -

The credit will be phased-out between AGI of \$40,000 and \$50,000 for single individuals and between AGI of \$80,000 and \$100,000 for married couples.

☐ Student Loan Interest Deduction-

An above-the-line deduction of \$2,5000 for interest paid in each of the first five years of repayment.

☐ Employer-provided Education Assistance -

permanently extended for undergraduate and graduate education.

SPURS ECONOMIC GROWTH, SAVINGS AND INVESTMENT

☐Tax-Deductible IRAs-

Homemakers will be able to make a full \$2,000 IRA contribution regardless of whether their spouse participates in a pension plan.-

The current law income limits for deductible IRAs will be increased in \$5,000 increments until phase out ranges are doubled in 2004 (\$50,000 - \$60,000 of AGI for single individuals; \$80,000 - 100,000 of AGI for married couples).-

Creates a new back-loaded IRA which allows a nondeductible yearly contribution of \$2,000. Income accumulates tax-free and may be withdrawn tax-free if the IRA has been open for at least 5 years and the IRA holder has attained age 59 1/2.-

Penalty-free withdrawals from deductible and back-loaded IRAs for first-home purchases and long-term unemployment.

☐Capital Gains Tax Cut -

The maximum capital gains rate for individuals will be reduced to 20 percent (10 percent for individuals in the 15 percent rate bracket).-

No capital gains tax on the sale of a principal residence on gain of \$250,000 for single individuals and \$500,000 for married couples.

☐Death Taxes-

The unified credit will be increased from \$600,000 to \$1 million over the next 11 years.-

Up to \$1 million of qualified family-owned business and farm assets will be excluded from estate tax.-

The installment payment for estate tax attributable to closely-held business property will be lengthened from 14 years to 24 years.

FOR IMMEDIATE RELEASE Press Release #105-126
June 17, 1997

ROTH: FAMILIES AND STUDENTS REAP REWARDS OF FISCAL DIVIDEND
82 Percent of Tax Relief Goes To Family Tax Cut and Student Assistance

WASHINGTON -- Senate Finance Committee Chairman William V. Roth, Jr. (R-DE) today released his tax plan -- the revenue provisions of the budget reconciliation bill. The Finance Committee will mark up the proposal on Thursday, June 19 in room 216 Hart at 10:00 am. The following is Roth's statement regarding the mark:

"Two of the biggest financial challenges confronting working Americans are the growing tax burden and the cost of a college education. Americans now pay more in federal, state and local taxes than they do for food, clothing and shelter combined. And, the cost of a college education in America has exploded since 1980 by more than 234 percent.

"The budget agreement provided for tax relief to help Americans meet those challenges. The family tax cut and the education assistance make up 82% of this package -- the biggest tax cut in 16 years.

"This tax relief package is a combination of some of the best ideas from both sides of the aisle, and both ends of Pennsylvania Avenue. Republicans, Democrats and President Clinton can all claim authorship for various parts of this proposal. This is a bipartisan effort, and it is only through continued bipartisanship that we will deliver this relief to the American taxpayer.

"Our plan contains the most money for education assistance that I can remember, helping families save for college, and helping students pay for college and pay back college loans. This bill helps employers pay for their employees education. It expands on the popular state sponsored tuition plans. It includes President Clinton's Hope Scholarship tax credit.

"Because children are our biggest investments, middle income families will receive a \$500 per child tax credit. For children 13 -16 (age 17 after 2002), that money goes into an education IRA to help families save for their children's education.

"This package will boost America's meager savings rate in other ways too. We expand IRAs so that homemakers can save up to \$2000 annually in an IRA regardless of their spouse's participation in an employer pension plan. We allow more Americans to save in IRAs, and create a new non-deductible IRA Plus account.

"Our plan will spur continued economic growth by lowering the capital gains tax on investments, a provision that will benefit millions of middle income American investors. And we provide some relief from death taxes, helping families to hold onto farms and small businesses when a parent dies.

"This debate should not be partisan. It should not be about class warfare. It should be about working together to help the American taxpayers save, invest, pay for college, and keep more of what they earn."

JOINT COMMITTEE ON TAXATION
June 17, 1997
JCX-32-97

- SENATE FINANCE COMMITTEE -
ESTIMATED BUDGET EFFECTS OF CHAIRMAN'S MARK RELATING TO REVENUE RECONCILIATION PROVISIONS

Fiscal Years 1997 - 2007

(Millions of Dollars)

Provision	Effective	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1997-02	1997-07
FAMILY TAX RELIEF PROVISIONS														
1. \$500 tax credit for children under age 17 (under age 18 after 2002) (pro-rata \$250 for 1997 for children under age 13); post-EIC, deposit requirement for age 13 to 18 (age 13 - 17 after 2002); \$75,000/\$110,000 phaseout; no indexing [1].....	7/1/97	---	-10,300	-18,192	-17,884	-17,502	-17,291	-17,088	-17,674	-17,422	-17,173	-16,928	-81,169	-167,452
2. Individual AMT - annually increase exemption amounts by \$800 joint/\$460 single for 2001 and 2002; \$950 joint/\$700 single for 2003 and thereafter.....	lyb/s 1/1/01	---	---	---	---	-55	-295	-710	-1,428	-2,428	-3,955	-5,872	-350	-14,752
SUBTOTAL OF FAMILY TAX RELIEF PROVISIONS		---	-10,300	-18,192	-17,884	-17,557	-17,686	-17,807	-19,102	-19,850	-21,128	-22,798	-81,519	-182,204
EDUCATION TAX INCENTIVES														
1. Administration's HOPE scholarship tax credit as modified - drop B average requirement; credit is 50% of up to \$3,000 (75% of up to \$2,000 for students attending community colleges and technical schools) adjusted out-of-pocket tuition expenses to include books required for attendance (phaseout \$40,000 - \$50,000 singles/ \$80,000 - \$100,000 joint) [2]; require high school diploma or equivalent thereof to claim HOPE scholarship credit.....	pma & lyba 12/31/97	---	-1,531	-4,630	-4,089	-4,752	-4,822	-4,684	-4,935	-4,985	-5,035	-5,085	-20,425	-45,349
2. Student loan interest deduction (\$2,500 above-the-line deduction; phaseout \$40,000 - \$50,000 singles/ \$80,000 - \$100,000 joint); deduction amounts are indexed; income limits indexed beginning in 2003.....	polds 12/31/97	---	-56	-176	-216	-274	-347	-388	-409	-434	-461	-490	-1,071	-3,251
3. Permanent extension of employer-provided educational assistance for graduates and undergraduates.....	lyba 12/31/98	---	-638	-660	-704	-745	-778	-813	-850	-888	-928	-972	-3,522	-7,972
4. Penalty-free IRA withdrawals for post-secondary and graduate education.....	lyba 12/31/97	---	-78	-201	-181	-175	-177	-179	-182	-184	-186	-189	-812	-1,732

Provision	Effective	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1997-02	1997-07
5. Education IRAs - allow contributions of \$500 child tax credit; and \$2,000 nondeductible contributions; tax-free inside buildup; tax free withdrawals if used for tuition, room and board and graduate education; create prepaid plans for private education institutions (\$2,000 per year) [3].....	tyba 12/31/97	---	-202	-838	-1,175	-1,354	-1,421	-1,833	-2,223	-2,613	-3,008	-3,421	-4,968	-18,088
6. Allow tax-free withdrawals from qualified State-sponsored tuition programs; expanded to include room and board [3].....	tyba 12/31/97	---	-80	-199	-216	-236	-266	-281	-308	-336	-368	-403	-969	-2,865
7. Repeal \$150 million limit on tax-exempt section 601(c)(3) bonds for new capital expenditures.....	1/1/98	---	-6	-45	-75	-89	-99	-108	-115	-125	-138	-162	-315	-982
8. Exempt teachers' course work in education technology from the 2% miscellaneous itemized deduction floor.....	tyba 12/31/97	---	-10	-21	-22	-23	-24	-25	-25	-27	-28	-29	-99	-232
9. Raise small issuer arbitrage rebate exception for governmental bonds used to finance education facilities from \$5 million to \$10 million.....	bis 12/31/97	---	-1	-4	-7	-11	-14	-27	-30	-33	-36	-36	-36	-199
SUBTOTAL OF EDUCATION TAX INCENTIVES.....		---	-2,680	-6,772	-7,267	-7,859	-7,840	-8,534	-9,077	-9,625	-10,188	-10,789	-32,237	-80,449

ECONOMIC GROWTH, SAVINGS AND INVESTMENT INCENTIVES

1. Capital gains (a) 20%/10% rate structure; (b) retain maximum 28% for collectibles; (c) section 1250 recapture at maximum of 28%; (d) symmetric AMT treatment; (e) exclusion for gain on personal residence (including remainder interests).....	5/7/97	1,318	7,184	57	-3,007	-3,192	-3,338	-3,510	-3,724	-3,886	-4,097	-4,391	-978	-20,586
2. Qualified small business stock rules: extend present law to corporate investors, repeal the excluded gains from AMT, increase size of eligible business to \$100 million, repeal pre-lease limitation, allow qualified tax-free rollover, other changes.....	various	---	-73	-129	-149	-171	-197	-226	-260	-299	-344	-396	-719	-2,244
3. Expand deductible IRAs - increase income limits by \$10,000 for joint filers in 1998, 2000, 2002, and 2004 (\$5,000 for single filers in 1998, 2000, 2002; \$10,000 in 2004) and eliminate active spousal participant rules; create IRA Plus as in S. 197; penalty-free withdrawals for first-time home purchases capped at \$10,000, and long-term unemployment [4].....	tyba 12/31/97	---	-435	-459	-116	-978	-1,354	-2,070	-3,672	-4,384	-4,909	-5,473	-3,343	-23,850
SUBTOTAL OF ECONOMIC GROWTH, SAVINGS AND INVESTMENT INCENTIVES.....		1,318	6,876	-531	-3,272	-4,341	-4,889	-6,806	-7,656	-8,589	-9,350	-10,260	-5,040	-48,680

Provision	Effective	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1997-02	1997-07
ESTATE AND GIFT TAX PROVISIONS														
1. Increase unified estate and gift tax credit to \$825,000 in 1998; \$640,000 in 1999; \$660,000 in 2000; \$675,000 in 2001; \$725,000 in 2002; \$750,000 in 2003, and by \$50,000 from 2004 through 2008; Index other provisions beginning in 1999.....	dda 12/31/97	---	---	-295	-557	-977	-1,277	-2,110	-2,912	-3,948	-4,976	-6,278	-3,106	-23,326
2. Exclude up to \$1 million of qualified family farms and businesses.....	dda 12/31/97	---	---	-598	-702	-823	-957	-1,138	-1,327	-1,543	-1,886	-1,841	-3,080	-10,816
3. 20-year installment payment where estate consists largely of interest in closely held business.....	dda 12/31/97	---	---	---	---	---	---	-14	-10	-7	-5	-2	---	-38
4. No interest on certain portion of estate tax extended under section 8166 and interest rate reduced to 45% of present-law interest but nondeductible.....	dda 12/31/97	---	---	-10	-20	-32	-45	-59	-73	-88	-103	-119	-107	-549
5. Certain farmland cash rentals do not cause recapture of special valuation.....	roa 12/31/98	---	-25	-2	-2	-2	-2	-2	-2	-2	-2	-2	-33	-43
6. Expand exception from generation-skipping transfer tax for transfers to individuals with deceased parents.....	gsta DOE	---	---	-4	-4	-4	-4	-4	-5	-5	-5	-8	-16	-41
7. Exclude up to \$1 million estate tax exclusion for treatment of land subject to a qualified conservation easement coordinated with exclusion of family farms and businesses (expanded treatment of land with severed mineral rights) business relief used.....	dda 12/31/97	---	---	-43	-48	-52	-55	-60	-64	-70	-75	-80	-198	-547
SUBTOTAL OF ESTATE AND GIFT TAX PROVISIONS.....		---	-25	-952	-1,333	-1,890	-2,340	-3,387	-4,393	-5,861	-6,852	-8,326	-8,540	-35,160
EXPIRING TAX PROVISIONS														
1. Contributions of appreciated stock to private foundations (through 12/31/99).....	6/1/97	---	-40	-111	-81	-9	-2	---	---	---	---	---	-243	-243
2. Orphan drug tax credit (permanent).....	6/1/97	---	-29	-28	-30	-32	-34	-35	-37	-39	-40	-42	-152	-346
3. Work opportunity tax credit (through 12/31/99), modify eligibility for welfare recipients to 9 out of last 18 months; Include SSI recipients.....	wpolhms 9/30/97	---	-184	-297	-285	-149	-57	-19	-3	---	---	---	-953	-975
4. R&E credit (through 12/31/99).....	6/1/97	-161	-1,082	-1,621	-1,458	-700	-452	-259	-72	---	---	---	-5,454	-5,785
SUBTOTAL OF EXPIRING TAX PROVISIONS.....		-161	-1,295	-2,067	-1,864	-890	-545	-313	-112	-39	-40	-42	-6,802	-7,349
DISTRICT OF COLUMBIA TAX INCENTIVES [6]														
1. Designate existing D.C. enterprise community and census tracts with greater than 35% poverty as the D.C. Enterprise Zone, eligible for modified present-law empowerment zone incentives (20% wage credit; increased 179 expensing), and expanded tax-exempt financing; sunset 12/31/02.....	1/1/98	---	-12	-20	-21	-23	-25	-12	-3	-3	-3	-3	-101	-124

Provision	Effective	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1997-02	1997-07
18. Reverse IRS position on AMT treatment of certain installment sales by farmers.....	di tyba 12/31/87	-8	-157	-158	-167	-164	-157	-148	22	22	21	21	-811	-872
19. Require study on simplified collection of distilled spirits taxes.....	---	No Revenue Effect												
20. Restore meals deduction to 80% in 5% increments every other year for persons subject to Federal hours of service limitation and Alaskan seafood processors.....	tyba 12/31/97	---	-8	-17	-27	-38	-50	-63	-77	-92	-109	-126	-140	-607
21. Delay penalties for failure to make payments through EFTPS until after 6/30/98.....	DOE	No Revenue Effect												
22. Allow grandfathered publicly traded partnerships to elect to pay a PTP tax.....	tyba 12/31/97	Revenue Neutral												
23. Exempt multi-employer plans from section 415 percentage limitation.....	tyba 12/31/97	---	-2	-3	-3	-4	-4	-5	-5	-5	-5	-5	-16	-41
24. Clarify partial termination rules for Trans-Alaska pension trusts.....	---	Negligible Revenue Effect												
25. Montana simplified tax and wage reporting system (5-year demo).....	---	No Revenue Effect												
26. Increase the size of projects financed with small-issue tax-exempt bonds to \$20 million (keep bond cap at \$10 million).....	bia 12/31/97	---	[7]	-2	-5	-7	-9	-12	-14	-17	-20	-23	-24	-109
SUBTOTAL OF MISCELLANEOUS PROVISIONS.....		-10	-941	-1,079	-1,214	-985	-874	-708	-608	-667	-768	-884	-4,900	-8,511
REVENUE OFFSETS														
1. Extension of Airport and Airway Trust Fund excise taxes through 9/30/07; modify airline ticket tax deposit rule.....	10/1/97	-1,017	6,255	5,521	5,865	4,164	8,678	7,016	7,445	7,901	8,385	8,895	29,463	69,105
2. Reduce air passenger ticket tax rate from 10% to 7.5% of ticket price for flight segments to/from certain rural airports [8].....	10/1/97	---	-17	-19	-20	-21	-21	-22	-23	-23	-24	-25	-99	-215
3. Repeal \$6 departure tax and impose 10% tax on the portion of international ticket price attributable to portion of flight through U.S. controlled airspace (but retain present law for domestic flights to/from Alaska and Hawaii) [9].....	10/1/97	---	1,198	1,347	1,441	1,542	1,648	1,762	1,884	2,018	2,157	2,307	7,175	17,301
4. Impose 10% tax on cash payments to airlines for air travel under credit card and similar programs.....	10/1/97	---	87	97	103	108	116	123	130	138	147	155	512	1,205
5. Require gain recognition for certain extraordinary dividends.....	da 5/3/95 da 9/13/95	---	44	-93	-54	-10	38	73	79	85	92	98	-75	352
6. Require gain recognition on certain distributions of controlled corporation stock (with modifications for Intergroup distributions).....	da 4/16/97	---	504	293	257	221	184	149	113	77	41	9	1,459	1,848
7. Require recognition of gain on certain appreciated positions in personal property.....	csa 6/8/97	---	367	121	68	73	79	85	94	111	118	127	708	1,243
8. Modify net operating loss carryover rules.....	NOLGI tyba DOE	---	44	319	380	289	188	143	118	105	98	95	1,200	1,758
9. Modify foreign tax credit carryover rules.....	ltpa tyba 12/31/97	---	80	520	468	441	418	390	275	271	267	263	1,925	3,391

Provision	Effective	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1997-02	1997-07
0. Modify holding period for dividends-received deduction.....	droaa 30da DOE	---	12	15	15	16	16	16	17	17	17	18	74	159
1. Inclusion of income from notional principal contracts and stock lending transactions under subpart F.....	tyba DOE	---	9	20	21	21	21	21	22	22	22	23	91	202
12. Further restrict like-kind exchanges involving foreign personal property.....	1a dolca	---	4	8	11	13	15	17	19	21	23	25	51	156
13. Extend LUST excise tax through 9/30/07.....	10/1/97	---	129	129	128	129	131	134	136	139	142	145	645	1,340
14. Treatment of preferred stock as "boot".....	1a 6/8/97	---	35	37	39	41	43	10	10	11	11	12	194	248
15. Extend FUTA surtax and increase the statutory limit on the FUA Trust Fund from .25% of covered wages to .50% (10).....	lpa/a 1/1/99	---	---	1,083	1,763	1,797	1,733	861	-73	-71	-74	-73	6,358	6,726
6. Expansion of requirement that involuntarily converted property be replaced with property acquired from an unrelated person.....	icda dolca	---	1	4	6	8	11	13	15	17	19	21	30	115
7. Require registration of confidential corporate tax shelters.....	tsca/Tg	---	15	37	38	39	41	42	43	44	46	47	170	392
8. Information reporting on corporations receiving contract payments from certain Federal agencies.....	sd 90da DOE	---	---	7	8	9	10	11	11	12	12	13	34	93
9. Extend disclosure of tax return information for administration of certain Veterans' programs (10).....	dma 9/30/98	---	---	22	27	31	36	36	37	38	38	39	116	304
10. Modify holding period for certain foreign tax credits.....	dpoaa 30da DOE	---	23	48	50	53	56	58	61	64	68	71	230	552
21. Reform tax treatment of redemptions involving related corporations.....	da/a 6/8/97	---	10	10	5	5	5	5	5	5	5	5	35	60
22. Restrict income forecast method and allow 3-year MACRS for rent-to-own property.....	tyba DOE	---	37	43	61	68	38	27	25	18	17	18	248	352
23. Gain or losses from certain terminations with respect to property.....	30da DOE	---	15	27	25	25	25	25	25	25	25	25	117	242
24. Interest on underpayment reduced by foreign tax credit carryback.....	tpoa tyba DOE	---	8	10	2	1	1	1	1	1	1	1	22	27
25. Modify the basis allocation rules for distributee partners.....	pda DOE	---	28	62	65	67	69	61	64	66	69	72	248	681
26. Eliminate the substantial appreciation requirement for inventory of a partnership.....	sepda DOE	---	32	66	69	73	77	80	84	89	93	98	317	761
27. Extend UBIT rules to second tier subsidiaries of tax-exempt organizations and modify control test.....	tyba DOE & tyba 12/31/98	---	8	14	8	8	5	5	4	4	4	4	42	63
28. Carryover basis on sale of property by tax-exempt related party.....	sea 6/8/97	---	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	1	2
29. Modification of treatment of company-owned life insurance - pro rata disallowance of interest on debt to fund life insurance.....	cla 6/8/97	---	20	53	93	140	183	247	299	349	399	447	500	2,240
30. Termination of suspense accounts for family farm corporations required to use accrual method of accounting.....	tyea 6/8/97	---	30	34	36	37	38	40	41	42	44	45	175	387
31. Repeal installment sales grandfather rules of 1986 Act.....	tyba DOE	---	42	92	101	102	61	20	21	22	23	24	398	508

Provision	Effective	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1997-02	1997-07
2. Repeal 1986 Act grandfather rules for pension business of Mutual of America.....	tyba 12/31/97	---	[11]	6	8	9	9	9	9	9	9	10	31	78
3. Apply 3% telephone excise tax to certain prepaid phone cards.....	DOE	---	19	28	38	49	60	71	83	101	113	124	193	684
4. Consistency requirement for returns of beneficiaries of estates and trusts.....	the DOE	---	3	3	3	3	3	3	4	4	4	4	15	34
5. No information reporting on sales of principal residences less than \$250,000 or \$500,000 (married filing joint return).....	DOE	Negligible Revenue Effect												
6. Determination of period of limitations relating to foreign tax credits.....	tyba DOE	---	1	2	1	1	1	1	1	1	1	1	6	11
7. Uniform excise tax on vaccines; add 3 new vaccines (\$0.84 per dose).....	10/1/97	---	[7]	[11]	1	1	1	1	1	1	1	1	3	8
8. Increase the amount from \$3,500 to \$5,000 on involuntary cash out from pension plans.....	dma DOE	[11]	2	6	7	7	7	8	8	9	9	10	29	73
9. Repeal of 15% excess distribution and excess accumulation taxes.....	tyba & dda 12/31/98	---	-18	-19	-7	18	18	16	18	14	13	11	-8	62
0. Repeal special rule which permits certain companies to eliminate their AMT liability.....	tyba 12/31/97	---	2	5	5	5	5	5	5	5	5	5	22	47
1. Provide employers the option to offer tax-free employee parking or taxable cash compensation [12].....	tyba 12/31/97	---	3	8	11	12	12	13	14	14	15	16	46	118
2. Replace truck tax deduction for tire value with tax credit for excise tax paid on tires.....	sa 1/1/1998	---	68	94	88	97	89	101	102	105	108	110	452	979
NET TOTAL OF REVENUE OFFSETS.....		-1,017	9,088	10,030	11,232	9,862	14,164	11,477	11,228	11,677	12,683	13,298	83,162	113,692
IMPLICATION PROPOSALS.....		---	-179	-132	-144	-159	-171	-183	-189	-220	-238	-254	-792	-1,890
TECHNICAL CORRECTIONS.....		---	---	---	---	---	---	---	---	---	---	---	---	---
TOTAL.....		130	434	-19,724	-21,816	-23,901	-20,078	-26,351	-30,058	-32,900	-36,158	-40,207	-84,964	-249,639

Joint Committee on Taxation

Details may not add to totals due to rounding. Assumed enactment date of 10/1/97.

d and Footnotes for JCX-32-97:

d for "Effective" column:

bia = bonds issued after
 cia = contracts issued after
 cea = constructive sales after
 da = distributions after
 da/a = distributions and acquisitions after
 dda = decedents dying after
 di = dispositions in
 dma = disclosures made after
 DOE = date of enactment
 dofca = date of first committee action
 dpoaa = dividends paid or accrued after
 droaa = dividends received or accrued after
 eca = events conducted after
 ela = expenses incurred after
 eli = expenses incurred in

fipa = foreign taxes paid or accrued in
 fipoa = foreign taxes paid or accrued in
 gra = gross receipts after
 gata = generation skipping transfers after
 lcoa = involuntary conversions occurring after
 lpo/a = labor performed on or after
 NOLGI = net operating losses generated in
 pda = partnership distributions after
 polda = payments of interest due after
 pma = payments made after
 rd = returns due
 rfa = returns filed after
 roa = rentals occurring after (for returns open
 on date of first committee action)

sa = sales after
 sea = sales or exchanges after
 sepd/a = sales and exchanges, and certain
 partnership distributions after
 ta = transactions after
 Ta = transfers after
 tyba = taxable years beginning after
 tybo/a = taxable years beginning on or after
 tyea = taxable years ending after
 tsoa/Tg = tax shelters offered after issuance of
 Treasury guidance
 wpolh/a = wages paid or incurred for hires made after
 30da = 30 days after
 90da = 90 days after

Estimate considers interaction with HOPE tax credit proposal.

Estimate includes interaction with employer education.

Estimate includes interaction with estate and gift taxes.

Estimate includes interaction with education IRAs.

All D.C. tax initiatives are contingent on the creation of an Economic Development Corporation in 1997; estimate assumes creation of such an Economic Development Corporation and enactment of reforms to D.C. borrowing authority similar to that in the Administration's proposal.

This provision would transfer net revenues from 0.5 cents/gallon of the excise taxes on all transportation motor fuels to the fund. The provision has no revenue effect. Federal outlays would increase by \$2.6 billion over fiscal years 1998 - 2001. Negative numbers in the table show the budget effect of the increase in outlays. Estimate provided by the Congressional Budget Office.

Loss of less than \$500,000.

Rural airports would be defined as those having fewer than 100,000 passenger enplanements in the previous calendar year, excluding those within 75 miles of airports having more than 100,000 passenger enplanements in the previous year.

Under present law, domestic flight to or from Alaska or Hawaii are subject to a \$6.00 departure tax plus a 10% tax on the portion of ticket price attributable to the portion of flight over land.

Estimate provided by the Congressional Budget Office.

Gain of less than \$500,000.

Estimate does not include increase in receipts to Social Security trust fund (\$21 million for 1997 - 2002; \$51 million for 1997 - 2007).

- Susan
- Paula, Charlotte, MM
- Dave Wms,

AAECU

- More support than on Archives.
- Targeted w/ a methodology.

- Groups

Part

*30 - Credit Wk Index, 50%

- Section 1
- Sec. 127
- Pre-paid room - room + bed +
- Savings
- IRA
- Fed 145

Tues - Bath P/oo

Thurs - Markup

"May be an ↑ in the ed'n &" — School Constr'n

ACE: we hope to ask if the Comm to approve H&E on the dedication...

- bid. gaps - how far do we want them to go w/ an /mb,

Senate House:

- will there be a Dem. alt.? On floor, pmb.

Reichs
Kerry
Breaux

* Graham

Bryan ?

Myron - likely no.

Reichs
Rockefeller -

* M-B
Conrad

Baucus - interest 12-13 seats

Jeffords ?

Normie

Reichs - call KUSOB

- Graham & d

Reply to Ford's, Gen., Graham

- maybe a play of all, less 12 games, more time on 1A/5.

- maybe 1000 are more than 50%

939.9310

Star

Proby

- Snacking

- \$35

- Uncle of RZ

- Exploding cast

New Pro on graduate students

MANAGER, Grand students & faculty
- William & Audrey - 2 will run

- Dan will ded...

Bruce (cleaner)
both, bus stop too

Call

- Dan - Harry
- Barry

- Managan / Matt Harry

- Same

- Dan - Mark Brown - ACCT

- Studens & Samak...

- Dan - Gary Selar - AAE

Prz. of Area League...

He has called
25-30, Texas Front
Hollywood

in a help
Pres.

6/16/97

Flanagan

- Sec 117
- TIAA-CREF
- has a lot of other assets

INTERVIEW

Held an all-day calls.

Good at days

- a lot better than Arbores

- Don't know about TIAA & Sec 122

- Good call

- i did.

- Savings plan better

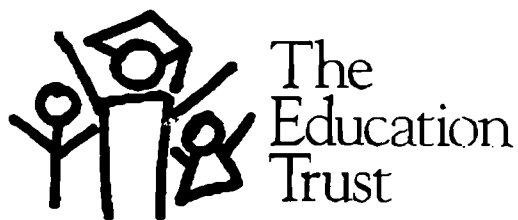
- NO LIFE CONTINUING

- 120 West on Forday - asked to make calls.

- 30 sub-groups

- Good - not yet

SEC 122 - calling



June 16, 1997

The Honorable William Roth
Chairman
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Roth,

The \$35 billion in new student aid under the jurisdiction of the Finance Committee provides you and the members of the Senate Finance Committee with an historic opportunity to narrow the college-going gap that separates low-income Americans from others. You can expand college access by providing struggling families with the help that they need to send their children to college. And you can provide significant new assistance to the middle class. All this can be accomplished within the \$35 billion available for higher education by 1) making the Hope Tax Credit fully refundable and 2) eliminating the \$10,000 tuition deduction contained in the President's higher education proposals.

For millions of Americans, a college education has been the surest bridge to self-sufficiency and a secure place in the labor force. At the end of the 20th century, a college education is more important than it has ever been. College graduates earn double the wages that high school graduates do, and they are twice as likely to be employed as are high school graduates. But BA degrees—and the benefits and opportunities that they afford—are moving beyond reach of many families, especially those at the lower end of the income range.

In 1980, the cost of a year of attendance at a public four year college equaled 12.5% of the annual income of the lowest income families; by 1995 families in the lowest income quintile would have to marshal a staggering 25% of their income to pay for one year at a public four-year college. Meanwhile, the percentage of annual income required to meet a year's cost at a four-year public college rose from 1.6% to just 2.4% for the wealthiest 20% of Americans between 1980 and 1995.

These cost increases have taken place in the context of a wide and stubborn gap between the college participation rates of the affluent and the poor. A young person raised in a household with income in the top 20% is six times as likely to earn a BA by age 28 as is a young person raised in a family with income in the bottom 20%.

The proposed non-refundable tax credit and a large tax deduction for tuition simply will not close the gap because their benefits will not reach those who most need help—those with the lowest incomes. These families have too little income to have any tax liability or too little federal tax liability to claim the full value of the credit.

Nationally, 30% of all families with children have too little income to get any assistance from a non-refundable tax credit and 42% of all families with children have too little federal tax liability to claim the full \$1,500. By providing little or no help to families at the lower end of the income range and generous benefits to families at the top of the income range—through the \$10,000 deduction—the President's proposal threatens to widen, not narrow, the college going gap.

The Honorable William Roth
June 16, 1997
Page 2

A fully refundable Hope Scholarship could help narrow the gap and open the door to college to millions of young people who would otherwise be locked out of the mainstream of our society. Clearly, a fully refundable Hope Scholarship would cost more than the non-refundable Hope contained in the President's proposal. To accommodate a fully refundable Hope within the agreed upon \$35 billion, we urge you to strike the \$10,000 tuition deduction from the President's package and replaced it with a less costly, but far more important, deduction for the interest on student loans.

Together, a fully refundable Hope Scholarship and a deduction for interest on student loans form the core of a package that can provide benefits to both low- and middle- income families—and can begin to narrow the college participation gap. Together they cost less than the full \$35 billion allocated to the Finance Committee, leaving funds available for other initiatives, including: tax-free educational savings accounts, expansion and permanent extension of tax exemptions for employer-provided education assistance, and tax exemption for work study income, scholarships, and fellowships.

Our organizations look forward to working with you and other members of the Finance Committee to craft legislation that assists the middle class, while responsibly delivering benefits to those who are struggling to reach it.

Acorn
Center for Law and Education
Education Trust
Lawyers Committee for Civil Rights Under the Law
Mexican American Legal Defense and Education Fund (MALDEF)
MANA
National Association of Social Workers
National Consumer Law Center, Higher Education and Training Access Project
National Black Caucus of State Legislators
National Council of Churches
National Council of La Raza
National Council of Negro Women
National Puerto Rican Coalition
National Urban League
Rainbow/ Push Coalition
U.S. Public Interest Research Group, Higher Education Project
U.S. Student Association

cc: Secretary Robert Rubin, U.S. Department of Treasury
Secretary Richard Riley, U.S. Department of Education
Members of the Senate Finance Committee

Preliminary Assessment of Major Provisions of Competing Tax Packages, June 9, 1997 (Scoring through 2002)			
Item	Administration Package	Chairman Archer's Package	W&Ms Democrats (Preliminary)
Education	\$1,500 (phased in, initially at \$1,200) HOPE scholarship and \$10,000 (phased in) tuition deduction (\$34.4b)	Modified HOPE scholarship (50% of expenses up to \$3,000) (\$22.3b); deduction for undergraduate expenses paid through state-sponsored prepaid tuition program of up to \$10,000/yr., \$40,000 max. per student (\$0.9b)	\$1,500 (\$1,100 in 1998-9, \$1,200 in 2000, indexed after 2001) HOPE scholarship, 20% tuition credit up to \$7,500 (\$4,000 in 1997-2000) (\$32.3b) \$10,000 in 2002
School construction	Allocable K-12 school finance credits (\$3.0)	None	New public-private school academy construction bonds (\$5.0b)
Section 127	Permanent extension of Section 127 (\$3.7)	Six month extension of Section 127 (\$0.2)	Permanent extension of Section 127 (\$3.7)
Student loans	Student loan interest deductibility (\$1.8)	None	None
IRA withdrawals	No change in IRA rules	Penalty-free IRA withdrawals for undergraduate, post-secondary vocational, and graduate education expenses (\$0.8)	No change in IRA rules
Education saving incentives	Included as part of the Kidsave proposal	Bob Dole education investment accounts for children under 18, private prepaid tuition plans; deduction for undergraduate and post-secondary vocational expenses of up to \$10,000/yr., \$40,000 max. per student (\$7.0)	None

Middle-Class Tax Relief	Refundable Kidsave Credit under 13 (\$77.8), stacked <u>before</u> the EITC	\$500 (\$400 in 1998) child credit, non-refundable, under 17 (\$71.3), stacked <u>after</u> the EITC, 50% offset with child care credit	\$500 (\$250 in 1998, \$300 in 1999-2000) child credit, partially refundable, under 18 (\$68.7), Stacked <u>before</u> the EITC
	None	Index dependent care tax credit expense limit, \$75,000-\$100,000 AGI phaseout (\$0.1)	None
Alternative Minimum Tax	Minor reform of individual AMT, phased in starting 2003	Increase individual AMT exemption amount by \$1,000 every other year from 1999 through 2007, index thereafter (\$1.2)	None
Corporate AMT	Part of Administration Simplification Proposal	Exemption from AMT for small corporations (\$0.6)	None
	None	Phaseout of AMT for business activities: depreciation for assets placed in service after 1997, most other adjustments after 2000, repeal after 2005 (\$17.3)	None
Capital Gains Provisions	No broad-based proposal	Separate 20/10.5 rate schedule, depreciation recapture, <u>indexing starting in 2001</u> (raises \$2.7)	18% rate on non-publicly traded assets with \$600k lifetime cap (\$16.1)
Home Provisions	President's Home Sales Provision (\$1.4)	President's Home Sales Provision (included above)	President's Home Sales Provision (\$1.4)
	None	None	Allow deductibility of losses on sales of principal residences (\$1.7)

Small Business Provisions	Bumpers-Matsui targeted small business relief (\$0.4)	None	None
IRAs	none	American Dream IRA's, <u>penalty free rollovers</u> from IRA (which raises money), special purpose withdraws for first time home purchase (\$0.0)	None
Home Office	Increase availability of home office deduction (\$0.6)	Unspecified home office provision (\$1.1)	None
Estate Tax	Daschle estate tax relief (\$2.3)	Increase unified credit to \$1.0 million by 2015 (\$3.1)	Modified Daschle proposal with smaller exemption increase (\$1.3)
Urban Initiatives	Distressed areas and welfare-to-work (\$2.9)	Modified welfare-to-work provision (\$0.2)	Distressed areas and welfare-to-work (\$2.9)
Other Presidential Initiatives	Equitable tolling, Puerto Rico, FSC software, and DC (\$1.3)	D.C. package (\$0.3)	Equitable tolling, Puerto Rico, FSC software, and DC (\$1.3)
One-year extensions	R&E, contributions of appreciated stock to private foundations, WOTC and orphan drug credit (\$2.2)	R&E, contributions of appreciated stock to private foundations, WOTC and permanent orphan drug credit (\$3.3). Scoring difference reflects JCT/Treasury differences	R&E, contributions of appreciated stock to private foundations, WOTC and orphan drug credit (\$2.2)
Independent contractors	None	Liberalized independent contractor rules (\$1.0)	None

Illustrative Baseline Tax Package: Preliminary Treasury Estimates (except where noted)

Dollar amounts in millions, June 8, 1997

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1998-02	1998-07
Education package													
HOPE scholarship, \$1000; Tuition Deduction, \$10,000 ¹¹	-78	-3,714	-5,556	-6,677	-9,219	-9,962	-10,113	-10,473	-10,732	-11,281	-11,447	-35,128	-89,174
K-12 allocable school finance credits	0	-400	-500	-600	-700	-800	-1,000	-1,000	-1,000	-1,000	-1,000	-3,000	-8,000
Make Section 127 Permanent ¹²	-82	-645	-670	-730	-796	-833	-874	-914	-951	-988	-1,042	-3,674	-8,443
Student Loan Interest deductibility	-15	-370	-322	-348	-376	-406	-439	-475	-513	-555	-600	-1,822	-4,404
Middle-Class Tax Relief and Saving Provisions													
Refundable Kidsave Credit ¹³	-732	-11,855	-14,049	-17,382	-17,302	-17,242	-19,891	-22,450	-22,287	-24,479	-26,520	-77,830	-193,457
Individual AMT reform, start in 2003 ¹⁴	0	0	0	0	0	0	-382	-760	-1,013	-1,412	-1,969	0	-5,536
Capital Gains, Estate Tax Relief and Business Relief													
Bumpers-Matsui Targeted Small Business Capital Gains Relief ¹⁵	-10	-40	-43	-68	-96	-118	-146	-217	-287	-316	-347	-365	-1,678
President's Home Sales Provisions ¹⁵	-10	-90	-241	-228	-214	-199	-183	-165	-147	-127	-106	-972	-1,700
Daschle Estate Tax Proposals (JCT)	0	-440	-540	-640	-740	-840	-1,000	-1,200	-1,400	-1,600	-1,800	-3,200	-10,200
Home Office Provision	-26	-90	-103	-118	-133	-150	-169	-189	-211	-234	-257	-594	-1,654
Urban Initiatives													
Distressed Areas Initiatives ¹⁶	-40	-426	-505	-509	-478	-421	-368	-326	-292	-260	-230	-2,339	-3,815
Welfare-to-Work	0	-68	-137	-163	-122	-61	-20	-5	-1	0	0	-551	-577
Other Tax Incentives ¹⁷	-10	-141	-214	-257	-301	-369	-345	-387	-429	-1,395	-2,405	-1,282	-6,243
One-year Extensions of Expiring Provisions	-438	-968	-747	-330	-145	-52	-8	0	0	0	0	-2,242	-2,250
Gross Tax Cut	-1,441	-19,247	-23,627	-28,050	-30,622	-31,453	-34,938	-38,561	-39,263	-43,647	-47,723	-132,999	-337,131
Revenue Offsets	623	8,488	9,073	9,951	10,411	12,078	11,202	11,679	12,080	12,538	12,988	50,001	110,488
Total Net Cut	-818	-10,759	-14,554	-18,099	-20,211	-19,375	-23,736	-26,882	-27,183	-31,109	-34,735	-82,998	-226,643

¹¹ The proposal drops the B- rule and Pell offset to HOPE. Effective 7/1/97. The HOPE credit is \$1,000 in 1998 - 1999 and \$1,500 in 2000 and indexed thereafter. The tuition deduction is \$5,000 in 1998 and 1999 and \$10,000 thereafter.

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June 10, 1997

MEMORANDUM FOR GENE SPERLING

FROM: Bob Shireman

SUBJECT: Opposition letters to Archer plan

Attached are new letters opposing the Archer approach to higher education tax cuts. They include:

Association of Community College Trustees
American Association of Community Colleges
The College Board
United States Student Association
U.S. Public Interest Research Group Higher Education Project

These are in addition to the AASCU letter that was released today.

The Vice President is giving some math and science teaching awards in the morning, **and may include a couple of paragraphs about the building opposition to the Archer plan.** I will be working with them later tonight on possible language. They would then distribute copies of these new letters as well as the endorsement packet.

Secretary Rubin is not able to fit an event into his schedule tomorrow, so there will not be a Riley-Rubin press conference with the groups.

Jake is working with Education to make sure that the press feels the drumbeat of organizations expressing concern about the Archer approach.

**FOR IMMEDIATE RELEASE**

Contact: Noah Brown

202/775-4667

**COMMUNITY COLLEGE STUDENTS LOSE HOPE
UNDER ARCHER TAX PLAN**

Washington, DC (June 9) -- House Ways & Means Committee Chairman Bill Archer today unveiled his plan to provide \$85 billion in net tax cuts as part of the budget reconciliation bill to be considered by Congress this summer. The plan's education components depart significantly from President Clinton's proposals and cuts in half the value of the tuition credit for students attending community colleges. The plan also would raise taxes on working Americans who need access to postsecondary education to remain employable.

Archer's plan provides \$22 billion for the President's Hope Scholarship tax credit over five years. The credit would match 50 percent of higher education out-of-pocket expenses (tuition and books) up to \$3,000 to families earning less than \$80,000 per year, and to individuals earning less than \$40,000 per year. This contrasts sharply with the Administration's tax credit plan to provide a tax credit of up to \$1,500 to cover educational expenses for the first two years of college.

Students attending community colleges, where annual tuition averages less than \$1,500, lose under Archer's version of the tuition tax credit. This is due to the way in which the amount of the credit would be calculated. For example, if a student attends a community college and pays \$1,500 for tuition, they would be eligible for a \$750 tax credit under Archer's plan -- half the amount available under the President's Hope Scholarship proposal. The net effect of Archer's plan is to shift the credit's benefit to students with financial means and to those attending costlier four-year colleges and universities.

Archer's plan also raises taxes on working people seeking to upgrade their skills and/or qualify for new jobs. Under the plan, the tax exclusion for employer-provided tuition assistance would expire after this year. Beginning next year, individuals receiving tuition assistance from the employers would see their paychecks reduced by additional tax withholding.

ACCT opposes Archer's changes to the Hope Scholarship tax credit and is alarmed that Employee Education Assistance would not continue beyond the current year. The plan fails to provide real access and opportunity to Americans without the financial means to attend college and creates a tax impediment for those seeking to successfully join today's high-skills workplace.

ACCT represents the more than 6,000 publicly elected and appointed governing officials of community, junior, and technical colleges across the United States and Canada.

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Association of Community College Trustees, 1740 "N" Street, NW, Washington, DC 20036



The College Board

1233 20th Street, N.W., Suite 600, Washington, D.C. 20036-2304
Telephone: (202) 822-5900; Facsimile: (202) 822-5920

Washington Office

June 10, 1997

College Board Response to Ways and Means Committee Chair Archer's Education Tax Proposals

Throughout recent discussions on tuition tax proposals, the College Board has advocated judicious use of the tax code for educational purposes and recommended adjustments to ensure that any tax credit or deduction be equitable for all families. In that regard, the College Board is pleased to note that the proposals announced by the chairman of the House Ways and Means Committee this week support savings for higher education through penalty-free withdrawals from IRAs accounts for postsecondary education.

In its totality, however, the package falls far short of advancing the College Board's priority of targeting the tax code for specific educational purposes and making any changes equitable for all families. For example, we are concerned that the package does not include:

- deductibility of interest on student loans;
- tax-free treatment of need-based grants, fellowships, scholarships, and federal College Work Study earnings; and
- permanent (in contrast to a one-year) extension of section 127 of the tax code for both undergraduate and graduate students, a modest incentive for private sector investment in the continuing education of adults.

We are also greatly concerned about other aspects of the chairman's package. By limiting the credit to 50 percent of up to \$3,000 of "out-of-pocket" tuition expenses required for college attendance, the chairman's version of the Hope Scholarship further reduces the tax benefit for many low-income students. Like the Administration's Hope Scholarship, the chairman's tax credit would also be non-refundable, that is, students and families without any tax liability would not receive the benefit.

In addition, the chairman's proposed \$10,000 tuition deduction, focused only on state- and private-sponsored pre-paid tuition programs, would primarily benefit middle- and upper-middle income taxpayers. These provisions of the chairman's package also have the potential to complicate the financing of higher education by encouraging multiple state variations of the pre-paid tuition concept, not to mention the proliferation of private for-profit models.

The College Board is pleased that the Administration last week modified its original tuition tax proposals, shifting more funding to the needier students, providing student loan interest deduction, and allowing tax relief for employer-provided education assistance. We are concerned that the committee did not include these modifications in its recently released plan.

* * *

The College Board is a national association of over 3,200 schools and colleges dedicated to advancing equity and excellence for all students.

AACC

AMERICAN ASSOCIATION OF COMMUNITY COLLEGES

Statement of the American Association of Community Colleges on Chairman Archer's Mark Relating to Revenue Reconciliation Provisions

The American Association of Community Colleges (AACC) is pleased that the Chairman's mark includes a tax credit to help pay for the first two years of postsecondary education. However, AACC is deeply concerned about its present configuration. As announced, the credit would cover 50 percent of up to \$3,000 of out-of-pocket tuition expenses and books required for attendance. This structure would limit the benefit the tax credit will have for community college students, most of whom are enrolled at institutions whose tuition is well below the level at which they could receive the maximum tax credit. We strongly believe that community college students should be eligible for the same level of support through a tax credit as students enrolled at more expensive institutions of higher education.

We are also troubled that the Chairman's mark does not permanently extend Section 127 of the Internal Revenue Code. Limiting the extension to a six-month period for undergraduate programs will hamper the ability of America's workers to gain access to the education programs they need to maintain and upgrade their skills.

June 10, 1997



UNITED STATES STUDENT ASSOCIATION

50 YEARS CLOSER TO FREEDOM

FOR IMMEDIATE RELEASE
June 10, 1997

CONTACT
Erica Adelsheimer
(202) 347-8772

*******PRESS RELEASE*******

Students Express Strong Disappointment With Chairman Archer's Education Tax Proposals

1413 K Street NW
10th Floor
Washington, DC
20005

Voice: 202.347.USSA
Fax: 202.393.5886

ussa@essential.org
www.essential.org/ussa

WASHINGTON, D.C.--Students around the country are registering their disappointment with Chairman Archer's plan for education tax initiatives. Chairman Archer's package will do nothing to expand access to education. Instead of addressing student concerns about the administration's education tax proposals, the plan shifts benefits away from even middle income families and funnels aid to those with greater resources.

Students believe that education tax initiatives must include measures to broaden educational opportunity. We know that without additional help thousands of young people will be forced to forego a college education. We support the President's efforts to ensure that at least \$35 billion of any overall tax package be targeted to higher education, and we urge Congress to ensure that the neediest families, as well as those with middle and upper-middle incomes, qualify for education-related tax benefits.

Chairman Archer's plan will provide additional aid to those families least in need and no help to low-income students and families who often find the financial barriers to college insurmountable.

Students are particularly concerned that the modifications to the HOPE Scholarship move the tax subsidies further toward the upper income rather than toward those with the greatest need, that the \$10,000 deduction proposals will only help the wealthiest families, and that there are no provisions for student loan forgiveness, a student loan interest deduction, permanent extension of employer-provided education assistance, or non-taxability of work-study and need-based scholarships and fellowships.

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U.S. Public Interest Research Group

National Association of State PIRGs

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Wisconsin PIRG

For Immediate Release:

June 10, 1997

For More Information:

Ivan Frishberg, (202) 546-9707

Statement from PIRG's Higher Education Project regarding House Ways and Means Committee Proposal on Higher Education tax cuts.

A college education is the best investment we can make in America's future. Rather than fully opening up that investment to all Americans students, Chairman Archer's Mark represents a missed opportunity to expand access to higher education.

U.S. PIRG has commended both the President and the Leadership in Congress for the commitment to higher education that was made in the balanced budget deal. However, we have persistent concerns that the \$35 billion investment in higher education is delivered in a way that truly delivers hope to all students, including those working families with incomes too low to create significant tax liability.

Compared to the President's proposals, Chairman Archer's proposal does even less to deliver assistance to those who need it the most, when it could have done more. We encourage Chairman Archer to listen a little closer to the concerns of students, and work towards a greater and more real hope for America's college students.

Congress and the Administration should work together to construct a tax package that includes a hope scholarship that goes to the millions of American students who don't have tax liability, and that includes proposals that ease the burden of student debt: tax exempt loan forgiveness and a student loan interest deduction.

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U.S. PIRG is the national lobbying office of the state Public Interest Research Groups. U.S. PIRG is a non-profit environmental and consumer watchdog group with citizen and student members in over 35 states, and with chapters at over 100 college campuses.

HOPE Scholarship Tax Credit, Tuition Deduction and Education Savings Incentives from Chairman Archer's Mark

HOPE Scholarship Tax Credit

Administration Proposal Taxpayers could claim a nonrefundable credit of up to \$1500 in two taxable years for tuition and required fees incurred during the first two years of postsecondary education on behalf of the taxpayer, her spouse or dependents. To be eligible for the credit, a student must be enrolled at least half-time in a degree or certificate program at a qualified institution and must not have been convicted of a drug-related felony. In addition, the student must show satisfactory academic progress in the first year in order to qualify for the credit in the second year. (The B- average requirement has been dropped, and the maximum credit would NOT be reduced by federal grants.) The maximum credit would be indexed beginning in 1998. The credit would be phased out for individual taxpayers with agi between \$50,000 and \$70,000 and for joint filers with agi between \$80,000 and \$100,000. The thresholds would be indexed beginning in 2001. Taxpayers would have to choose either the HOPE credit or the tuition deduction for a student's expenses in a single year.

Chairman's Mark Taxpayers could claim a nonrefundable 50% credit for up to \$3,000 in two taxable years for tuition, required fees and books incurred during the first two years of postsecondary education on behalf of the taxpayer, her spouse or dependents. To be eligible, the student must be enrolled at least half-time in a degree or certificate program at a qualified institution and not have been convicted of a drug-related felony. The maximum credit amount would be indexed for inflation beginning in 1998. The proposal would be effective for expenses paid after December 31, 1997 for education furnished in academic periods beginning after that date. The credit would be phased out for individual taxpayers with agi between \$40,000 and \$50,000 and joint filers with agi between \$80,000 and \$100,000. The thresholds would be indexed beginning in 2001. A taxpayer would have to choose either the HOPE credit or the tuition deduction for a student's expenses in a single year, provided the expenses were paid from a prepaid tuition plan or education investment account and were, therefore, eligible for the deduction.

Recommended Position Support, but only with significant modifications.

Revenue Estimate JCT: [\$22b] over 5 years, [\$49b] over 10 years.

Deduction for Expenses Paid from State-Sponsored or Private Tuition Program or Education Investment Account

Current Law A taxpayer who saves for higher education through a qualified state tuition program that meets the requirements of section 529 may defer tax on the earnings in the account until the time of withdrawal. When the funds are withdrawn, they are taxable to the party who withdraws them. Usually, this will be the student who is using the account to pay for school. However, it may be the parent or other account holder who wants a refund. If the

designated beneficiary of an account is changed, and the new designated beneficiary is an ancestor, spouse, sibling, child, grandchild or other lineal descendant of the current beneficiary, or a spouse of any of the foregoing, including the beneficiary, the change will not be treated as a distribution and will not trigger tax or a penalty. Generally, a state's educational savings plan will qualify under section 529 if the state establishes and maintains the plan, allows it to be used to save only for tuition, required fees and books, prohibits investment direction by participants and imposes a more than de minimis penalty on withdrawals not used for higher education expenses. Section 529 does not impose income limits or contribution limits, other than a general limit on funding the plan in excess of reasonable educational needs.

Chairman's Mark Taxpayers that paid tuition, required fees, books, room and board with money withdrawn from a state-sponsored tuition program, private tuition program (meaning one sponsored by an educational organization) or an education investment account could take an above-the-line deduction for up to \$10,000 a year per student for those expenses. Also, the deduction cannot exceed the portion of the distribution that represents earnings, rather than contributions. A deduction would be available for room and board even if the student lives at home. The student can be the taxpayer, her spouse or her dependents. The deductions taken for a student could not exceed \$40,000 for all taxable years. Deductions could not be taken for a student once the student completed the first four years of post-secondary education. If a parent claims a student as a dependent and takes a deduction for the student's expenses, the distribution from the state tuition program would be included in the parent's income rather than the student's. To be eligible, the student must be enrolled at least half-time in a degree or certificate program at an educational institution eligible to participate in federal student aid programs. The deduction would not be a preference item for the AMT.

In addition, the requirements of section 529 would be changed so that taxpayers could use state tuition programs and private tuition programs to save not only for tuition, fees and books, but also for room and board. Ways and Means intends to limit the maximum amount of deductible room and board to the amount the school allows when calculating costs of attendance for financial aid purposes. A technical correction later in the bill -- that is arguably not a technical -- would allow existing plans to continue accepting contributions on contracts that cover room and board made before section 529 was enacted.

Recommended Position Oppose.

Revenue Estimate JCT: [\$889m] over 5 years, [\$2.4b] over 10 years

Education Investment Accounts

Current Law Income earned in a prepaid tuition program established and maintained by anyone other than a state is not guaranteed to receive tax deferred treatment. Taxpayers who save for education expenses must pay tax annually on any income they earn on their savings.

Chairman's Mark Taxpayers would be permitted to establish education investment accounts in the same trust form used for IRAs. Up to \$50,000 in aggregate cash contributions can be made

on behalf of a single beneficiary. Earnings would accumulate tax free. Distributions would be eligible for the same tuition deduction available for distributions from state tuition programs. Contributions cannot be made after the beneficiary reaches age 18, and all amounts must be withdrawn by the time the child for whom the account is established reaches 30 or completes the first four years of post-secondary education. A 10% additional tax would generally apply on distributions not used for higher education expenses.

Recommended Position Oppose

Revenue Estimate JCT [\$6.9b] over 5 years, [\$22.4b] over ten years

Talking Points

Objections to Higher Education Proposals in Ways and Means Chairman's Mark

- As compared to the Administration's budget, the Chairman's mark redirects a large portion of benefits to higher income families that can afford to save for higher education expenses. For families who need grants and loans to afford school, benefits are diminished in the first two years of higher education and taken away entirely for later years.
- Under the Chairman's mark, a middle-income student who works all summer, saves her salary and uses it to pay her junior year tuition would receive no assistance. However, her classmate who spent the same summer on vacation could get up to a \$10,000 deduction when she pays her tuition out of the educational investment account her well-to-do parents were able to fund.
- The Chairman's HOPE credit is less generous for students at community colleges and other low-price schools.
- The Chairman's package provides no support for education beyond the first four years of college and very little for workers and others who may return to school later in life. An older student cannot start an educational investment account -- contributions cannot be made after the beneficiary reaches 18 -- and cannot benefit from employer-provided educational assistance after 1997.
- The education investment account proposal creates a potential for abuse that will be difficult to prevent. Although aggregate contributions on behalf of a single beneficiary are limited to \$50,000, financial institutions will have no way of knowing whether an account holder has other accounts elsewhere, and the IRS will find it difficult to keep a running total of contributions over many years. The IRA system works because it sets a maximum annual contribution that can be policed with simple annual information reporting.



COMMITTEE FOR EDUCATION FUNDING

The Honorable Ted Stevens
Chairman
Committee on Appropriations
United States Senate
522 Hart Senate Office Building
Washington, DC 20510-0201

** See Note please*

June 9, 1997

MAKE EDUCATION A TOP PRIORITY IN FY98 APPROPRIATIONS

Dear Chairman Stevens:

The Committee for Education Funding (the Committee), a nonpartisan coalition of 87 organizations representing the broad spectrum of the education community, urges you to provide a 602b allocation that will accommodate at least a 15% increase for discretionary education funding in FY98 to meet the needs of America's students. Increased investment in education is crucial to secure America's future and meet the challenges of record enrollments, growing student needs, rapidly advancing educational technology, and a dynamic information-based economy that demands a more educated workforce.

The allocation must be adequate to meet the priorities agreed to in the FY98 Budget Resolution such as school reform and need-based student aid as well as key Congressional concerns including improved services for students with disabilities and health research. Considerably more funds than the recommended allocations for protected programs under the budget agreement are needed to sustain and enhance the FY97 investments in critical programs that assure the quality and accessibility of elementary, secondary and postsecondary education. The allocation must also be adequate to restore funds for vital programs proposed for cuts or elimination.

The Labor, Health and Human Services and Education subcommittee allocation must address America's education, health and workforce challenges of the 21st Century. This can only be achieved with an adequate pool of resources that will not require shortchanging one important national priority for another in the appropriations process.

Thank you for your support for education.

Sincerely,

Carmie C. Hayes
Carmie C. Hayes
President

Edward R. Kealy
Edward R. Kealy
Executive Director

*Note: This letter went to House & Senate Chairs & Ranking Mem
and all Labor - HHS - Ed. subcommittee members*

122 C Street, NW • Suite 280 • Washington, DC 20001 • (202) 383-0083

June 10, 1997

MEMORANDUM FOR GENE SPERLING

FROM: Bob Shireman

SUBJECT: Opposition letters to Archer plan

Attached are new letters opposing the Archer approach to higher education tax cuts. They include:

Association of Community College Trustees
American Association of Community Colleges
The College Board
United States Student Association
U.S. Public Interest Research Group Higher Education Project

These are in addition to the AASCU letter that was released today.

The Vice President is giving some math and science teaching awards in the morning, **and may include a couple of paragraphs about the building opposition to the Archer plan.** I will be working with them later tonight on possible language. They would then distribute copies of these new letters as well as the endorsement packet.

Secretary Rubin is not able to fit an event into his schedule tomorrow, so there will not be a Riley-Rubin press conference with the groups.

Jake is working with Education to make sure that the press feels the drumbeat of organizations expressing concern about the Archer approach.

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HOPE Scholarship Tax Credit

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designated beneficiary of an account is changed, and the new designated beneficiary is an ancestor, spouse, sibling, child, grandchild or other lineal descendant of the current beneficiary, or a spouse of any of the foregoing, including the beneficiary, the change will not be treated as a distribution and will not trigger tax or a penalty. Generally, a state's educational savings plan will qualify under section 529 if the state establishes and maintains the plan, allows it to be used to save only for tuition, required fees and books, prohibits investment direction by participants and imposes a more than de minimis penalty on withdrawals not used for higher education expenses. Section 529 does not impose income limits or contribution limits, other than a general limit on funding the plan in excess of reasonable educational needs.

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Aren't some of these groups also critical of the President's plan?

Each group has its own priorities, but they all agree that the Archer plan does not make the grade. [Some of the organizations want a credit that is even more oriented toward low-income students than is the President's plan. The Archer plan goes in the opposite direction, providing more benefits to higher-income taxpayers.]

**FOR IMMEDIATE RELEASE**

Contact: Noah Brown
202/775-4667

**COMMUNITY COLLEGE STUDENTS LOSE HOPE
UNDER ARCHER TAX PLAN**

Washington, DC (June 9) -- House Ways & Means Committee Chairman Bill Archer today unveiled his plan to provide \$85 billion in net tax cuts as part of the budget reconciliation bill to be considered by Congress this summer. The plan's education components depart significantly from President Clinton's proposals and cuts in half the value of the tuition credit for students attending community colleges. The plan also would raise taxes on working Americans who need access to postsecondary education to remain employable.

Archer's plan provides \$22 billion for the President's Hope Scholarship tax credit over five years. The credit would match 50 percent of higher education out-of-pocket expenses (tuition and books) up to \$3,000 to families earning less than \$80,000 per year, and to individuals earning less than \$40,000 per year. This contrasts sharply with the Administration's tax credit plan to provide a tax credit of up to \$1,500 to cover educational expenses for the first two years of college.

Students attending community colleges, where annual tuition averages less than \$1,500, lose under Archer's version of the tuition tax credit. This is due to the way in which the amount of the credit would be calculated. For example, if a student attends a community college and pays \$1,500 for tuition, they would be eligible for a \$750 tax credit under Archer's plan -- half the amount available under the President's Hope Scholarship proposal. The net effect of Archer's plan is to shift the credit's benefit to students with financial means and to those attending costlier four-year colleges and universities.

Archer's plan also raises taxes on working people seeking to upgrade their skills and/or qualify for new jobs. Under the plan, the tax exclusion for employer-provided tuition assistance would expire after this year. Beginning next year, individuals receiving tuition assistance from the employers would see their paychecks reduced by additional tax withholding.

ACCT opposes Archer's changes to the Hope Scholarship tax credit and is alarmed that Employee Education Assistance would not continue beyond the current year. The plan fails to provide real access and opportunity to Americans without the financial means to attend college and creates a tax impediment for those seeking to successfully join today's high-skills workplace.

ACCT represents the more than 6,000 publicly elected and appointed governing officials of community, junior, and technical colleges across the United States and Canada.

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Association of Community College Trustees, 1740 "N" Street, NW, Washington, DC 20036

AACC

AMERICAN ASSOCIATION OF COMMUNITY COLLEGES

Statement of the American Association of Community Colleges on Chairman Archer's Mark Relating to Revenue Reconciliation Provisions

The American Association of Community Colleges (AACC) is pleased that the Chairman's mark includes a tax credit to help pay for the first two years of postsecondary education. However, AACC is deeply concerned about its present configuration. As announced, the credit would cover 50 percent of up to \$3,000 of out-of-pocket tuition expenses and books required for attendance. This structure would limit the benefit the tax credit will have for community college students, most of whom are enrolled at institutions whose tuition is well below the level at which they could receive the maximum tax credit. We strongly believe that community college students should be eligible for the same level of support through a tax credit as students enrolled at more expensive institutions of higher education.

We are also troubled that the Chairman's mark does not permanently extend Section 127 of the Internal Revenue Code. Limiting the extension to a six-month period for undergraduate programs will hamper the ability of America's workers to gain access to the education programs they need to maintain and upgrade their skills.

June 10, 1997



UNITED STATES STUDENT ASSOCIATION

50 YEARS CLOSER TO FREEDOM

FOR IMMEDIATE RELEASE
June 10, 1997

CONTACT
Erica Adelsheimer
(202) 347-8772

*******PRESS RELEASE*******

Students Express Strong Disappointment With Chairman Archer's Education Tax Proposals

1413 K Street NW
10th Floor
Washington, DC
20005

Voice: 202.347.USSA
Fax: 202.393.5886

ussa@essential.org
www.essential.org/ussa

WASHINGTON, D.C.--Students around the country are registering their disappointment with Chairman Archer's plan for education tax initiatives. Chairman Archer's package will do nothing to expand access to education. Instead of addressing student concerns about the administration's education tax proposals, the plan shifts benefits away from even middle income families and funnels aid to those with greater resources.

Students believe that education tax initiatives must include measures to broaden educational opportunity. We know that without additional help thousands of young people will be forced to forego a college education. We support the President's efforts to ensure that at least \$35 billion of any overall tax package be targeted to higher education, and we urge Congress to ensure that the neediest families, as well as those with middle and upper-middle incomes, qualify for education-related tax benefits.

Chairman Archer's plan will provide additional aid to those families least in need and no help to low-income students and families who often find the financial barriers to college insurmountable.

Students are particularly concerned that the modifications to the HOPE Scholarship move the tax subsidies further toward the upper income rather than toward those with the greatest need, that the \$10,000 deduction proposals will only help the wealthiest families, and that there are no provisions for student loan forgiveness, a student loan interest deduction, permanent extension of employer-provided education assistance, or non-taxability of work-study and need-based scholarships and fellowships.

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U.S. Public Interest Research Group

National Association of State PIRGs

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For Immediate Release:

June 10, 1997

For More Information:

Ivan Frishberg, (202) 546-9707

Statement from PIRG's Higher Education Project regarding House Ways and Means Committee Proposal on Higher Education tax cuts.

A college education is the best investment we can make in America's future. Rather than fully opening up that investment to all Americans students, Chairman Archer's Mark represents a missed opportunity to expand access to higher education.

U.S. PIRG has commended both the President and the Leadership in Congress for the commitment to higher education that was made in the balanced budget deal. However, we have persistent concerns that the \$35 billion investment in higher education is delivered in a way that truly delivers hope to all students, including those working families with incomes too low to create significant tax liability.

Compared to the President's proposals, Chairman Archer's proposal does even less to deliver assistance to those who need it the most, when it could have done more. We encourage Chairman Archer to listen a little closer to the concerns of students, and work towards a greater and more real hope for America's college students.

Congress and the Administration should work together to construct a tax package that includes a hope scholarship that goes to the millions of American students who don't have tax liability, and that includes proposals that ease the burden of student debt: tax exempt loan forgiveness and a student loan interest deduction.

30 - 30 - 30

U.S. PIRG is the national lobbying office of the state Public Interest Research Groups. U.S. PIRG is a non-profit environmental and consumer watchdog group with citizen and student members in over 35 states, and with chapters at over 100 college campuses.

THE WHITE HOUSE

WASHINGTON

June 10, 1997

MEMORANDUM FOR GENE SPERLING

FROM: Jonathan Kaplan
Charles Marr
Bob Shireman

SUBJECT: Potential Rollout Ideas for the Archer Tax Plan

As we try to find ways to continue to hit the Archer tax plan this week for its numerous shortcomings, you might want to consider some of the ideas outlined below. Obviously, not all of these event ideas warrant the President's or Vice President's involvement; members of the Cabinet could quite easily take the lead.

In addition, the Vice President may give an economic speech next Monday, June 16 -- a down day for the President -- and his staff is looking for a specific announcement.

Education

The President's HOPE scholarship proposal is severely scaled back under Archer's plan and, as a result, organizations such as the American Association of State Colleges and Universities have spoken out against it. The President, Vice President, or First Lady -- along with Secretaries Rubin and Riley -- could conduct an event with community college Presidents as well as college students and their families. We suggest that you consider proposing that the President participate in a short event this weekend in California, a state with a huge community college network (caveat: we step on race speech). Another thought would be to invite Georgia Gov. Miller to Washington for a similar event.

Treasury and Education are still considering a Riley/Rubin event tomorrow -- perhaps with the Vice President as well -- highlighting the education groups' support for our plan and some of their criticisms of the Archer plan. By the end of today, we expect to have statements critical of the Archer plan from the **College Board**, the American Association of Community Colleges, the United States Student Association, and USPIRG. (ACE and the other Dupont Circle associations issued a very mild statement that we may be able to use; they don't want to attack Archer too sharply.)

Environment/Urban Issues

The Brownfields tax initiative was obviously left out of the Archer plan. As a result, according to the DPC, the Conference of Mayors is circulating a letter quite critical of the plan. In addition, EPA is currently checking with the environmental groups to determine their sense of the Archer plan. Working with CEQ, EPA, and Intergovernmental, we could potentially organize an event with the Green Group and several key mayors to highlight the absence of urban and environmental provisions in the Archer plan -- and contrast it with the President's tax initiatives.

In addition to the Brownfields tax initiative, the EZ/EC expansion was also left out of the Archer plan. This could also be wrapped into an event focused on the environmental strengths of the President's plan and failings of the Archer plan.

Child Care Credit

Based on Archer's penalty for working women through the child care tax credit's effect on the child tax credit, we might consider an event targeted to specialty media, such as *Working Women* magazine.

Welfare-to-Work

Archer's welfare-to-work tax credit is smaller than the Administration's proposal. We could try to determine if any of the welfare organizations are criticizing the Archer plan on those grounds. In the event that they are, Secretaries Rubin and Shalala could highlight our proposal with some of the groups that support our welfare-to-work tax credit.

Workplace Benefits Issues

At a time when the Administration is trying to expand health care and pension coverage to American workers, the Archer plan -- through its independent contractor provision -- would move us in the opposite direction. Apparently, the AFL-CIO and several women's groups are writing letters opposing this provision. The Department of Labor, in conjunction with the AFL-CIO and other key unions, could coordinate an event focusing on how workers stand to lose under this proposed provision. However, this is a hugely popular issue in the small business community, and it may not be worth getting actively involved in this specific debate, particularly if the unions and other groups plan to contest this strongly.



ussaleg @ essential.org

06/10/97 01:22:00 PM

Record Type: Record

To: Robert M. Shireman

cc:

Subject: ACT NOW TO PROMOTE EDUCATION ACCESS

LEGISLATIVE ALERT 42

June 9, 1997

Students Must Act Now To Ensure Education Access

Today, Representative Bill Archer (R-TX), chair of the House Ways and Means Committee, released his plan for \$85 billion in tax cuts. The provisions in his plan for education tax cuts are NOT favorable to students. Archer's plan significantly scales back the President's HOPE scholarship and instead offers benefits predominantly to upper-middle income families who choose to invest heavily in state pre-paid tuition plans or private investment accounts.

Although the budget process is moving extremely quickly, students can still make an important difference by impacting the Senate plan. Senate members are still unsure about the best way to construct education tax proposals. Students need to tell the Senate Finance Committee that a plan such as Archer's is simply not acceptable. More importantly, however, we must let each member of the Senate Finance Committee know that their plan must aid both low and middle-income students.

Students should tell the Committee that the education tax package **MUST** include a **REFUNDABLE** tax credit (i.e. a credit that would be available to families with incomes below \$23,000 who have no tax liability). If such a refundable credit is not included in the package, the education tax cuts will NOT help students with the most need access college.

In the top income quintile, nearly half of all persons have a B.A. by age 24, but in the lowest income quintile, only 7% of the population have earned a B.A. by age 24. This fact must change. We cannot allow the education gap between the wealthy and the low-income to widen. We must ensure that both low-income and middle-income students have the resources to enter and remain in college.

STUDENT SHOULD CALL THE FOLLOWING SENATORS AND URGE THEM TO SUPPORT A REFUNDABLE EDUCATION TAX CREDIT THAT WILL INCREASE ACCESS FOR OUR NATION'S

MOST NEEDY STUDENTS!

TO CONTACT THE FOLLOWING SENATORS CALL 1-800-574-4AID.

IF EVERY STUDENT WHO RECEIVES THIS MESSAGE MAKES 3 PHONE CALLS (AND REMEMBER THEY ARE FREE) WE CAN FORCE CONGRESS TO ADDRESS STUDENT NEEDS AND CREATE AN HISTORIC OPPORTUNITY FOR BOTH LOW AND MIDDLE-INCOME STUDENTS TO PURSUE COLLEGE EDUCATION.

Senate Finance Committee

ROTH-CHAIR (R-DE)

Chafee (R-RI)
Grassley (R-IA)
Hatch (R-UT)
D'Amato (R-NY)
Murkowski (R-AK)
Nickles (R-OK)
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Breaux (D-LA)
Conrad (D-ND)
Graham (D-FL)
Moseley-Braun (D-IL)
Bryan (D-NV)
Kerrey (D-NE)

Erica Adelsheimer
Legislative Director
U.S. Student Association
1413 K Street NW 10th Floor
Washington, DC 20005

Phone: 202.347.USSA
Fax: 202.393.5886
E-mail: ussaleg@essential.org
<http://www.essential.org/ussa>

PLAN NOW TO JOIN US FOR USSA'S 50TH ANNUAL NATIONAL STUDENT CONGRESS

JULY 21-27, 1997 IN MADISON, WISCONSIN

CONTACT USSA FOR MORE INFORMATION!



SUNTUM_M @ A1
06/10/97 11:59:00 AM

Record Type: Record

To: See the distribution list at the bottom of this message
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Subject: 1997-06/10 Remarks by President on Education Standards

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

June 10, 1997

REMARKS BY THE PRESIDENT
ON EDUCATION STANDARDS

The Rose Garden

11:24 A.M. EDT

THE PRESIDENT: Thank you very much. Let me say, first of all, I'm glad to be here with Pat Forgione, the Commissioner for the National Center for Educational Statistics. I thank him for the fine work that he has done. I thank the educators who are here: Linda Vieth, Lourdes Monegudo and Sharon Simpson. I thank Secretary Riley for his excellent work. And I want to thank all of those out in the audience who have done so much to make this day come to pass -- those who were introduced, the leaders of the NEA and the AFT and the other education groups who are here. All of you, thank you very much for being here.

Today is a good day for American education. Today, we announce the new results from the Third International Mathematics and Science Study for 4th Graders, showing that America's 4th graders are performing above the national average in math and science. In fact, in science they are doing very well, indeed. According to this report, just issued today, our 4th graders rank second in the world in the Third International Math and Science Tests, just behind Korea. We are making great strides. We've built a solid foundation in our national effort to establish standards of excellence in education.

In 1989 and '90, when I was a governor, I worked with the other governors in the White House and the Department of Education to establish national education goals. I remember the night we spent staying up all night at the University of Virginia, asking ourselves whether we should have a goal in math and science and, if so, what should it be. You remember, don't you? We were up all night long and people said to me, there's no way in the world we can have a goal that we should be first in the world of math and science because we have a more diverse population, we have more poor children, we don't have uniformity of -- so I remember looking at the person who made the argument -- it was a perfectly sane and rational argument -- I said, well, what do you want me to say, we're going to be third in the world in math and science? That's our goal? We'll be fourth, we'll be eighth? So we decided we would embrace the goal that we would be first.

These 4th grade examinations proved that if our educators, our parents, our schools, the rest of us in a supporting role, if we all do the right thing, that our children can achieve if we give them the chance to do it, and if we have high expectations for them. So, again, I want to say, I thank the educators that are here. And I think that if you look at where we were -- just in 1991, there as a test similar to the TIMSS test in which our 4th graders were below average in math, above average in science, but nowhere near where they are today. So this shows you what can happen in a few short years if people are working together for the right things for our children and the future of this country.

So I just want to say again to all those who were serving with me -- the Republicans and Democrats alike who were

governors back then -- I still think we did the right thing, and now we have to do what it takes to make sure we meet the goal. We have to have the conviction that every child in America can learn. And we have to know that this report proves that we don't have to settle for second class expectations or second class goals.

Now, we also have to remember that we've got a long way to go. Last November, when Secretary Riley and Commissioner Forgione released the first results from the 8th grade test, we found that we were above the international average in science, but still below the international average in mathematics. That is why I have asked us to begin not just participating in the TIMSS test with a few thousand of our students, but to voluntarily embrace national standards beginning with reading and mathematics; and begin with examinations that would embrace every child in America with 4th grade reading and 8th grade math by 1999.

Since I issued that call, six states -- education leaders or governors -- in Maryland, Michigan, North Carolina,

California, West Virginia and Massachusetts, along with the Department of Defense Schools, have adopted this plan of embracing national standards and agreeing to participate in the testing program. I'm pleased to announce today that the state of Kentucky is joining the national standards movement, becoming the sixth state to agree to participate in the examinations. And I want to especially thank Governor Paul Patton, who has been a national leader in education, for joining in this endeavor.

The results today give us a road map to higher performance. In no other country in the world did performance in math drop from above average in 4th grade to below average in 8th grade. That didn't happen anywhere else -- which means that we are doing a very good job in the early grades, but we've got a lot more work to do in the later ones. We know parents have to remain involved in their children's education as they move through schools, not withdraw when their children reach adolescence. We know our curriculum will have to be more focused and more demanding. We know we'll have to hold all of our students to higher standards as they grow older and measure the schools and the students against the standards.

As the school year comes to a close, I want to thank the many thousands of parents and teachers, principals who have done the hard work necessary to achieve these positive results. They have told us over and over and over again that if we can redouble our efforts, especially now in middle school and high schools, we can meet our goals of national excellence. Bipartisan progress on education shows what we can accomplish here in Washington, too, when we reach across party lines -- to balance the budget, but to invest more in the education of our young people, as well as our adults who need more access to education.

So let me just say before I go on to make one or two more points, there are a lot of people who never believed the United States children would score in the top two in the world on any of these international tests. And now, they know that they were wrong and they underestimated our children, underestimated our teachers, underestimated our schools, underestimated our parents. But let's not kid ourselves: we are still nowhere near where we need to be in these other areas, and all this 4th grade test does is to show us that we can be the best in the world if we simply believe it and then organize ourselves to achieve it.

This ought to be a clear challenge to every single state that has not yet come forward to agree to participate in the national standards movement and the test in 1999 that they ought to do it. We don't have to hide anymore, we don't have to be afraid of the results anymore. We're not trying to punish anybody; we're trying to lift the children of this country up, and the TIMSS test proves that they will lift themselves up if we who are adults and in charge of their future do what we ought to do to give them a chance to do it. And I

hope all of you will take that message out across the country now.

Let me finally say that whether we in the national government continue to do our part for education depends upon our good faith in implementing the budget agreement that overwhelming majorities of both parties have voted for, and specifically what we do with the tax portion of the agreement -- which overwhelming majorities agree would be used to help working families to pay for education, to buy and sell a home, to raise their children. That is fair to all Americans.

Yesterday, the Republican Majority on the House Ways and Means Committee released their plan to fill in the details of the tax cut agreed to by the Congress and by me. I have reviewed this plan and I believe that in its present form, it does not meet the tests that I would hold myself to: one, being faithful to the Budget Agreement; second, having a tax cut that will grow the economy; third, having a tax cut that is fair to middle-class families; and, fourth, having a tax cut that genuinely helps to increase the quality and volume of education in America today for people of all ages. I do not believe it meets those tests for the following reasons.

Number one, it falls \$13 billion short in the amount of higher education tax cuts specifically agreed to in the balanced budget agreement. We agreed to roughly \$35 billion. You might say that \$34 billion is roughly \$35 billion, but \$22 billion is not -- not even roughly \$35 billion -- (laughter) -- and if that were a question in the 4th grade TIMMS test, I'm quite sure what the answer would be. (Laughter and applause.)

Second, it short-changes those in the work force who want to gain new skills and those who want to go on to community colleges. Those who go to less expensive schools, like community colleges, would have the HOPE Scholarship I proposed specifically agreed to in the Budget Agreement, cut in half by the House plan.

Third, the plan falls short for working families in other ways. I favor a \$500 per child tax credit. We have people favoring the \$500 per child tax credit all the way from the most liberal coalitions in the Democratic caucus to the Christian Coalition. But I want to make it even more fair. I think it ought to be refundable, so it's fair to working parents with lower incomes. Instead, the Republican plan would deny the full child tax credit to millions of the hardest pressed working families simply because it is not refundable. And they would deduct the availability of the child's tax credit from the earned income tax credit that lower income working families already earn.

Moreover, and unbelievably to me, they would reduce tax benefits to working families where both the father and the mother are working and paying for child care and getting some credit for that -- they want to deduct the child tax credit from the credit people

already get to pay for child care, apparently, designed to make it more difficult for people who are parents to work outside the home. I think most working families will tell you, it's hard enough already; what we'd like is a little help raising our children. I do not believe we should discriminate against parents who are working and raising their children in the availability of the children's tax credit.

In short, the tax plan cuts in half the tax cuts for those who go to community college. It short changes 6 million families who are already in the work force and having to pay for their child care. That does not meet the standards of fairness to families and promotion of education. Nor do I believe it is consistent with the budget agreement. So I hope that the House Democrats and Republicans and the Senate Democrats and Republicans will work with us to meet those tests.

Finally, let me just say one other thing. The people of the Dakotas and Minnesota earned the great compassion and concern of all Americans because of what they went through this year. We've worked hard to help them stave off the worst, to get their communities back together, to rebuild. It has been 80 days since I forwarded to Congress my request for disaster relief to allow the process of recovery to begin.

Instead of giving me a disaster relief bill, the Congressional Majority insisted on weighing it down with a political wish list. In the name of the people who have had to face the floods, in the name of the families who suffered and need their help now, I ask the Majority to put aside the political games to set aside the political wish list -- we can negotiate on all this later -- and, instead, just send me a straightforward disaster relief bill. Again, I believe if this were a question on an elementary school exam, 90 percent of the 4th graders in America would say: do the right thing and have your political arguments later.

So as we celebrate today, let's do the right thing and resolve that we're not going to stop until we get those TIMSS tests and we're first in the world at the 4th grade level, at the 8th grade level, at the 12th grade level. Our 4th graders have proved that we can do it. We dare not let them and the other children of this country down.

Thank you very much. (Applause.)

END

11:37 A.M. EDT

Message Sent To:

Fraser

3:30 on ADP

- MAICU & AAU will make case on deconomy
offers aren't...

- Statement? from WH.

(- depend on who's calling about...)

- Event w/ Camps

- anti-Archer?

- Range?

(- may mark up ahead of adp?)

(ued) ??

(- ued regularly schedule assess w/ sec
Before 2:00)

FOR IMMEDIATE RELEASE**(JUNE 9, 1997)**

Contact: Gay Clyburn, 202/857-1824
(e-mail: clyburng@aascu.nche.edu)

Tim Martin, 202/293-7070
(e-mail: martint@aascu.nche.edu)

WWW: www.aascu.nche.edu/news/releases/archer.htm

**Statement from American Association of State Colleges and
Universities In response to Chairman Bill Archer's Mark, House
Committee on Ways and Means**

We are disappointed to see that Chairman Archer's tax package, instead of improving the administration's education-related tax proposals, accomplishes just the opposite. It is more regressive and does nothing to expand access to higher education.

The American Association of State Colleges and Universities (AASCU) has set a clear standard against which any educational tax proposal may be judged—that of broadening educational opportunity.

We believe the president deserves credit for insisting that at least \$35 billion of any tax expenditures should be devoted to higher education. We had hoped that Chairman Archer would modify the details of the administration's proposal to ensure that the neediest, as well as middle and upper income Americans, would qualify for education-related tax benefits.

Unfortunately, the chairman's mark falls short. Not only does it devote substantially less to education-related tax provisions than the budget agreement with the president requires, it is also seriously mis-targeted.

Our concerns are as follows:

- The modifications made to the president's Hope Scholarship proposal move the tax subsidies even further toward the upper income. By limiting the credit to "out of pocket" tuition and books, the chairman's mark fails to conform to the improvements the president recently announced. In addition, limiting the credit to 50 percent of tuition and books up to \$3,000 serves as another *de facto* cap on the maximum eligibility of students at schools with tuition charges of less than \$3,000. The fact that the tax credit continues to be nonrefundable also renders it ineffective as an instrument of access.
- The deductibility of up to \$10,000 per student per year of expenditures through state sponsored prepaid tuition plans, and the creation of a similar deduction for private prepaid tuition programs, will help only our highest income citizens.

(over)

News

American

Association of

State

Colleges and

Universities

One Dupont Circle

Suite 700

Washington, DC

20036-1192

voice 202/293-7070

fax 202/296-5819

Add 1, AASCU

- The chairman's mark fails to include non-taxability of student loan forgiveness—an extraordinarily important feature of the administration's package that AASCU fully endorses.
- The chairman's proposal does not restore the deductibility of student loan interest payments, which enjoy universal support within the higher education community and bipartisan support in Congress.
- The chairman's mark does not permanently extend employer-provided education assistance—temporarily extended it only through Dec. 31, 1997—and then only for undergraduate study.
- The proposal phases out non-taxability of tuition reduction provided to employees of educational institutions, and thus increases personnel costs at colleges and universities.

AASCU hopes to work with Chairman Archer to address our concerns as he leads the Ways and Means Committee in mark-up.

***aascu* American Association of State Colleges and Universities**

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

June 9, 1997

The Honorable William V. Roth
Chairman
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Bill Archer
Chairman
House Ways and Means Committee
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairmen.

We write to indicate our enthusiastic support for the agreement reached between the President and Congress to devote a substantial portion of any tax cuts to higher education. We congratulate the President and the Congress for their continued efforts to expand access to higher education, and believe that properly crafted tax incentives are an investment in America's future.

We fully endorse the goals articulated by the Administration and congressional leaders in advancing their respective packages of education-related tax cuts. We believe that as Congress works to implement the budget agreement, it has a historic opportunity to produce a final tax package that will enable all Americans to afford postsecondary education for themselves and their children.

As you examine the specific features of education-related tax benefits, we hope that you will join the President in his call for making at least two years of postsecondary education the norm for our citizens. The creation of an expanded Hope Scholarship program is the single most effective way in which the tax writing committees can make the dream of a better future for all Americans a reality. We believe such a program, if it is correctly designed to provide benefits to our neediest citizens as well as to middle income families, will be a proud legacy for policymakers.

The bipartisan agreement for restoration of deductibility of student loan interest payments is another important tax provision we support. An "above-the-line" deduction for educational borrowing would provide relief to millions of our citizens with student loan payments.

The Administration has proposed that any loan forgiveness for borrowers who make 25 years of payments based on income be non-taxable. We fully endorse this proposal. In an effort to promote greater community service, the Administration has also proposed non-taxability of loan forgiveness by non-profit entities. We believe public colleges and universities should be included in this provision. While public institutions can provide non-taxable loan forgiveness in certain circumstances under current law, we believe their inclusion in this new provision would

The Honorable William V. Roth
The Honorable Bill Archer
June 9, 1997
Page 2

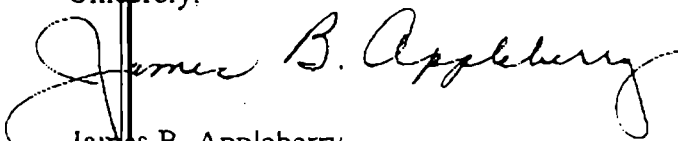
simplify the process substantially. Also, we encourage Congress to include a technical expansion of non-taxability to include loan discharge, write-off and compromise.

The Administration and Congress have proposed a variety of additional incentives that merit careful consideration. These include tax-free educational savings accounts; expansion and permanent extension of tax exemption for employer-provided education assistance; tax exemption for work-study earnings, scholarships and fellowships; and proposals to encourage lifelong learning.

An additional proposal we are concerned about is non-taxability of state prepaid tuition plans. We strongly support this in concept, but believe it should apply only to state prepaid tuition plans that are actuarially sound, and that do not create unfunded contingent liabilities for the nation's public institutions.

We appreciate your leadership on these important issues, and stand ready to work with you in the historic task before the Committee.

Sincerely,



James B. Appleberry
President

On behalf of the following education associations:

Hispanic Association of Colleges and Universities (HACU)
National Association for Equal Opportunity in Higher Education (NAFEO)
National Council of Educational Opportunity Associations (NCEO)
The Education Trust
U.S. Public Interest Research Group (USPIRG)
United Negro College Fund (UNCF)
United States Student Association (USSA)

pc: The Honorable Richard W. Riley
Members of the Senate Finance Committee
Members of the House Ways and Means Committee

Endorsements/Statements

We now have statements from all of the higher education organizations. The AASCU letter is quite positive, even though it is not exactly the Administration's package.

AASCU and several other groups have also issued a press released that is very critical of Archer's package.

Treasury is delivering the endorsements to Ways & Means and the entire Senate tomorrow.

Event possibility

Treasury wants to have the education groups with Rubin and Riley (and possibly the VP) tomorrow (Tuesday), to have an impact on the mark-up, which starts Wednesday. Education is concerned that it interferes with the POTUS math announcement, and suggests that Wednesday is not too late given that the mark-up will not focus on education until Thursday.

Calls to Finance and Ways and Means

Barry Munitz has talked to targeted college presidents and prepped them to talk to specific members, including D'Amato

NAICU's 50 board members are each calling five key presidents targeted to Finance and Ways & Means members.

Other organizations have sent out alerts but we do not yet have information on their organizing activities.

- Repairs - getting

x (Gandhi)

x (Albino)

~~1~~

~~DEAD~~ STATEMENT

June 9, 1997

Congressman Archer's proposed revisions for the President's HOPE Scholarship carry a message of despair for America's lower- and middle-income students and families.

Congressman Archer's plan does not meet the letter or the spirit of the budget deal reached by the Congressional leadership and President Clinton -- an agreement that called for \$35 billion over five years for the President's HOPE Scholarship and \$10,000 tuition tax deduction.

By allowing only a 50 percent tuition tax credit up to a value of \$1,500, Mr. Archer's plan penalizes students financially for choosing to attend a more affordable community college or low-cost four-year institution. This undercuts the basic premise of President Clinton's HOPE Scholarship -- to make the 13th and 14th years of education as universally accessible as the previous 12 years of school. Additionally, Mr. Archer's proposal does away with the lifelong availability of tax benefits as written in President Clinton's plan, ignoring the needs of working Americans to upgrade their skills throughout their career.

President Clinton's plan for higher education-related tax cuts invests in people by helping lower- and middle-income families to meet the costs of college and lifelong learning.

HOPE Scholarship Tax Credit, Tuition Deduction and Education Savings Incentives from Chairman Archer's Mark

HOPE Scholarship Tax Credit

Administration Proposal Taxpayers could claim a nonrefundable credit of up to \$1500 in two taxable years for tuition and required fees incurred during the first two years of postsecondary education on behalf of the taxpayer, her spouse or dependents. To be eligible for the credit, a student must be enrolled at least half-time in a degree or certificate program at a qualified institution and must not have been convicted of a drug-related felony. In addition, the student must show satisfactory academic progress in the first year in order to qualify for the credit in the second year. (The B+ average requirement has been dropped, and the maximum credit would NOT be reduced by federal grants.) The maximum credit would be indexed beginning in 1998. The credit would be phased out for individual taxpayers with agi between \$50,000 and \$70,000 and for joint filers with agi between \$80,000 and \$100,000. The thresholds would be indexed beginning in 2001. Taxpayers would have to choose either the HOPE credit or the tuition deduction for a student's expenses in a single year.

Chairman's Mark Taxpayers could claim a nonrefundable 50% credit for up to \$3,000 in two taxable years for tuition, required fees and books incurred during the first two years of postsecondary education on behalf of the taxpayer, her spouse or dependents. To be eligible, the student must be enrolled at least half-time in a degree or certificate program at a qualified institution and not have been convicted of a drug-related felony. The maximum credit amount would be indexed for inflation beginning in 1998. The proposal would be effective for expenses paid after December 31, 1997 for education furnished in academic periods beginning after that date. The credit would be phased out for individual taxpayers with agi between \$40,000 and \$50,000 and joint filers with agi between \$80,000 and \$100,000. The thresholds would be indexed beginning in 2001. A taxpayer would have to choose either the HOPE credit or the tuition deduction for a student's expenses in a single year, provided the expenses were paid from a prepaid tuition plan or education investment account and were, therefore, eligible for the deduction.

Recommended Position Support, but only with significant modifications.

Revenue Estimate JCT: [\$22b] over 5 years, [\$49b] over 10 years.

Deduction for Expenses Paid from State-Sponsored or Private Tuition Program or Education Investment Account

Current Law A taxpayer who saves for higher education through a qualified state tuition program that meets the requirements of section 529 may defer tax on the earnings in the account until the time of withdrawal. When the funds are withdrawn, they are taxable to the party who withdraws them. Usually, this will be the student who is using the account to pay for school. However, it may be the parent or other account holder who wants a refund. If the

designated beneficiary of an account is changed, and the new designated beneficiary is an ancestor, spouse, sibling, child, grandchild or other lineal descendant of the current beneficiary, or a spouse of any of the foregoing, including the beneficiary, the change will not be treated as a distribution and will not trigger tax or a penalty. Generally, a state's educational savings plan will qualify under section 529 if the state establishes and maintains the plan, allows it to be used to save only for tuition, required fees and books, prohibits investment direction by participants and imposes a more than de minimis penalty on withdrawals not used for higher education expenses. Section 529 does not impose income limits or contribution limits, other than a general limit on funding the plan in excess of reasonable educational needs.

Chairman's Mark Taxpayers that paid tuition, required fees, books, room and board with money withdrawn from a state-sponsored tuition program, private tuition program (meaning one sponsored by an educational organization) or an education investment account could take an above-the-line deduction for up to \$10,000 a year per student for those expenses. Also, the deduction cannot exceed the portion of the distribution that represents earnings, rather than contributions. A deduction would be available for room and board even if the student lives at home. The student can be the taxpayer, her spouse or her dependents. The deductions taken for a student could not exceed \$40,000 for all taxable years. Deductions could not be taken for a student once the student completed the first four years of post-secondary education. If a parent claims a student as a dependent and takes a deduction for the student's expenses, the distribution from the state tuition program would be included in the parent's income rather than the student's. To be eligible, the student must be enrolled at least half-time in a degree or certificate program at an educational institution eligible to participate in federal student aid programs. The deduction would not be a preference item for the AMT.

In addition, the requirements of section 529 would be changed so that taxpayers could use state tuition programs and private tuition programs to save not only for tuition, fees and books, but also for room and board. Ways and Means intends to limit the maximum amount of deductible room and board to the amount the school allows when calculating costs of attendance for financial aid purposes. A technical correction later in the bill -- that is arguably not a technical -- would allow existing plans to continue accepting contributions on contracts that cover room and board made before section 529 was enacted.

Recommended Position Oppose.

Revenue Estimate JCT: [\$889m] over 5 years, [\$2.4b] over 10 years

Education Investment Accounts

Current Law Income earned in a prepaid tuition program established and maintained by anyone other than a state is not guaranteed to receive tax deferred treatment. Taxpayers who save for education expenses must pay tax annually on any income they earn on their savings.

Chairman's Mark Taxpayers would be permitted to establish education investment accounts in the same trust form used for IRAs. Up to \$50,000 in aggregate cash contributions can be made

on behalf of a single beneficiary. Earnings would accumulate tax free. Distributions would be eligible for the same tuition deduction available for distributions from state tuition programs. Contributions cannot be made after the beneficiary reaches age 18, and all amounts must be withdrawn by the time the child for whom the account is established reaches 30 or completes the first four years of post-secondary education. A 10% additional tax would generally apply on distributions not used for higher education expenses. > ?

Recommended Position Oppose

Revenue Estimate JCT [\$6.9b] over 5 years, [\$22.4b] over ten years

Talking Points

Objections to Higher Education Proposals in Ways and Means Chairman's Mark

- As compared to the Administration's budget, the Chairman's mark redirects a large portion of benefits to higher income families that can afford to save for higher education expenses. For families who need grants and loans to afford school, benefits are diminished in the first two years of higher education and taken away entirely for later years.
- Under the Chairman's mark, a middle-income student who works all summer, saves her salary and uses it to pay her junior year tuition would receive no assistance. However, her classmate who spent the same summer on vacation could get up to a \$10,000 deduction when she pays her tuition out of the educational investment account her well-to-do parents were able to fund.
- The Chairman's HOPE credit is less generous for students at community colleges and other low-price schools.
- The Chairman's package provides no support for education beyond the first four years of college and very little for workers and others who may return to school later in life. An older student cannot start an educational investment account -- contributions cannot be made after the beneficiary reaches 18 -- and cannot benefit from employer-provided educational assistance after 1997.
- The education investment account proposal creates a potential for abuse that will be difficult to prevent. Although aggregate contributions on behalf of a single beneficiary are limited to \$50,000, financial institutions will have no way of knowing whether an account holder has other accounts elsewhere, and the IRS will find it difficult to keep a running total of contributions over many years. The IRA system works because it sets a maximum annual contribution that can be policed with simple annual information reporting.

Major Tax Cut Provisions in the Ways and Means Chairman's Mark (1)

(1998 Income Levels)

Family Economic Income Quintile (2)	Number of Families (millions)	Average Tax Change (\$)	Total Tax Change		Tax Change as a Percent of:	
			Amount (3) (\$M)	Percent Distribution (%)	Current Federal Taxes (4) (%)	Family Economic Income (%)
Lowest (5)	21.6	-17	-357	0.5	-2.84	-0.17
Second	22.2	-76	-1691	2.4	-2.75	-0.31
Third	22.3	-295	-6574	9.2	-4.17	-0.69
Fourth	22.3	-623	-13856	19.5	-4.49	-0.86
Highest	22.3	-2172	-48354	37.9	-5.31	-1.17
Total (5)	111.3	-640	-71191	100.0	-4.80	-0.86
Top 10%	11.1	-3089	-34406	48.3	-5.20	-1.18
Top 5%	5.6	-4577	-25517	35.8	-5.22	-1.21
Top 1%	1.1	-12247	-13741	19.3	-5.29	-1.30

Department of the Treasury
Office of Tax Analysis

June 11, 1997

- (1) This table distributes the estimated change in tax burdens due to the major tax cut proposals in the Ways and Means Chairman's Mark which include the following: i) child and dependent care tax credits, ii) a modified HOPE scholarship tax credit, iii) a deduction for education expenses paid through State-sponsored prepaid tuition programs; iv) education investment accounts and private prepaid tuition programs; v) American Dream IRAs; vi) Capital gains provisions (lower individual and corporate rates, indexing of individual gains, and \$500,000 exclusion for gains on a principal residence); v) individual AMT change and corporate AMT repeal; vi) District of Columbia tax incentives; and vii) safe harbor for independent contractors.
- (2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and under-reported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.
- (3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. For the American Dream and education accounts, the change is measured as the present value of the tax savings from one year's contributions. The effect of the capital gains provision is based on the level of capital gains realizations under current law.
- (4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.
- (5) Families with negative incomes are excluded from the lowest quintile but included in the total line.

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

Major Tax Cut Provisions in the Ways and Means Chairman's Mark (1)

(1998 Income Levels)

Family Economic Income Class (2) (000)	Number of Families (millions)	Average Tax Change (\$)	Total Tax Change		Tax Change as a Percent of:	
			Amount (3) (\$M)	Percent Distribution (%)	Current Federal Taxes (4) (%)	Family Economic Income (%)
0 - 15	18.5	-14	-268	0.4	-2.87	-0.17
15 - 30	21.8	-62	-1363	1.9	-2.72	-0.28
30 - 40	12.1	-167	-2014	2.8	-3.24	-0.48
40 - 50	9.7	-333	-3234	4.5	-4.43	-0.74
50 - 60	7.9	-453	-3567	5.0	-4.54	-0.83
60 - 75	9.4	-548	-5159	7.2	-4.30	-0.82
75 - 100	11.7	-837	-9794	13.8	-4.88	-0.97
100 - 200	15.6	-1492	-23269	32.7	-5.37	-1.13
200 & over	3.9	-5663	-22164	31.1	-5.24	-1.23
Total (5)	111.3	-640	-71191	100.0	-4.90	-0.96

Department of the Treasury
Office of Tax Analysis

June 11, 1997

- (1) This table distributes the estimated change in tax burdens due to the major tax cut proposals in the Ways and Means Chairman's Mark which include the following: i) child and dependent care tax credits, ii) a modified HOPE scholarship tax credit, iii) a deduction for education expenses paid through State-sponsored prepaid tuition programs; iv) education investment accounts and private prepaid tuition programs; v) American Dream IRAs; vi) Capital gains provisions (lower individual and corporate rates, indexing of individual gains, and \$500,000 exclusion for gains on a principal residence); v) individual AMT change and corporate AMT repeal; vi) District of Columbia tax incentives; and vii) safe harbor for independent contractors.
- (2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and under-reported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.
- (3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. For the American Dream and education accounts, the change is measured as the present value of the tax savings from one year's contributions. The effect of the capital gains provision is based on the level of capital gains realizations under current law.
- (4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.
- (5) Families with negative incomes are included in the total line but not shown separately.

Democrat's Package (1)

(1998 Income Levels)

Family Economic Income Quintile (2)	Number of Families (millions)	Average Tax Change (\$)	Total Tax Change		Tax Change as a Percent of:	
			Amount (3) (\$M)	Percent Distribution (%)	Current Federal Taxes (4) (%)	Family Economic Income (%)
Lowest (5)	21.6	-82	-1779	4.9	-14.16	-0.87
Second	22.2	-263	-5842	16.1	-9.48	-1.07
Third	22.3	-338	-7523	20.7	-4.77	-0.79
Fourth	22.3	-424	-9431	25.9	-3.05	-0.59
Highest	22.3	-520	-11578	31.8	-1.27	-0.28
Total (5)	111.3	-327	-36383	100.0	-2.50	-0.49
Top 10%	11.1	-742	-8268	22.7	-1.25	-0.28
Top 5%	5.6	-1249	-6966	19.1	-1.43	-0.33
Top 1%	1.1	-3966	-4449	12.2	-1.71	-0.42

June 8, 1997

- (1) This table distributes the estimated change in tax burdens due to the tax proposals in the following illustrative baseline tax package:
- i) Hope Scholarship credit (\$1,100 1998-1999, \$1,200 in 2000, \$1,500 in 2001 indexed beginning in 2002; no B minus rule; and no Federal grant offset) and 20% tuition credit (\$4,000 in 1997 to 2000 and \$7,500 thereafter); ii) Permanent extension of Section 127;
 - iii) \$500 child credit which is refundable against the employee share of payroll taxes (\$250 in 1998, \$300 1999 to 2000, and \$500 in 2001, indexed beginning in 2002); iv) 18% maximum capital gains rate on non-publicly traded assets (\$600,000 lifetime cap (joint), 3 year holding period); v) Allow deductibility on losses on sale of principal residence; vi) \$500,000 exclusion of gains on the sale of principal residence (President's FY1998 Budget proposal); and vii) distressed areas initiative and other tax incentives in the President's FY1998 Budget (equitable tolling, Section 936, and FSC software).
- (2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and under-reported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.
- (3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. The effect of the capital gains proposal is based on the level of capital gains realizations under current law.
- (4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.
- (5) Families with negative incomes are excluded from the lowest quintile but included in the total line.

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

Democrat's Package (1)

(1998 Income Levels)

Family Economic Income Class (2) (000)	Number of Families (millions)	Average Tax Change (\$)	Total Tax Change		Tax Change as a Percent of:	
			Amount (3) (\$M)	Percent Distribution (%)	Current Federal Taxes (4) (%)	Family Economic Income (%)
0 - 15	18.5	-67	-1238	3.4	-13.27	-0.79
15 - 30	21.8	-246	-5372	14.8	-10.70	-1.11
30 - 40	12.1	-304	-3659	10.1	-5.89	-0.87
40 - 50	9.7	-342	-3323	9.1	-4.55	-0.76
50 - 60	7.9	-408	-3208	8.8	-4.08	-0.74
60 - 75	9.4	-443	-4175	11.5	-3.48	-0.66
75 - 100	11.7	-388	-4537	12.5	-2.26	-0.45
100 - 200	15.6	-273	-4262	11.7	-0.98	-0.21
200 & over	3.9	-1629	-6377	17.5	-1.51	-0.35
Total (5)	111.3	-327	-36383	100.0	-2.50	-0.49

June 8, 1997

- (1) This table distributes the estimated change in tax burdens due to the tax proposals in the following illustrative baseline tax package:
- i) Hope Scholarship credit (\$1,100 1998-1999, \$1,200 in 2000, \$1,500 in 2001 indexed beginning in 2002; no B minus rule; and no Federal grant offset) and 20% tuition credit (\$4,000 in 1997 to 2000 and \$7,500 thereafter); ii) Permanent extension of Section 127;
 - iii) \$500 child credit which is refundable against the employee share of payroll taxes (\$250 in 1998, \$300 1999 to 2000, and \$500 in 2001, indexed beginning in 2002); iv) 18% maximum capital gains rate on non-publicly traded assets (\$600,000 lifetime cap (joint), 3 year holding period); v) Allow deductibility on losses on sale of principal residence; vi) \$500,000 exclusion of gains on the sale of principal residence (President's FY1998 Budget proposal); and vii) distressed areas initiative and other tax incentives in the President's FY1998 Budget (equitable tolling, Section 936, and FSC software).
- (2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and under-reported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.
- (3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. The effect of the capital gains proposal is based on the level of capital gains realizations under current law.
- (4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.
- (5) Families with negative incomes are included in the total line but not shown separately.

"Friday" Baseline Tax Package Without Capital Gains Exclusion and Without Raisers (1)

(1998 Income Levels)

Family Economic Income Quintile (2)	Number of Families (millions)	Average Tax Change (\$)	Total Tax Change		Tax Change as a Percent of:	
			Amount (3) (\$M)	Percent Distribution (%)	Current Federal Taxes (4) (%)	Family Economic Income (%)
Lowest (5)	21.6	-114	-2468	6.7	-19.65	-1.20
Second	22.2	-312	-6931	18.9	-11.25	-1.27
Third	22.3	-383	-8512	23.2	-5.40	-0.89
Fourth	22.3	-498	-11072	30.2	-3.59	-0.69
Highest	22.3	-339	-7548	20.6	-0.83	-0.18
Total (5)	111.3	-330	-36684	100.0	-2.52	-0.50
Top 10%	11.1	-313	-3489	9.5	-0.53	-0.12
Top 5%	5.6	-377	-2099	5.7	-0.43	-0.10
Top 1%	1.1	-896	-1005	2.7	-0.39	-0.10

Department of the Treasury
Office of Tax Analysis

June 9, 1997

- (1) This table distributes the estimated change in tax burdens due to the tax proposals in the following illustrative baseline tax package:
- i) Hope Scholarship credit (\$1000 through 1999, \$1,500 in 2000, indexed beginning in 2001; no B minus rule; and no Federal grant offset) and tuition tax deduction (\$5,000 in 1998 and 1999, \$10,000 thereafter); ii) Permanent extension of Section 127; iii) Kidsave credit: a \$500 refundable child credit (\$2,000 earnings test) for children under 18 with an optional maximum \$500 back-loaded IRA for education or retirement; iv) individual AMT reform (includes elimination of personal credits and standard deduction preferences, does not include indexing); v) small business capital gains preferences; vi) \$500,000 exclusion of gains on the of principal residence (President's FY1998 Budget proposal); and vii) distressed areas initiatives and other tax incentives in the President's FY1998 Budget (equitable tolling, Section 936, and FSC software).
- (2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and under-reported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.
- (3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. For the Kidsave proposal, the change is measured as the present value of the tax savings from one year's contributions.
- (4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.
- (5) Families with negative incomes are excluded from the lowest quintile but included in the total line.

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

"Friday" Baseline Tax Package Without Capital Gains Exclusion and Without Raisers (1)

(1998 Income Levels)

Family Economic Income Class (2) (000)	Number of Families (millions)	Average Tax Change (\$)	Total Tax Change		Tax Change as a Percent of:	
			Amount (3) (\$M)	Percent Distribution (%)	Current Federal Taxes (4) (%)	Family Economic Income (%)
0 - 15	18.5	-94	-1737	4.7	-18.62	-1.11
15 - 30	21.8	-297	-6492	17.7	-12.93	-1.34
30 - 40	12.1	-346	-4171	11.4	-6.71	-1.00
40 - 50	9.7	-387	-3758	10.2	-5.14	-0.86
50 - 60	7.9	-461	-3628	9.9	-4.62	-0.84
60 - 75	9.4	-517	-4871	13.3	-4.06	-0.77
75 - 100	11.7	-469	-5481	14.9	-2.73	-0.54
100 - 200	15.6	-298	-4654	12.7	-1.07	-0.23
200 & over	3.9	-444	-1737	4.7	-0.41	-0.10
Total (5)	111.3	-330	-36684	100.0	-2.52	-0.50

Department of the Treasury
Office of Tax Analysis

June 9, 1997

- (1) This table distributes the estimated change in tax burdens due to the tax proposals in the following illustrative baseline tax package:
 - i) Hope Scholarship credit (\$1000 through 1999, \$1,500 in 2000, indexed beginning in 2001; no B minus rule; and no Federal grant offset) and tuition tax deduction (\$5,000 in 1998 and 1999, \$10,000 thereafter); ii) Permanent extension of Section 127; iii) Kidsave credit: a \$500 refundable child credit (\$2,000 earnings test) for children under 18 with an optional maximum \$500 back-loaded IRA for education or retirement; iv) individual AMT reform (includes elimination of personal credits and standard deduction preferences, does not include indexing); v) small business capital gains preferences; vi) \$500,000 exclusion of gains on the of principal residence (President's FY1998 Budget proposal); and vii) distressed areas initiatives and other tax incentives in the President's FY1998 Budget (equitable tolling, Section 936, and FSC software).
- (2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and under-reported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.
- (3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. For the Kidsave proposal, the change is measured as the present value of the tax savings from one year's contributions.
- (4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.
- (5) Families with negative incomes are included in the total line but not shown separately.

"Friday" Baseline Tax Package without Raisers (1)

(1998 Income Levels)

Family Economic Income Quintile (2)	Number of Families (millions)	Average Tax Change (\$)	Total Tax Change		Tax Change as a Percent of:	
			Amount (3) (\$M)	Percent Distribution (%)	Current Federal Taxes (4) (%)	Family Economic Income (%)
Lowest (5)	21.6	-122	-2627	5.9	-20.91	-1.28
Second	22.2	-327	-7267	16.3	-11.80	-1.33
Third	22.3	-408	-9075	20.4	-5.75	-0.95
Fourth	22.3	-538	-11963	26.9	-3.87	-0.75
Highest	22.3	-597	-13283	29.9	-1.46	-0.32
Total (5)	111.3	-400	-44453	100.0	-3.06	-0.60
Top 10%	11.1	-771	-8588	19.3	-1.30	-0.29
Top 5%	5.6	-1185	-6604	14.9	-1.35	-0.31
Top 1%	1.1	-3735	-4191	9.4	-1.61	-0.40

Department of the Treasury
Office of Tax Analysis

June 9, 1997

- (1) This table distributes the estimated change in tax burdens due to the tax proposals in the following illustrative baseline tax package: i) Hope Scholarship credit (\$1000 through 1999, \$1,500 in 2000, indexed beginning in 2001; no B minus rule; and no Federal grant offset) and tuition tax deduction (\$5,000 in 1998 and 1999, \$10,000 thereafter); ii) Permanent extension of Section 127; iii) Kidsave credit: a \$500 refundable child credit (\$2,000 earnings test) for children under 18 with an optional maximum \$500 back-loaded IRA for education or retirement; iv) individual AMT reform (includes elimination of personal credits and standard deduction preferences, does not include indexing); v) 40% capital gains exclusion and 24% AMT; vi) small business capital gains preferences; vii) \$500,000 exclusion of gains on the sale of principal residence (President's FY1998 Budget proposal); and viii) distressed areas initiatives and other tax incentives in the President's FY1998 Budget (equitable tolling, Section 936, and FSC software).
- (2) Family Economic income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and under-reported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.
- (3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. For the Kidsave proposal, the change is measured as the present value of the tax savings from one year's contributions. The effect of the capital gains proposal is based on the level of capital gains realizations under current law.
- (4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.
- (5) Families with negative incomes are excluded from the lowest quintile but included in the total line.

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

"Friday" Baseline Tax Package without Raisers (1)

(1998 Income Levels)

Family Economic Income Class (2) (000)	Number of Families (millions)	Average Tax Change (\$)	Total Tax Change		Tax Change as a Percent of:	
			Amount (3) (\$M)	Percent Distribution (%)	Current Federal Taxes (4) (%)	Family Economic Income (%)
0 - 15	18.5	-101	-1862	4.2	-19.95	-1.19
15 - 30	21.8	-312	-6806	15.3	-13.56	-1.40
30 - 40	12.1	-367	-4420	9.9	-7.11	-1.05
40 - 50	9.7	-413	-4006	9.0	-5.48	-0.92
50 - 60	7.9	-492	-3876	8.7	-4.93	-0.90
60 - 75	9.4	-555	-5223	11.7	-4.35	-0.83
75 - 100	11.7	-515	-6026	13.6	-3.00	-0.59
100 - 200	15.6	-387	-6043	13.6	-1.39	-0.29
200 & over	3.9	-1521	-5953	13.4	-1.41	-0.33
Total (5)	111.3	-400	-44453	100.0	-3.06	-0.60

Department of the Treasury
Office of Tax Analysis

June 9, 1997

- (1) This table distributes the estimated change in tax burdens due to the tax proposals in the following illustrative baseline tax package:
 - i) Hope Scholarship credit (\$1000 through 1999, \$1,500 in 2000, indexed beginning in 2001; no B minus rule; and no Federal grant offset) and tuition tax deduction (\$5,000 in 1998 and 1999, \$10,000 thereafter); ii) Permanent extension of Section 127; iii) Kidsave credit: a \$500 refundable child credit (\$2,000 earnings test) for children under 18 with an optional maximum \$500 back-loaded IRA for education or retirement; iv) individual AMT reform (includes elimination of personal credits and standard deduction preferences, does not include indexing); v) 40% capital gains exclusion and 24% AMT; vi) small business capital gains preferences; vii) \$500,000 exclusion of gains on the sale of principal residence (President's FY1998 Budget proposal); and viii) distressed areas initiatives and other tax incentives in the President's FY1998 Budget (equitable tolling, Section 936, and FSC software).
- (2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and under-reported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.
- (3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. For the Kidsave proposal, the change is measured as the present value of the tax savings from one year's contributions. The effect of the capital gains proposal is based on the level of capital gains realizations under current law.
- (4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.
- (5) Families with negative incomes are included in the total line but not shown separately.

Example 1.

**Change in Income Tax: Comparison of Current Law With
The Administration Proposal and Ways & Means Committee Chairman's Mark**

**Couple with Income of \$15,000 and Children 2 and 8
(1999 Tax Parameters)**

	Current Law	Administration Proposal	Ways & Means Committee Chairman's Mark
Adjusted Gross Income (AGI)	15,000	15,000	15,000
Standard Deduction	7,300	7,300	7,300
Personal Exemptions	<u>11,200</u>	<u>11,200</u>	<u>11,200</u>
Taxable Income	0	0	0
Income Tax Before Credits	0	0	0
Child Credits	0	0	0
Earned Income Credit (refundable)	0	1,000 *	0 **
Income Tax After Credits	3,148	3,148	3,148
	(3,148)	(4,148)	(3,148)
Tax Savings Compared to Current Law		1,000	0

Department of the Treasury
Office of Tax Analysis

June 10, 1997

* refundable

** nonrefundable and calculated after EITC

Example 2.

**Change in Income Tax: Comparison of Current Law With
The Administration Proposal and Ways & Means Committee Chairman's Mark**

**Couple with Income of \$25,000 and Children 6 and 12
(1999 Tax Parameters)**

	Current Law	Administration Proposal	Ways & Means Committee Chairman's Mark
Adjusted Gross Income (AGI)	25,000	25,000	25,000
Standard Deduction	7,300	7,300	7,300
Personal Exemptions	<u>11,200</u>	<u>11,200</u>	<u>11,200</u>
Taxable income	6,500	6,500	6,500
Income Tax Before Credits	975	975	975
Child Credits	0	1,000 *	0 **
Earned Income Credit (refundable)	1,042	1,042	1,042
Income Tax After Credits	(67)	(1,067)	(67)
Tax Savings Compared to Current Law		1,000	0

Department of the Treasury
Office of Tax Analysis

June 10, 1997

* refundable

** nonrefundable and calculated after EITC

Example 3.

**Change in Income Tax: Comparison of Current Law With
The Administration Proposal and Ways & Means Committee Chairman's Mark**

**Couple with Income of \$40,000 and Children 6 and 12
(1999 Tax Parameters)**

	Current Law	Administration Proposal	Ways & Means Committee Chairman's Mark
Adjusted Gross Income (AGI)	40,000	40,000	40,000
Standard Deduction	7,300	7,300	7,300
Personal Exemptions	<u>11,200</u>	<u>11,200</u>	<u>11,200</u>
Taxable Income	21,500	21,500	21,500
Income Tax Before Credits	3,225	3,225	3,225
Child Credits	0	1,000	1,000
Income Tax After Credits	3,225	2,225	2,225
Tax Savings Compared to Current Law		1,000	1,000

Example 4.

**Change in Income Tax: Comparison of Current Law With
The Administration Proposal and Ways & Means Committee Chairman's Mark**

**Couple with Income of \$40,000 and Children 8 and 14
(1999 Tax Parameters)**

	Current Law	Administration Proposal	Ways & Means Committee Chairman's Mark
Adjusted Gross Income (AGI)	40,000	40,000	40,000
Standard Deduction	7,300	7,300	7,300
Personal Exemptions	<u>11,200</u>	<u>11,200</u>	<u>11,200</u>
Taxable Income	21,500	21,500	21,500
Income Tax Before Credits	3,225	3,225	3,225
Child Credits	0	500 *	1,000
Income Tax After Credits	3,225	2,725	2,225
Tax Savings Compared to Current Law		500	1,000

Department of the Treasury
Office of Tax Analysis

June 10, 1997

* The Administration proposed child credit is indexed after 1999 and would apply to children under age 18 after 2002, so thereafter would exceed the unindexed child credit proposed in the Ways and Means Committee Chairman's mark,

Example 5.

**Change in Income Tax: Comparison of Current Law With
The Administration Proposal and Ways & Means Committee Chairman's Mark**

**Couple with Income of \$60,000 and Children 12 and 18
18 Year Old Enrolled in College**

**Tuition of \$1,500 and Book Expenditures of \$500
(1999 Tax Parameters)**

	Current Law	Administration Proposal	Ways & Means Committee Chairman's Mark
Adjusted Gross Income (AGI)	60,000	60,000	60,000
Itemized Deductions (18% of AGI)	10,800	10,800	10,800
Personal Exemptions	<u>11,200</u>	<u>11,200</u>	<u>11,200</u>
Taxable Income	38,000	38,000	38,000
Income Tax Before Credits	5,700	5,700	5,700
Child Credits	0	500	500
HOPE Credit	<u>0</u>	<u>1,500</u>	<u>1,000</u>
Income Tax After Credits	5,700	3,700	4,200
Tax Savings Compared to Current Law		2,000	1,500

Example 6.

**Change in Income Tax: Comparison of Current Law With
The Administration Proposal and Ways & Means Committee Chairman's Mark**

**Couple with Income of \$60,000 and Children 12 and 20
20 Year Old Enrolled in Third Year of College
Tuition of \$4,000 and Book Expenditures of \$500
(1999 Tax Parameters)**

	Current Law	Administration Proposal	Ways & Means Committee Chairman's Mark
Adjusted Gross Income (AGI) Before Tuition Deduction	60,000	60,000	60,000
Tuition Deduction*	0	4,000	0
Itemized Deductions (18% of AGI before tuition deduction)	10,800	10,800	10,800
Personal Exemptions	<u>11,200</u>	<u>11,200</u>	<u>11,200</u>
Taxable Income	38,000	34,000	38,000
Income Tax Before Credits	5,700	5,100	3,700
Child Credits	0	500	500
HOPE Credit	<u>0</u>	<u>0</u>	<u>0</u>
Income Tax After Credits	5,700	4,600	5,200
Tax Savings Compared to Current Law		1,100	500

Department of the Treasury
Office of Tax Analysis

June 10, 1997

* Tuition is assumed to be paid from current earnings and borrowing.

Example 7.

**Change in Income Tax: Comparison of Current Law With
The Administration Proposal and Ways & Means Committee Chairman's Mark**

**Couple with Income of \$75,000 and Children 6 and 12
(1999 Tax Parameters)**

	Current Law	Administration Proposal	Ways & Means Committee Chairman's Mark
Adjusted Gross Income (AGI)	75,000	75,000	75,000
Itemized Deductions (18% of AGI)	13,500	13,500	13,500
Personal Exemptions	<u>11,200</u>	<u>11,200</u>	<u>11,200</u>
Taxable Income	50,300	50,300	50,300
Income Tax Before Credits	8,429	8,429	8,429
Child Credits	<u>0</u>	<u>0</u>	<u>1,000</u>
Income Tax After Credits	8,429	8,429	7,429
Tax Savings Compared to Current Law		0	1,000

Example 8.

Change in Income Tax: Comparison of Current Law With The Administration Proposal and Ways & Means Committee Chairman's Mark

Couple with \$5,000 of Capital Gains and \$45,000 of Other Income
(1999 Tax Parameters)

	Current Law	Administration Proposal*	Ways & Means Committee Chairman's Mark
Capital Gains**	5,000	5,000	5,000
Other Income	45,000	45,000	45,000
Adjusted Gross Income (AGI)	50,000	50,000	50,000
Itemized Deductions (18% of AGI before exclusion)	9,000	9,000	9,000
Personal Exemptions	5,600	5,600	5,600
Taxable Income	35,400	35,400	35,400
Income Tax Before Reduced Rate on Capital Gains	5,310	5,310	5,310
Savings from Reduced Rate on Capital Gains	0	0	250
Income Tax	5,310	5,010	5,060
Tax Savings Compared to Current Law		0	250

Department of the Treasury
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June 10, 1997

- * The Administration proposal provides capital gains preferences only for sales of homes and qualified small business stock.
- ** Gains are assumed to be from sale of capital assets other than homes or qualified small business stock.

Example 9.

**Change in Income Tax: Comparison of Current Law With
The Administration Proposal and Ways & Means Committee Chairman's Mark**

**Couple with \$50,000 of Capital Gains and \$150,000 of Other Income
(1999 Tax Parameters)**

	Current Law	Administration Proposal*	Ways & Means Committee Chairman's Mark
Capital Gains **	50,000	50,000	50,000
Other Income	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>
Adjusted Gross Income (AGI)	200,000	200,000	200,000
Itemized Deductions Before Limitation (18% of AGI)	36,000	36,000	36,000
Reduction from Limitation on Itemized Deductions	<u>2,160</u>	<u>2,160</u>	<u>2,160</u>
Itemized Deductions After Limitation	33,840	33,840	33,840
Personal Exemptions Before Phaseout	5,600	5,600	5,600
Reduction from Phaseout	<u>448</u>	<u>448</u>	<u>448</u>
Personal Exemptions After Phaseout	5,152	5,152	5,152
Taxable Income	161,008	161,008	161,008
Income Tax Before Reduced Rate on Capital Gains	41,141	41,141	41,141
Savings from Reduced Rate Tax on Capital Gains	<u>1,538</u>	<u>1,538</u>	<u>5,538</u>
Income Tax	39,603	39,603	35,603
Tax Savings Compared to Current Law		0	4,000

Department of the Treasury
Office of Tax Analysis

June 10, 1997

- * The Administration proposal provides capital gains preferences only for sales of homes and qualified small business stock.
- ** Gains are assumed to be from sale of capital assets other than homes or qualified small business stock.



UNITED STATES DEPARTMENT OF EDUCATION
THE SECRETARY

July 18, 1997

TO: Bob Shireman

MEMORANDUM FOR THE PRESIDENT

FROM: SECRETARY RICHARD W. RILEY

SUBJECT: HOPE AND "LIFELONG LEARNING" TAX CREDITS

I. SUMMARY

As I briefly mentioned to you yesterday, I think the "real hole" in the House and Senate tax cut plans is the omission of your 20% tax credit for lifelong learning. It is clear that the 20% tuition tax credit to serve juniors, seniors, graduate students and lifelong learning was part of the agreement signed off on by Speaker Gingrich and Majority Leader Lott (see attached letter). Given the urgency of the situation, your direct involvement to raise national visibility and attention on this issue -- in my estimation -- is paramount.

I lay out below why this lifelong learning tax credit is so important to the country's future and why the time is right for you to engage.

II. DISCUSSION

For years, experts in education, business, and the economy have talked about two impending "sea changes" in America life: (1) the necessity to change jobs perhaps as many as seven times in a lifetime to stay employed and support a family; and (2) the critical importance of learning for a lifetime in order to navigate these changing times and changing skill demands.

The early negative impact of this "sea change" on American families was seen in the "anxiety" shown in the late 1980s and early 1990s before the strong economic recovery began. Many working and middle-income families had their confidence eroded in their ability to support themselves and their families and handle these changes. This fundamental concern is still just below the surface. That is why a tax credit to help Americans afford access to lifelong learning is absolutely vital as a way to deal positively with this "sea change."

IMPORTANCE

The HOPE scholarship is one very important big idea because it will help provide an incentive for many working and lower middle-income families to send their children to college in the first place. However, the second "big idea" is the 20% lifelong learning tax credit to affect positively, over the long term, tens of millions of Americans at critical transitions in their adult lives: (1) help adults go to college to get additional education and training in order to get ahead or prepare for a change in jobs and skill requirements; (2) assistance to finish a 4-year degree; and (3) provide an incentive for graduate school in this education era. In the first year alone, 7,000,000 additional Americans will be helped by the lifelong learning tax credit -- and in the future, all Americans who return to college would benefit.

The 20% lifelong learning tax credit will result in important advances educationally, economically, and politically. Each year when taxpayers see their ability to write off 20% of the cost for tuition to upgrade their education at a college, whether they use it or not, they will feel like someone is on their side to navigate this changing economy. The American people clearly know that getting more education and skills at a college or post-secondary institution is the way to get ahead -- that is why recent surveys show that almost 95% of parents want their kids to go to college. Yet, 75% of Americans do not have school-age children. So without the 20% tax credit, this group of adults without school-age children will not realize an important benefit.

The 20% lifelong learning tax credit addresses a huge group of taxpayers, voters and employees who often may not have an incentive or cannot quite afford to upgrade their education. It could be one of the major defining issues for you and your Administration.

TIMING

Because all of the early attention was given to the HOPE tax credit, and now that it is included in the House and Senate versions, it is only natural that the American public and higher education community are now just in the very early stages of tuning in to the 20% lifelong learning tax credit. However, the head of the community colleges, David Pierce, rightfully observed recently that the 20% tax credit is the "powerful sleeper" in the President's package.

While HOPE is grand for half-time and full-time students in the first two years of college, it doesn't help those millions of adults who need and want to go back periodically to take an important course or two at a community or technical college. The lifelong learning tax credit is the "backbone" for access to "higher education for all Americans."

To lay the groundwork for heightening awareness on this issue, last Friday the U.S. Department of Education mailed a letter (copy enclosed) to 10,000 leaders of post-secondary institutions, colleges and universities explaining the importance of the lifelong learning tax credit and sent out to media outlets a breakout showing how many more persons in their state would benefit from the lifelong learning tax credit. This week the key leaders in higher education came together and agreed to make a concerted effort to promote the Clinton lifelong learning credit.

Because of the urgency of raising visibility on the lifelong learning tax credit, we need our President to get fully and openly involved in engaging the American public and informing them of the positive effect of the 20% lifelong learning tax credit on the vast majority of adults in America. The groundwork has been laid for you to mobilize action.

~~Congress of the United States~~

~~Washington, DC 20515~~

May 16, 1997

The Honorable William J. Clinton
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20515

Dear Mr. President:

We would like to take this opportunity to confirm important aspects of the Balanced Budget Agreement. It was agreed that the net tax cut shall be \$85 billion through 2002 and not more than \$250 billion through 2007. We believe these levels provide enough room for important reforms, including broad-based permanent capital gains tax reductions, significant death tax relief, \$500 per child tax credit, and expansion of IRAs.

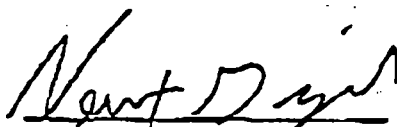
In the course of drafting the legislation to implement the balanced budget plan, there are some additional areas that we want to be sure the committees of jurisdiction consider. Specifically, it was agreed that the package must include tax relief of roughly \$35 billion over five years for post-secondary education, including a deduction and a tax credit. We believe this package should be consistent with the objectives put forward in the HOPE scholarship and tuition tax proposals contained in the Administration's FY 1998 budget to assist middle-class parents.

Additionally, the House and Senate Leadership will seek to include various proposals in the Administration's FY 1998 budget (e.g., the welfare-to-work tax credit, capital gains tax relief for home sales, the Administration's EZ/EC proposals, brownfields legislation, FSC software, and tax incentives designed to spur economic growth in the District of Columbia), as well as various pending congressional tax proposals.

In this context, it should be noted that the tax-writing committees will be required to balance the interests and desires of many parties in crafting tax legislation within the context of the net tax reduction goals which have been adopted, while at the same time protecting the interests of taxpayers generally.

We stand to work with you toward these ends. Thank you very much for your cooperation.

Sincerely,



Newt Gingrich
Speaker



Trent Lott
Senate Majority Leader



UNITED STATES DEPARTMENT OF EDUCATION

THE SECRETARY

July 1997

Dear College President:

I am writing to inform you of President Clinton's tax cut proposal which he unveiled on Monday, June 30. As the President's proposals were being considered over the past six months, you and your colleagues made suggestions for improvement, and the President responded with changes that have made his plan stronger and more progressive: the tax credit is no longer offset by Pell Grants; the grade requirement was replaced with "satisfactory academic progress," making it consistent with the Federal student aid programs; and now the deduction has been shifted to a more progressive 20 percent tax credit. With your help, we have a solid plan that offers opportunity in the rapidly changing economy by helping people improve their education and upgrade their skills throughout their lives.

In the next few weeks, Congress will consider three versions of tax cuts. The President's proposal provides two-thirds of the tax cuts to the middle sixty percent of families — more than twice the share that the House and Senate plans provide for these families. If we act now, we can secure these important tax cuts for working families.

For higher education, the difference is clear. The President's plan will provide help to seven million more students in 1998 than the House and Senate passed plans, because the President's plan is the only one on the table that offers tax relief for families paying tuition out-of-pocket for:

- Juniors and seniors
- Part-time students seeking to improve or acquire job skills
- Graduate students

The President's proposal helps these students by providing a 20 percent tuition credit on expenses up to \$5,000 initially and \$10,000 beginning in 2001. At a time when older workers need to improve their education and upgrade their skills, it is critical that the education tax cuts promote lifelong learning.

The President's proposal makes the 13th and 14th years of education -- the first two years of college -- universally available by providing a modified two-year \$1,500 HOPE Scholarship. First and second-year students would receive a 100% credit for the first \$1,000 of tuition and fees plus 50% of the next \$1,000. A student going to a typical community college with tuition of \$1,200 would receive a \$1,100 credit under the President's proposal. After 2002, the tax credit would increase to \$2,000: 100% of the first \$1,500 and 50% of the next \$1,000.

President Clinton's tax plan incorporates other higher education provisions that have broad-based bipartisan support, including: a permanent extension of the tax preference for employer-provided

600 INDEPENDENCE AVE., S.W. WASHINGTON, D.C. 20202-0100

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

President Clinton's Higher Education Tax Cuts: Greater Benefits for More Families

While providing the greatest help in the first two years, the Administration's plan has always gone *much* farther, granting a substantial tax cut for virtually *any* investment in postsecondary education or training. Unlike the Congressional plans, the President's tax credits cover *more types and ages of postsecondary students*, including:

- part-time students (less than half-time) seeking to improve or acquire job skills;
- students beyond their first two years of undergraduate study;
- graduate students.

Although the Administration, House and Senate plans all provide modest assistance for students who borrow or families who have special education savings accounts, for many situations that families find themselves in, the House and Senate plans provide little or no help. Consider the following:

Tuition Tax Credits Under Various Situations	President	House Plan	Senate Plan
<i>Two kids in college:</i> Married couple, \$60,000 income, with two kids in college: one at a community college with \$2,000 tuition and \$200 books, the other a junior at a private college with \$10,000 tuition.	\$2,500 (\$3,500 after year 2000)	\$1,100	\$1,500
<i>Divorced parent, same income:</i> Single parent with \$50,000 income, one child going to an average community college full-time (\$1,200 tuition and fees)	\$1,100	\$0	\$0
<i>Returning to school less than half-time:</i> Family with \$30,000 income, one parent going to a public four-year college part-time to change careers (\$2,000 tuition and fees)	\$400	\$0	\$0
<i>Child is beyond first two years:</i> Family with \$40,000 income, one child is junior at average private college (\$12,000 tuition and fees)	\$1,000 (\$2,000 after year 2000)	\$0	\$0
<i>Returning to school full-time to become a teacher:</i> Homemaker, family income of \$70,000, attending graduate teacher training program at public university after being out of college for 20 years (\$3,500 tuition).	\$700	\$0	\$0
<i>Graduate student:</i> Single graduate student with \$15,000 income and tuition of \$15,000.	\$1,000	\$0	\$0

Methodology of State-by-State Analysis

Using a nationally-representative sample of postsecondary students and data on Pell Grant recipients, an estimate was derived for the proportion of the total national number of recipients of the tax benefit in 1998. Using that ratio, the number of recipients for each State was determined. Based on the Joint Tax Committee and Treasury revenue estimates of the three plans for 1999, a dollar amount for each State was derived using the same ratio as the State/national number of beneficiaries.

**Distribution of Higher Education Tuition Tax Credits by Student's State of Legal Residence 1/
(Beneficiary Calculations FY 1998/Dollar Amounts FY 1999)**

	Number of Beneficiaries 2/ (In thousands)			Dollar Amounts of Benefits (In millions)			Dollar Difference: (in millions)	
	President	House/Senate	Difference	President	House	Senate	President Compared to House	Senate
Alabama	185	87	108	8111.8	676.2	972.3	\$33.4	\$39.3
Alaska	27	12	15	15.4	10.6	9.8	4.8	5.8
Arizona	244	108	136	139.4	97.0	89.8	42.4	49.8
Arkansas	79	36	43	45.3	32.0	29.6	13.4	15.6
California	1,634	733	922	844.9	655.9	605.8	289.0	339.1
Colorado	219	97	122	125.0	66.7	60.0	36.3	44.9
Connecticut	149	66	83	65.1	38.6	34.2	26.3	30.8
Delaware	42	18	23	23.6	16.4	15.2	7.4	8.7
District of Columbia	74	32	41	42.0	28.9	26.7	13.1	15.3
Florida	553	248	308	318.1	220.6	203.8	95.5	112.3
Georgia	286	119	147	182.0	106.3	88.2	46.7	53.8
Hawaii	61	27	34	35.0	24.1	22.2	10.8	12.8
Idaho	51	23	28	29.3	20.8	19.0	8.8	10.3
Illinois	689	296	374	382.2	264.6	244.4	117.6	137.8
Indiana	259	115	144	148.2	103.1	95.3	45.1	52.9
Iowa	160	87	83	85.9	69.9	65.4	25.9	30.5
Kansas	181	67	84	86.6	60.2	55.6	28.3	30.9
Kentucky	164	69	85	85.3	61.9	57.2	26.3	31.0
Louisiana	166	75	91	84.9	67.0	62.0	27.9	33.0
Maine	50	22	28	28.7	20.9	18.5	8.7	10.3
Maryland	243	108	136	136.9	96.2	88.9	42.7	50.1
Massachusetts	383	169	214	218.4	151.2	139.6	67.3	78.9
Michigan	493	219	274	261.4	185.8	180.7	85.8	100.7
Minnesota	258	115	143	147.4	102.8	94.7	44.9	52.7
Mississippi	67	44	53	66.4	39.3	36.3	18.2	19.1
Missouri	259	115	144	148.3	103.3	95.4	45.0	52.9
Montana	32	16	18	18.6	13.1	12.1	5.4	6.4
Nebraska	104	46	58	59.2	41.1	38.0	18.0	21.2
Nevada	81	27	34	34.5	23.8	22.0	10.7	12.8
New Hampshire	57	25	32	32.6	22.7	21.0	10.1	11.8
New Jersey	304	134	189	173.5	120.3	111.1	63.2	82.4
New Mexico	67	39	45	49.9	35.0	32.3	18.0	17.6
New York	897	402	495	513.5	360.0	332.7	153.5	180.7
North Carolina	333	148	186	190.4	132.1	122.0	58.3	68.3
North Dakota	34	15	19	19.3	13.5	12.5	5.7	6.7
Ohio	482	214	267	275.2	191.9	177.3	83.3	97.9
Oklahoma	156	70	86	89.1	62.8	57.8	26.6	31.3
Oregon	147	65	82	84.2	59.6	54.0	25.7	30.2
Pennsylvania	545	242	303	311.3	218.5	200.0	94.8	111.4
Rhode Island	67	30	37	38.4	26.6	24.6	11.7	13.8
South Carolina	150	67	83	85.9	60.0	55.4	25.9	30.6
South Dakota	31	14	17	17.6	12.4	11.6	5.2	6.1
Tennessee	212	84	117	121.1	84.6	78.1	36.6	43.0
Texas	841	374	467	460.6	334.8	309.3	145.7	171.2
Utah	128	68	70	72.3	50.5	46.7	21.8	25.6
Vermont	31	14	17	18.0	12.5	11.8	6.6	6.4
Virginia	321	142	179	183.3	127.1	117.4	86.2	65.9
Washington	255	113	142	146.8	101.3	93.6	44.6	52.3
West Virginia	75	34	41	42.8	30.9	27.7	12.8	15.1
Wisconsin	277	122	155	168.2	109.6	101.2	48.6	67.0
Wyoming	27	12	15	15.4	10.7	9.9	4.7	5.5
US Totals	12,800	5,600	7,000	\$7,200.0	\$5,012.0	\$4,630.0	\$2,188.0	\$2,570.0

1/ Includes HOPE Scholarship plans and the President's 20% tax credit for lifelong learning.

Calculations do not include interest deductions and tax benefits that could be received in outyears from savings incentives in all three plans.

2/ The number of beneficiaries is the same under the House and Senate plans, though the amounts of benefits differ.

Source: Education Department estimates based on State-level enrollment and Pell Grant recipient data.

President Clinton's Higher Education Tax Cut Proposal A Fact Sheet

President Clinton's HOPE Scholarship and 20% Tuition Tax Credit help 12.6 million students and their families — seven million more students than under Congressional versions. While all of the plans encourage saving and help with student loan payments, only the Administration's proposal provides tax credits to working families who use their earnings to pay for college beyond the first two years, for part-time study to improve or acquire job skills, or graduate study. The higher education tax cut plans passed by the House and Senate are limited in their scope, providing some of the largest benefits to higher-income families who can afford to save large amounts.

- **HOPE Scholarship.** A maximum \$1,500 credit for the first two years of postsecondary education. Students attending on at least a half-time basis would receive a 100% credit for the first \$1,000 of tuition and required fees and a 50% credit for up to the next \$1,000. For example, a student attending a community college with tuition costs of \$1,400 would receive a \$1,200 HOPE Scholarship. Scholarships would be phased out for joint filers with income between \$80,000 and \$100,000, and for single filers with income between \$50,000 and \$70,000. After 2002, the HOPE Scholarship increases to a 100% credit for the first \$1,500 and a 50% credit for the next \$1,000 of tuition and required fees.
- **20% Tuition Tax Credit.** Undergraduates beyond their first two years, graduate students, plus working people going to school part-time to improve or acquire job skills, would benefit from a 20% tax credit on the first \$5,000 of tuition and required fees through the year 2000 and after 2000 a 20% tax credit on the first \$10,000 of tuition and required fees. The credit would be phased out at the same income levels as HOPE.
- **Education and Retirement Savings Accounts.** Allows penalty-free IRA withdrawals for undergraduate, post-secondary vocational, and graduate education expenses. Additionally, taxpayers eligible for the child tax credit are given the opportunity to deposit their child tax credit plus an additional \$500, in a Kidsave Account for the child's education, first-time home purchase or the taxpayer's retirement. Earnings would accumulate tax-free in the Kidsave Account and no taxes would be due upon withdrawal for an approved purpose.
- **Employer-Provided Education Benefits.** Extends permanently Section 127 of the tax code, which allows people to exclude \$5,250 of employer-provided education benefits from their taxable income. Eligibility for graduate education benefits would be reinstated retroactively back to June 30, 1996, with both undergraduate and graduate education eligible in the future. Additionally, a 10% employer credit for small business training is included. This credit would apply to payments made to third parties to cover expenses of education for employees under employer-provided education assistance programs. The credit would be available to employers with average annual gross receipts of \$10 million or less for the prior three years.
- **Student Loan Interest Deduction.** Allows a deduction for up to \$2,500 per year of interest on education loans for expenses of students enrolled at an institution of higher education. The deduction would be allowed for the first 60 months interest is due on a loan. The deduction would phase out for taxpayers making between \$45,000 and \$65,000 (\$65,000 and \$85,000 for married taxpayers filing jointly). This deduction would be available even if the taxpayer does not itemize deductions.
- **Community Service Loan Forgiveness.** In most circumstances, a loan that is forgiven is considered income and is therefore taxable. To encourage programs that offer loan forgiveness to borrowers who take lower-paying, community-service jobs, loan amounts forgiven through programs run by nonprofit tax-exempt charitable or educational institutions, and loans forgiven under the Direct Loan Program's income-contingent repayment program, would be excluded from income. Currently, the exclusion generally covers only certain forgiveness arrangements between students and government entities.
- **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 would apply to tax-exempt bonds issued by these institutions to finance new capital expenditures.

Other provisions	Administration	House	Senate
Savings incentives	Penalty-free IRA withdrawals for higher education. Optional Kidsave education accounts. Maximum per-child contribution of child credit plus \$500 each year. Earnings free from tax if used for various purposes including child's postsecondary tuition and fees.	Penalty-free IRA withdrawals for higher education. Education investment accounts and new qualified tuition programs. Maximum per-child contribution \$5,000 each year, \$50,00 total. Earnings used for higher education not taxed (subject to limits).	Penalty-free IRA withdrawals for higher education. Requires contributions to Educational IRAs or qualified tuition plans for parents to obtain the child credit for children 13 and over. Education IRAs and expanded qualified tuition programs; tax-free distributions for educational expenses. Maximum per-child contribution \$2,000 plus child credit each year (no limits on State-sponsored plans).

A Comparison: Higher Education Tax Cuts

HOPE Scholarship and Tuition Tax Credit	President	House	Senate
Students in their first two years of college, attending at least half-time	100% tax credit on the first \$1,000 of tuition and required fees, 50% on next \$1,000. After 2002, a 100% credit on first \$1,500 and 50% on the next \$1,000.	50% tax credit on up to \$3,000 on tuition, required fees, books, and supplies.	75% tax credit on up to \$2,000 for community colleges; 50% tax credit on up to \$3,000 for other institutions for tuition, required fees, books, and supplies.
Students beyond the first two years, enrolled at least half-time	20% tax credit on up to \$5,000 in 1998 and up to \$10,000 starting in 2001.	None	None
Graduate students	20% tax credit on up to \$5,000; up to \$10,000 starting in 2001.	None	None
Part-time (less than half-time) students seeking to acquire or improve job skills	20% tax credit on up to \$5,000; up to \$10,000 starting in 2001.	None	None
5-year revenue cost:	\$35 billion	\$22 billion	\$20 billion
Estimated number of beneficiaries in 1999	12.6 million	5.6 million	5.6 million

Other provisions	Administration	House	Senate
Employer-provided education assistance (Section 127)	Permanent extension for graduate and undergraduate courses. 10% Small Business Credit.	Six month extension, only for undergraduates.	Permanent extension for graduate and undergraduate courses.
Student loan interest deduction	Up to \$2,500 may be deducted each year for five years of repayment.	None	Up to \$2,500 may be deducted each year for five years of repayment.

PRESIDENT CLINTON'S HIGHER EDUCATION TAX CUTS

*The President's Hope Scholarship and
Tuition Tax Credit Help 12.6 Million Students --
7 Million More Students than Congressional Versions*

SUMMARY DOCUMENTS

July 8, 1997



U.S. DEPARTMENT OF EDUCATION

FAX TRANSMISSION

Office of the Secretary
600 Independence Avenue, SW
Washington, D.C. 20202
Office: (202) 401-8450
Fax: (202) 401-0596

TO: Bob Shireman **DATE:** July 15, 1997

FAX : (202) 456 - 2223 **PAGES:** 10 , including cover.

FROM: Susan Frost
Senior Advisor to the Secretary

SUBJECT: Letter to College Presidents

COMMENTS:

FYI: This letter was sent from Secretary Riley to 10,000 college and university presidents and heads of proprietary schools. It should be hitting their desks now. Also, Secretary Riley met with the Presidents of the six higher education associations plus NASFAA (financial aid administrators) this morning to reinforce his letter to their members and our message on the 20% credit. As a result of these efforts, we believe we will see increased activity on these issues.

If you have any questions or comments, please call me at 401-8450.

Thank you.



UNITED STATES DEPARTMENT OF EDUCATION

THE SECRETARY

July 1997

Dear College President:

I am writing to inform you of President Clinton's tax cut proposal which he unveiled on Monday, June 30. As the President's proposals were being considered over the past six months, you and your colleagues made suggestions for improvement, and the President responded with changes that have made his plan stronger and more progressive: the tax credit is no longer offset by Pell Grants; the grade requirement was replaced with "satisfactory academic progress," making it consistent with the Federal student aid programs; and now the deduction has been shifted to a more progressive 20 percent tax credit. With your help, we have a solid plan that offers opportunity in the rapidly changing economy by helping people improve their education and upgrade their skills throughout their lives.

In the next few weeks, Congress will consider three versions of tax cuts. The President's proposal provides two-thirds of the tax cuts to the middle sixty percent of families -- more than twice the share that the House and Senate plans provide for these families. If we act now, we can secure these important tax cuts for working families.

For higher education, the difference is clear. The President's plan will provide help to seven million more students in 1998 than the House and Senate passed plans, because the President's plan is the only one on the table that offers tax relief for families paying tuition out-of-pocket for:

- Juniors and seniors
- Part-time students seeking to improve or acquire job skills
- Graduate students

The President's proposal helps these students by providing a 20 percent tuition credit on expenses up to \$5,000 initially and \$10,000 beginning in 2001. At a time when older workers need to improve their education and upgrade their skills, it is critical that the education tax cuts promote lifelong learning.

The President's proposal makes the 13th and 14th years of education -- the first two years of college -- universally available by providing a modified two-year \$1,500 HOPE Scholarship. First and second-year students would receive a 100% credit for the first \$1,000 of tuition and fees plus 50% of the next \$1,000. A student going to a typical community college with tuition of \$1,200 would receive a \$1,100 credit under the President's proposal. After 2002, the tax credit would increase to \$2,000: 100% of the first \$1,500 and 50% of the next \$1,000.

President Clinton's tax plan incorporates other higher education provisions that have broad-based bipartisan support, including: a permanent extension of the tax preference for employer-provided

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undergraduate and graduate education; a student loan interest deduction; and tax exclusion for community service and income-contingent loan forgiveness. The President's proposal does not, however, phase-out subsection 117(d) which currently allows the exclusion of qualified tuition reduction plans from income, nor does it terminate TIAA-CREF's federal income-tax exempt status.

Upon releasing his proposal, the President said, "Education is how we will meet the challenges of the 21st century, and the core of our tax cut must be to help families pay for education. The tax cuts can do for our children what the G.I. Bill did for Americans a generation ago." We appreciate your interest in and support of the President's proposal to make college more affordable.

Yours sincerely,


Richard W. Riley

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President Clinton's Higher Education Tax Cut Proposal

A Fact Sheet

President Clinton's HOPE Scholarship and 20% Tuition Tax Credit help 12.6 million students and their families — *seven million* more students than under Congressional versions. While all of the plans encourage saving and help with student loan payments, only the Administration's proposal provides tax credits to working families who use their earnings to pay for college beyond the first two years, for part-time study to improve or acquire job skills, or graduate study. The higher education tax cut plans passed by the House and Senate are limited in their scope, providing some of the largest benefits to higher-income families who can afford to save large amounts.

- **HOPE Scholarship.** A maximum \$1,500 credit for the first two years of postsecondary education. Students attending on at least a half-time basis would receive a 100% credit for the first \$1,000 of tuition and required fees and a 50% credit for up to the next \$1,000. For example, a student attending a community college with tuition costs of \$1,400 would receive a \$1,200 HOPE Scholarship. Scholarships would be phased out for joint filers with income between \$80,000 and \$100,000, and for single filers with income between \$50,000 and \$70,000. After 2002, the HOPE Scholarship increases to a 100% credit for the first \$1,500 and a 50% credit for the next \$1,000 of tuition and required fees.
- **20% Tuition Tax Credit.** Undergraduates beyond their first two years, graduate students, plus working people going to school part-time to improve or acquire job skills, would benefit from a 20% tax credit on the first \$5,000 of tuition and required fees through the year 2000 and after 2000 a 20% tax credit on the first \$10,000 of tuition and required fees. The credit would be phased out at the same income levels as HOPE.
- **Education and Retirement Savings Accounts.** Allows penalty-free IRA withdrawals for undergraduate, post-secondary vocational, and graduate education expenses. Additionally, taxpayers eligible for the child tax credit are given the opportunity to deposit their child tax credit plus an additional \$500, in a Kidsave Account for the child's education, first-time home purchase or the taxpayer's retirement. Earnings would accumulate tax-free in the Kidsave Account and no taxes would be due upon withdrawal for an approved purpose.
- **Employer-Provided Education Benefits.** Extends permanently Section 127 of the tax code, which allows people to exclude \$5,250 of employer-provided education benefits from their taxable income. Eligibility for graduate education benefits would be reinstated retroactively back to June 30, 1996, with both undergraduate and graduate education eligible in the future. Additionally, a 10% employer credit for small business training is included. This credit would apply to payments made to third parties to cover expenses of education for employees under employer-provided education assistance programs. The credit would be available to employers with average annual gross receipts of \$10 million or less for the prior three years.
- **Student Loan Interest Deduction.** Allows a deduction for up to \$2,500 per year of interest on education loans for expenses of students enrolled at an institution of higher education. The deduction would be allowed for the first 60 months interest is due on a loan. The deduction would phase out for taxpayers making between \$45,000 and \$65,000 (\$65,000 and \$85,000 for married taxpayers filing jointly). This deduction would be available even if the taxpayer does not itemize deductions.
- **Community Service Loan Forgiveness.** In most circumstances, a loan that is forgiven is considered income and is therefore taxable. To encourage programs that offer loan forgiveness to borrowers who take lower-paying, community-service jobs, loan amounts forgiven through programs run by nonprofit tax-exempt charitable or educational institutions, and loans forgiven under the Direct Loan Program's income-contingent repayment program, would be excluded from income. Currently, the exclusion generally covers only certain forgiveness arrangements between students and government entities.
- **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 would apply to tax-exempt bonds issued by these institutions to finance new capital expenditures.

A Comparison: Higher Education Tax Cuts

HOPE Scholarship and Tuition Tax Credit	President	House	Senate
Students in their first two years of college, attending at least half-time	100% tax credit on the first \$1,000 of tuition and required fees, 50% on next \$1,000. After 2002, a 100% credit on first \$1,500 and 50% on the next \$1,000.	50% tax credit on up to \$3,000 on tuition, required fees, books, and supplies.	75% tax credit on up to \$2,000 for community colleges; 50% tax credit on up to \$3,000 for other institutions for tuition, required fees, books, and supplies.
Students beyond the first two years, enrolled at least half-time	20% tax credit on up to \$5,000 in 1998 and up to \$10,000 starting in 2001.	None	None
Graduate students	20% tax credit on up to \$5,000; up to \$10,000 starting in 2001.	None	None
Part-time (less than half-time) students seeking to acquire or improve job skills	20% tax credit on up to \$5,000; up to \$10,000 starting in 2001.	None	None
5-year revenue cost:	\$35 billion	\$22 billion	\$20 billion
Estimated number of beneficiaries in 1999	12.6 million	5.6 million	5.6 million

Other provisions	Administration	House	Senate
Employer-provided education assistance (Section 127)	Permanent extension for graduate and undergraduate courses. 10% Small Business Credit.	Six month extension, only for undergraduates.	Permanent extension for graduate and undergraduate courses.
Student loan interest deduction	Up to \$2,500 may be deducted each year for five years of repayment.	None	Up to \$2,500 may be deducted each year for five years of repayment.

Other provisions	Administration	House	Senate
Savings incentives	Penalty-free IRA withdrawals for higher education. Optional Kidsave education accounts. Maximum per-child contribution of child credit plus \$500 each year. Earnings free from tax if used for various purposes including child's postsecondary tuition and fees.	Penalty-free IRA withdrawals for higher education. Education investment accounts and new qualified tuition programs. Maximum per-child contribution \$5,000 each year, \$50,00 total. Earnings used for higher education not taxed (subject to limits).	Penalty-free IRA withdrawals for higher education. Requires contributions to Educational IRAs or qualified tuition plans for parents to obtain the child credit for children 13 and over. Education IRAs and expanded qualified tuition programs; tax-free distributions for educational expenses. Maximum per-child contribution \$2,000 plus child credit each year (no limits on State-sponsored plans).

**Distribution of Higher Education Tuition Tax Credits by Student's State of Legal Residence 1/
(Beneficiary Calculations FY 1998/Dollar Amounts FY 1999)**

	Number of Beneficiaries 2/ (in thousands)			Dollar Amounts of Benefits (in millions)			Dollar Difference: (in millions)	
	President	House/Senate	Difference	President	House	Senate	President Compared to House	Senate
Alabama	195	87	108	\$111.6	\$78.2	\$72.3	\$33.4	\$39.3
Alaska	27	12	15	15.4	10.6	9.8	4.8	5.6
Arizona	244	108	136	139.4	97.0	89.6	42.4	49.8
Arkansas	79	36	43	45.3	32.0	29.6	13.4	15.8
California	1,654	733	922	944.9	655.9	605.8	289.0	339.1
Colorado	219	97	122	125.0	86.7	80.0	38.3	44.9
Connecticut	149	86	83	85.1	58.8	54.2	26.3	30.9
Delaware	42	18	23	23.8	16.4	15.2	7.4	8.7
District of Columbia	74	32	41	42.0	28.9	26.7	13.1	15.3
Florida	553	246	306	318.1	220.8	203.8	95.5	112.3
Georgia	268	119	147	162.0	106.3	98.2	45.7	53.8
Hawaii	61	27	34	35.0	24.1	22.2	10.9	12.8
Idaho	51	23	28	29.3	20.6	19.0	8.8	10.3
Illinois	689	296	374	382.2	264.6	244.4	117.6	137.8
Indiana	259	115	144	148.2	103.1	95.3	45.1	52.9
Iowa	150	67	83	85.9	59.9	55.4	25.9	30.5
Kansas	151	67	84	86.5	60.2	55.6	26.3	30.9
Kentucky	154	69	85	88.3	61.9	57.2	26.3	31.0
Louisiana	166	75	91	94.9	67.0	62.0	27.9	33.0
Maine	50	22	28	28.7	20.0	18.5	8.7	10.3
Maryland	243	108	136	138.9	96.2	88.9	42.7	50.1
Massachusetts	383	189	214	218.4	151.2	139.6	67.3	78.9
Michigan	493	219	274	281.4	195.6	180.7	85.8	100.7
Minnesota	258	115	143	147.4	102.5	94.7	44.9	52.7
Mississippi	97	44	53	55.4	39.3	36.3	16.2	19.1
Missouri	259	115	144	148.3	103.3	95.4	45.0	52.9
Montana	32	15	18	18.6	13.1	12.1	5.4	6.4
Nebraska	104	46	58	59.2	41.1	38.0	18.0	21.2
Nevada	61	27	34	34.5	23.8	22.0	10.7	12.8
New Hampshire	57	25	32	32.8	22.7	21.0	10.1	11.8
New Jersey	304	134	169	173.5	120.3	111.1	53.2	62.4
New Mexico	87	39	48	49.9	35.0	32.3	15.0	17.6
New York	897	402	495	513.5	360.0	332.7	153.5	180.7
North Carolina	333	148	186	190.4	132.1	122.0	58.3	68.3
North Dakota	34	15	19	19.3	13.5	12.5	5.7	6.7
Ohio	482	214	267	275.2	191.9	177.3	83.3	97.9
Oklahoma	156	70	86	89.1	62.8	57.8	26.5	31.3
Oregon	147	85	82	84.2	58.5	54.0	25.7	30.2
Pennsylvania	545	242	303	311.3	218.5	200.0	94.8	111.4
Rhode Island	67	30	37	36.4	26.6	24.6	11.7	13.8
South Carolina	150	67	83	85.9	60.0	55.4	25.9	30.5
South Dakota	31	14	17	17.6	12.4	11.5	5.2	6.1
Tennessee	212	94	117	121.1	84.5	78.1	36.6	43.0
Texas	841	374	467	480.5	334.8	309.3	145.7	171.2
Utah	126	56	70	72.3	50.5	46.7	21.8	25.6
Vermont	31	14	17	18.0	12.5	11.6	5.5	6.4
Virginia	321	142	179	183.3	127.1	117.4	56.2	65.9
Washington	255	113	142	145.8	101.3	93.6	44.5	52.3
West Virginia	75	34	41	42.8	30.0	27.7	12.8	15.1
Wisconsin	277	122	155	158.2	109.6	101.2	48.6	57.0
Wyoming	27	12	15	15.4	10.7	9.9	4.7	5.5
US Totals	12,600	5,600	7,000	\$7,200.0	\$5,012.0	\$4,630.0	\$2,188.0	\$2,570.0

1/ Includes HOPE Scholarship plans and the President's 20% tax credit for lifelong learning.

Calculations do not include interest deductions and tax benefits that could be received in outyears from savings incentives in all three plans.

2/ The number of beneficiaries is the same under the House and Senate plans, though the amounts of benefits differ.

Source: Education Department estimates based on State-level enrollment and Pell Grant recipient data.

Methodology of State-by-State Analysis

Using a nationally-representative sample of postsecondary students and data on Pell Grant recipients, an estimate was derived for the proportion of the total national number of recipients of the tax benefit in 1998. Using that ratio, the number of recipients for each State was determined. Based on the Joint Tax Committee and Treasury revenue estimates of the three plans for 1999, a dollar amount for each State was derived using the same ratio as the State/national number of beneficiaries.

President Clinton's Higher Education Tax Cuts: Greater Benefits for More Families

While providing the greatest help in the first two years, the Administration's plan has always gone *much* farther, granting a substantial tax cut for virtually *any* investment in postsecondary education or training. Unlike the Congressional plans, the President's tax credits cover *more types and ages of postsecondary students*, including:

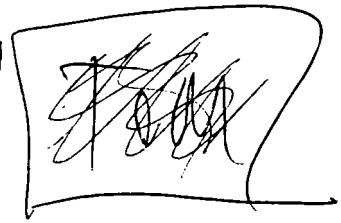
- part-time students (less than half-time) seeking to improve or acquire job skills;
- students beyond their first two years of undergraduate study;
- graduate students.

Although the Administration, House and Senate plans all provide modest assistance for students who borrow or families who have special education savings accounts, for many situations that families find themselves in, the House and Senate plans provide little or no help. Consider the following:

Tuition Tax Credits Under Various Situations	President	House Plan	Senate Plan
Two kids in college: Married couple, \$60,000 income, with two kids in college: one at a community college with \$2,000 tuition and \$200 books, the other a junior at a private college with \$10,000 tuition.	\$2,500 (\$3,500 after year 2000)	\$1,100	\$1,500
Divorced parent, same income: Single parent with \$50,000 income, one child going to an average community college full-time (\$1,200 tuition and fees)	\$1,100	\$0	\$0
Returning to school less than half-time: Family with \$30,000 income, one parent going to a public four-year college part-time to change careers (\$2,000 tuition and fees)	\$400	\$0	\$0
Child is beyond first two years: Family with \$40,000 income, one child is junior at average private college (\$12,000 tuition and fees)	\$1,000 (\$2,000 after year 2000)	\$0	\$0
Returning to school full-time to become a teacher: Homemaker, family income of \$70,000, attending graduate teacher training program at public university after being out of college for 20 years (\$3,500 tuition).	\$700	\$0	\$0
Graduate student: Single graduate student with \$15,000 income and tuition of \$15,000.	\$1,000	\$0	\$0

AMERICAN COUNCIL ON EDUCATION

Division of Governmental Relations



June 6, 1997

The Honorable Bill Archer
Chairman
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Dear Congressman Archer:

On behalf of the higher education associations listed below, I write to express our strong support for the agreement between the President and Congress to use the tax code to help families save for college, pay for college, and ease their student loan repayment burdens. The support for higher education is bipartisan and reflects the great importance both parties place on it.

The President has outlined a bold plan to help make higher education more affordable for students and families. Members of Congress have suggested additional ways to use the tax code for the same important purpose.

We very much appreciate this bipartisan leadership. We believe that the tax cuts being discussed will make higher education more accessible for students, improve their learning experience, and help ensure that the nation has the highly educated, well-trained work force it will need for the 21st century.

We recommend that any higher education tax package, to be most effective, include the following six critical elements:

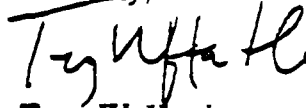
- A Hope Tax Credit available to students for the first two years of college, without the "B" average provision. This program would guarantee students access to at least a community college education and should be the central feature of any plan.
- A Tuition Tax Deduction, which would provide assistance for students and families attending undergraduate and graduate school and encourage lifelong learning.
- Savings Incentives for families with young children to help them plan ahead for college.
- The permanent extension of Section 127 of the tax code for employer-provided educational assistance for both undergraduate and graduate education to ensure that working adults can participate in employer-supported higher education without tax consequences.

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- Reinstatement of the student loan interest deduction to help students repay their loans following graduation. The deduction should be "above the line" to ensure that all borrowers can benefit.
- Elimination of the tax-exempt bond cap for all colleges and universities so that they can maintain their campus facilities, keep up with the rapid growth of technology, and offer their students and faculty state-of-the-art classroom and research facilities.

Once again, we very much appreciate the leadership the President and Congress have demonstrated in support of higher education, and we look forward to working with you to develop this important set of higher education tax policies.

Sincerely,



Terry W. Hartle
Vice President

On behalf of the following associations:

American Council on Education

American Association of Community Colleges

Association of American Universities

National Association of Independent Colleges and Universities



NASULGC National Association of State Universities and Land-Grant Colleges

June 9, 1997

The Honorable Bill Archer
Chairman, Ways and Means Committee
1236 Longworth Building
Washington, DC 20515

Dear Mr. Chairman:

Due to unusually complex travel arrangements that curtailed communications, I was unable to inform my colleagues in the higher education associations of my interest in joining them on their letter to you on June 6, 1997.

That letter outlined the concerns of the higher education community in the tax legislation you and your committee colleagues are about to draft.

I write now to associate the National Association of State Universities and Land-Grant Colleges (NASULGC) with the views of our colleagues.

Cordially,

A handwritten signature in black ink, reading "C. Peter Magrath". The signature is written in a cursive, slightly slanted style.

C. Peter Magrath
President

CPM/tas