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Folder Title:
HOPE [Hope and Opportunity for Postsecondary Education] Scholarship [3]

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

07/23/97 17:06

→ Totally Ludicrous

23-Jul-97 3:18pm

#97-0 202
23-Jul-97

little over $85
little under $250

SUMMARY OF CONFERENCE AGREEMENT RELATING TO THE MAJOR REVENUE PROVISIONS OF H.R. 2014 THE "REVENUE RECONCILIATION ACT OF 1997"

Provision
Child and Dependent Care Tax Credits; Health Care for Children 1. {H} Tax credit for children under age 17 ($400 in 1998 and $500 thereafter); $75,000/$110,000 AGI phaseout for credit [1]; {S} $500 tax credit for children under age 17 (under age 18 after 2002) (pro-rata $250 for 1997 for children under age 13); post-50% EIC, deposit requirement for age 13 to 16 (age 13 - 17 after 2002); $75,000/$110,000 phaseout; no indexing [1] (includes targeted AMT adjustment); {C} Tax credit for children under age 17 ($200 in 1997, $400 in 1998, and $500 in1999 and 2000); 2001 ? $75,000/$110,000 AGI phaseout for credit [1]; no interaction with DCTC; House stacking rule; 3-year carryforward for unused credit; deposit requirement open. ~ $8 billion over 5
Education Tax Incentives $34.3 billion A. Tax Benefits Relating to Education Expenses 1. Administration's HOPE scholarship tax credit as modified - drop B average requirement; {H} credit is 50% of up to $3,000 out-of-pocket tuition expenses and books required for attendance (phaseout $40,000 - $50,000 singles/ $80,000 - $100,000 joint); {S} 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; {C} Senate, $1,500 credit; 5% credit for up to $5,000 of expenses for education after second year of college. 2. Penalty-free withdrawals from all IRAs for undergraduate, post-secondary vocational, and graduate education expenses [3]. 3. {H} Deduction for undergraduate tuition, room, and board expenses paid through State-sponsored prepaid tuition programs; limit deduction to $10,000 per student per year, with aggregate maximum deduction of $40,000 per student {S} Allow tax-free withdrawals from qualified State-sponsored tuition programs; expanded to include room and board [4]; {C} Senate, with House estate and gift provisions; add rule to coordinate State prepaid plans with education savings accounts. B. Expanded Education Investment Savings Opportunities 1. {H} Permit contributions to an education investment account for a child under age 18 (annual contributions limited to $5,000); create private prepaid tuition programs; provide deduction for undergraduate and post-secondary vocational tuition, room, and board expenses paid through education investment accounts or private prepaid tuition programs; limit deductions to $10,000 per student per year with aggregate maximum deduction of $40,000 per student [5]; {S} 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) [4]; allow withdrawals from education savings IRAs for elementary and secondary school expenses; {C} Senate, but eliminate private prepaid tuition programs. C. Other Education Tax Provisions 1. {H} Extend employer-provided education assistance for undergraduates through 12/31/97 [1]; {S} Permanent extension of employer-provided educational assistance for graduates and undergraduates; {C} House, extend through 6/30/00, undergraduates only. 2. {H} Raise $150 million volume cap on 501(c)(3) bonds (other than hospital bonds) by $10 million per year until it reaches $200 million; {S} Repeal $150 million limit on tax-exempt section 501(c)(3) bonds for new capital expenditures; {C} Senate. 3. Enhanced deduction for ~~corporate~~ contributions of computer technology and equipment for grades K - 12; {C} House, sunset after 3 years. 4. Raise small issuer arbitrage rebate exception for governmental bonds used to finance education facilities from $5 million to $10 million; {C} Senate. 5. 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; {C} Senate, but modify phaseout $40,000 - $55,000 singles/ $60,000 - $75,000 joint).

Brownfields Presid[illegible] 3 yea[illegible]

Provision
Savings and Investment Tax Incentives A. Retirement Savings 1. (H) Create American Dream IRAs; allow penalty-free rollovers from IRAs; allow special purpose withdrawals from AD IRAs for first-time home purchase capped at $10,000 [6]; (S) 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; penalty-free withdrawals for first-time home purchases capped at $10,000; and long-term unemployment [7]; permit IRAs to invest in bullion; permit IRA penalty-free withdrawals of up to $10,000 to replace or repair property damage in Presidentially declared disaster areas [8]; allow penalty-free IRA withdrawals for adoption expenses [9]; (C) Expand deductible IRAs - increase income limits by $10,000 for joint filers in 1998 ($5,000 for single filers in 1998) and by $1,000 per year thereafter; eliminate all penalty-free withdrawals with the exception of withdrawals for educational purposes (estimate included in the educational section) and first time home purchases; create IRA Plus accounts; allow rollovers from deductible IRAs to IRA Plus accounts; and eliminate active spousal participant rules. B. Capital Gains Provisions 1. Capital gains: (H) (a) 20%/10% rate structure; (b) retain maximum 28% for collectibles; (c) section 1250 recapture at maximum of 26%; (d) symmetric AMT treatment; (e) Indexing starting in 2001, 3-year post-2000 holding period requirement, with mark-to-market; (f) exemption for gain on principal residence including remainder interests ($250,000 single/$500,000 joint returns); and (g) 32% rate in 1998, 31% in 1999, and 30% thereafter for lesser of corporate gains with 8-year holding period or taxable income (effective 1/1/98); (S) (a) 20%/10% rate structure; (b) retain maximum 28% for collectibles; (c) section 1250 recapture at maximum of 24%; (d) symmetric AMT treatment; (e) exclusion for gain on personal residence (including remainder interests); (C) Senate, with House indexing with 5-year holding and section 1250 recapture at maximum of 25%. **Alternative Minimum Tax Provisions** 1. (H) AMT - Increase individual exemption amount by $1,000 every other year 1999 through 2007, index thereafter; (S) Individual AMT - annually increase exemption amounts by $600 joint/$450 single for 2001 and 2002; $950 joint/$700 single for 2003 and thereafter (includes targeted AMT adjustment); (C) House, modified. 2. Exemption from alternative minimum tax for small corporations; (C) House. 3. Prospective repeal of AMT depreciation adjustment; (C) House, but conform AMT depreciation lives to the regular tax. **Estate, Gift and Generation-Skipping Tax Provisions** A. Estate and Gift Tax Provisions (PS 1.4 billion) 1. Increase unified estate and gift tax credit to (H) $650,000 in 1998; $750,000 in 1999; $765,000 in 2000; $775,000 in 2001 through 2004, $800,000 in 2005, $825,000 in 2006; and $1 million in 2007; and index other provisions beginning in 1999; (S) $625,000 in 1998; $640,000 in 1999; $660,000 in 2000; $675,000 in 2001, $725,000 in 2002, $750,000 in 2003, $800,000 in 2004, $900,000 in 2005, and $1 million in 2006 and thereafter; index other provisions beginning in 1999; (C) Increase unified estate and gift tax credit to $625,000 in 1998; $650,000 in 1999; $675,000 in 2000; $700,000 in 2001 through 2003, $750,000 in 2004, $900,000 in 2005; $1.1 million in 2006; and $1.2 million in 2007; and index thereafter; and index other provisions beginning in 1999; cap family owned business exclusion with unified credit at $1.2 million annually (exclude $575,000 in 1998, $550,000 in 1999, $525,000 in 2000, $500,000 in 2001 through 2003, $450,000 in 2004, $300,000 in 2005 and $100,000 in 2006). 2. Exclude up to $1 million of qualified family farms and businesses; (C) House. 3. Exclude up to $1 million estate tax exclusion for treatment of land subject to a qualified conservation easement coordinated with exclusion of family farms (expanded treatment of land with severed mineral rights) and business relief used; (C) Senate, $500,000 estate tax exclusion (phasein by $100,000 annually beginning in 1998).

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.
Enactment date is assumed to be August 15, 1997.

Legend: (H) = House bill
(S) = Senate amendment
(C) = Compromise

[Footnotes for Table #97-0 202 appear on the following page]

Footnotes for Table #97-0 202:

[1] Estimate considers interaction with HOPE tax credit proposal.
[2] Estimate includes interaction with employer education.
[3] Revenue estimates are not identical due to interaction with expansion of deductible IRAs contained in the Senate vers.
[4] Estimate includes interaction with estate and gift taxes.
[5] Considers interaction with AD IRA proposal.
[6] Revenue estimate includes interactions with other educational savings provisions.
[7] Estimate includes interaction with education IRAs.
[8] Effective for disasters occurring after 12/31/96.
[9] Effective for payments and distributions after 12/31/96.

July 19, 1997

2~

Dear 1~:

I am hopeful that we can continue to work together to complete a spending reduction bill and tax cut plan that produce the first balanced budget in a generation and a mainstream, bipartisan tax bill that honors our values and values our families. I know that you are in conversations with key members of my Administration, and I want to highlight the fundamental principles that must be met in any tax cut package that I sign into law.

First of all, the tax cuts must be fair. Neither the House nor Senate bill provides an adequate share of tax relief to middle-income families. Under my tax cut plan, the bulk of the middle class would receive twice as large a share of the benefits as under either congressional bill. Both congressional plans fail a critical test of fairness by denying the child tax credit to millions of hard-working families who pay taxes and earn less than $30,000 a year. These are young teachers, police officers, farmers, and nurses who work hard and play by the rules; these young parents, like other Americans, deserve to keep more of the money they earn.

The tax cuts must also reflect our commitment to making college more readily available to millions of Americans. The budget agreement we reached this spring required that the tax bill include roughly $35 billion over 5 years for post-secondary education consistent with the objectives of my Hope Scholarship and tuition tax cut proposals. Both the House and Senate bills fall substantially short in this regard.

Building on the substantial progress of the 1993 plan and our bipartisan commitment to finish the job, we must now work together to implement the balanced budget agreement in a way that puts the Nation on the path of long-term fiscal responsibility. That is why it is so important that we all honor the provision in the Speaker's and Senate Majority Leader's letter stating that the tax cut proposal "not cause costs to explode in the outyears" and divert us from this path. Provisions in the House and Senate bills, such as capital gains indexing, substantial estate tax changes, and unconstrained IRAs, would explode in cost, benefitting the few at the very time that we will need to strengthen Social Security and Medicare for all. While we strongly favor reasonable expansion of IRAs for retirement and education savings, the IRAs in the House and Senate bills are simply too expensive in the decades to come, because they lack effective targeting.

Critical initiatives to spur economic activity in distressed areas must be in the final tax bill. The tax bill should include incentives to clean up brownfields in distressed communities, to expand Empowerment Zones and Enterprise Communities, to encourage private investments in Community Development Financial Institutions, to move people from welfare-to-work through a tax credit, and to revitalize our Nation's capital. And I trust that we can all work in good faith to resolve important differences on other provisions in the tax bill not discussed here.

I urge that we continue to work together to meet these principles to produce fair, fiscally responsible tax relief that is consistent with our values.

Sincerely,

BC/PMCaplan/lynn (7PGRP)

Xeroxed copy of signed original to NH thru Todd Stern

CLEAR THRU TODD STERN

PRESIDENT TO SIGN

Technical issues related to the implementation of the Hope tax credit by colleges and universities

We are anxious to ensure that any Hope tax credit proposal approved by Congress can be implemented in a way that does not impose unnecessary and costly paperwork and reporting burdens on students, parents, and families. To accomplish this goal, we have reviewed carefully the reporting requirements in the House and Senate bills and the administration proposals. We have identified several areas where I hope you will consider modifications to the administrative provisions currently under consideration.

Issue 1. The House, Senate, and administration proposals all require colleges to report the name, address, and taxpayer identification number of the student as well as the name, address, and taxpayer identification number of any other individual who might claim the student as a dependent for the purpose of filing for the Hope tax credit.

Because colleges do not need to know the legal names and addresses of a student's parents or stepparents, few collect or maintain this information. Even fewer collect and maintain the Social Security numbers of such individuals, since most taxpayers are very reluctant to reveal this information to a third party. Thus, the Hope tax credit, as currently drafted, would require colleges and universities to collect and maintain a huge amount of data from individuals that they do not currently receive.

In some cases -- for example, a student whose parents have divorced and remarried -- we believe that colleges would have to collect four sets of information: the names, addresses, and taxpayer identification numbers of both parents and stepparents. Since college data systems currently do not include this information, the schools would be required to engage in a great deal of system redesign to meet the requirements of the law.

What is required here seems to go beyond the record keeping and reporting requirements in other areas of the tax code -- for example, in the case of the child care tax credit, providers are not expected to collect, maintain, or report the Social Security numbers of taxpayers who may claim the credit on their returns. It is not clear why such a requirement is needed regarding the Hope tax credit.

Possible Solution to Issue 1: I recommend that the law remain silent on this provision and thus allow colleges and the Internal Revenue Service to discuss during the regulatory process the level of verification information required. If, after the regulatory process is complete, the IRS decides that it still wants and needs this much information, it certainly can require it in regulation. However, if Congress writes this requirement into the statute, the IRS will have no option but to collect the information, even if it concludes later that such a detailed level of reporting is not needed.

Issue 2. The House and Senate proposals both include language applying the credit to the amount spent on tuition and fees and books and supplies. Colleges and universities do not know how much money individual students spend on books, let alone "supplies." (Is a calculator a supply? How about a personal computer?)

Possible Solution to Issue 2: The simplest approach would be to adopt the administration's language, which limits the credit to "tuition and fees." However, if you include the "books and supplies" language in the final bill, make clear that colleges may use, for the purposes of this calculation, the estimated school-wide average amount for books and supplies included in the calculation of student need under Title IV of the Higher Education Act. Otherwise, colleges could be forced to collect information on the exact amount spent on books and supplies by individual students.

Issue 3. The House and Senate bills both require institutions to aggregate the amount of reimbursements and refunds paid to an individual over the course of a year. I see two potential problems here. First, colleges do not know about all the reimbursements and refunds students receive -- for example, a community-based organization may give a student a scholarship that the school never knows about. This certainly will be the case for students who do not receive financial aid and therefore do not submit detailed financial records to the financial aid office.

Second, some parts of a college may make refunds to students that are unknown to the financial aid office and/or the business office. For example, a student who enrolls in an athletic program and later withdraws may receive a refund from the athletic department that is never reported outside that part of the campus. We are worried that the language as drafted could require an enormous centralization of functions that now are decentralized around the campus.

Refunds already are an enormously complicated issue -- consider the attached federal definition of refunds that now applies to colleges and universities under the Higher Education Act. Given the complexity of current federal policy in this area, I strongly urge the tax writing committees to be careful in writing statutory language in this area. The last thing the federal government or the colleges need is another definition of refunds in federal law!

Possible Solution to Issue 3: Rather than trying specify the best way to deal with a topic as detailed as refunds and reimbursements in statute, I suggest you amend Section 6050 (b)(2)(C) of the House-passed bill to read as follows:

(C) Such information about payments for qualified expenses as the Secretary, in consultation with the Secretary of Education, may prescribe through regulation.

Such language will allow the Secretary of the Treasury to issue regulations as part of the regulatory process in a way that protects the federal fiscal interest without inadvertently creating an administrative or regulatory burden.

Issue 4. There is one policy issue related to the calculation of the credit that I urge you to consider. The Senate bill would set the amount of the credit for students in community colleges at 75 percent of up to $2,000, and for other students at 50 percent of up to $3,000. The House bill would establish the credit at 50 percent of up to $3,000 for all students. The House provision is preferable simply because many students enroll simultaneously in two-year and four-year colleges. The Department of Education estimates that about 500,000 students currently are enrolled in both two-year and four-year institutions. Determining the exact amount of the credit for these students would prove challenging and require a separate set of regulatory provisions.

Possible Solution to Issue 4: Adopt the House provision or, preferably, the administration's provision.

Obviously, the Hope tax credit will require colleges and universities to work closely with the IRS to develop regulations. A great deal of information and experience can be gained from the way federal student aid programs currently operate. Presumably, the Treasury Department will, wherever possible, draw on and be consistent with the regulatory requirements and provisions that currently govern federal student aid. To help make this happen, I strongly encourage you to minimize the specificity of the regulatory requirements in the statute and instead include language that requires the Department of the Treasury to work closely with the Department of Education to develop standardized reporting procedures that will maintain the integrity of the program while minimizing the burden imposed on students, parents, and institutions of higher education.

SEC. 484B. INSTITUTIONAL REFUNDS.

(a) REFUND POLICY REQUIRED.--Each institution of higher education participating in a program under this title shall have in effect a fair and equitable refund policy under which the institution refunds unearned tuition, fees, room and board, and other charges to a student who received grant or loan assistance under this title, or whose parent received a loan made under section 428B on behalf of the student, if the student--

(1) does not register for the period of attendance for which the assistance was intended; or

(2) withdraws or otherwise fails to complete the period of enrollment for which the assistance was provided.

(b) DETERMINATIONS.--The institution's refund policy shall be considered to be fair and equitable for purposes of this section if that policy provides for a refund in an amount of at least the largest of the amounts provided under--

(1) the requirements of applicable State law;

(2) the specific refund requirements established by the institution's nationally recognized accrediting agency and approved by the Secretary; or

(3) the pro rata refund calculation described in subsection (c), except that this paragraph will not apply to the institution's refund policy for any student whose date of withdrawal from the institution is after the 60 percent point (in time) in the period of enrollment for which the student has been charged.

(c) DEFINITIONS.--(1) As used in this section, the term "pro rata refund" means a refund by the institution to a student attending such institution for the first time of not less than that portion of the tuition, fees, room and board, and other charges assessed the student by the institution equal to the portion of the period of enrollment for which the student has been charged that remains on the last day of attendance by the student, rounded downward to the nearest 10 percent of that period, less any unpaid charges owed by the student for the period of enrollment for which the student has been charged, and less a reasonable administrative fee not to exceed the lesser of 5 percent of the tuition, fees, room and board, and other charges assessed the student, or $100.

(2) For purposes of paragraph (1), "the portion of the period of enrollment for which the student has been charged that remains", shall be determined--

(A) in the case of a program that is measured in credit hours, by dividing the total number of weeks comprising the period of enrollment for which the student has been charged into the number of weeks remaining in that period as of the last recorded day of attendance by the student;

(B) in the case of a program that is measured in clock hours, by dividing the total number of clock hours comprising the period of enrollment for which the student has been charged into the number of clock hours remaining to be completed by the student in that period as of the last recorded day of attendance by the student; and

(C) in the case of a correspondence program, by dividing the total number of lessons comprising the period of enrollment for which the student has been charged into the total number of such lessons not submitted by the student.

(20 U.S.C. 1091b) Enacted July 23, 1992, P.L. 102-325, sec. 485(a), 106 Stat. 619; amended December 20, 1993, P.L. 103-208, sec. 2(h)(26) and (27), 107 Stat. 2477.

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STONY BROOK

CHEN NING YANG

F 202 456 2223

July 21, 1997

Mr. Gene Sperling
Asst. to the President for
Economic Policy and
Director of National Economic Council
Washington, D. C.

Dear Sir,

Higher education is critical to the long-term health of American technology and society. In times of increasingly tight budgets, one of the most cost-effective ways to support graduate study in many essential disciplines is by allowing students to receive scholarships or waivers covering their tuition costs, exempt from federal income tax liability. Please act to maintain this exemption in the revised tax law. Not to do so would either impoverish students whose net income would go down sharply, or impoverish the institutions supplying the tuition support, or most likely both. This would have disastrous consequences for the next generation of researchers and teachers, and would cost the country far more than could be collected in revenues from removing the tax exemption.

Thank you very much for taking such an interest in this issue.

Sincerely,

Chen Ning Yang

Chen Ning Yang
Director,
Albert Einstein Prof. of Physics
Nobel Laureate, 1957

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STONY BROOK

CHEN NING YANG

F202 456 2223

July 21, 1997

Mr. Robert Shireman
Senior Policy Advisor
National Economic Council
The White House
Washington, D. C. 20502

Dear Sir:

Higher education is critical to the long-term health of American technology and society. In times of increasingly tight budgets, one of the most cost-effective ways to support graduate study in many essential disciplines is by allowing students to receive scholarships or waivers covering their tuition costs, exempt from federal income tax liability. Please act to maintain this exemption in the revised tax law. Not to do so would either impoverish students whose net income would go down sharply, or impoverish the institutions supplying the tuition support, or most likely both. This would have disastrous consequences for the next generation of researchers and teachers, and would cost the country far more than could be collected in revenues from removing the tax exemption.

Thank you very much for taking such an interest in this issue.

Sincerely,

Chen Ning Yang

Chen Ning Yang
Director,
Albert Einstein Prof. of Physics
Nobel Laureate, 1957

M. Beth Lyon
326 S. Wolfe Street
Baltimore, MD 21231-2530

via facsimile: 2 pages to 456-2223

July 23, 1997

Mr. Robert Shireman
Senior Policy Advisor
National Economic Council
1600 Pennsylvania Ave., NW
Washington, DC 20502

Re: Taxation of Education Loan Forgiveness Programs

Dear Mr. Shireman:

I write to urge that the Administration's continue to focus on and support the budget provision making nontaxable the forgiveness of education loans pursuant to qualifying employment. My understanding is that the administration's provision is currently included in the Senate bill but was omitted from the House version.

I believe that my case provides an example of the importance of this proposed policy. I graduated from a well-known law school with many opportunities before me, most of them offering substantial remuneration. Because my law school had recently expanded its Loan Repayment Assistance Program for alumni entering the non-profit sector to include assistance with private loans, I decided to acccept a position as a Staff Attorney with the Lawyers Committee for Human Rights, a non-profit, non-governmental organization that provides free representation to indigent asylum seekers by recruiting and training volunteers from law firms in Washington and New York. My first client was a woman who during a civil war in her home country had been marched away from her four children to a rebel prison camp because her husband worked for the previous government. Her husband was beheaded at the camp, and she was subjected to months of rape and grotesque torture before she managed to flee the country. With my help, she found permanent refuge in the United States and last year she was reunited with her children after a six year separation. Last month her oldest son graduated early from John F. Kennedy High School and received a full college scholarship. Today my client works very long hours in a county government home caring for disabled children.

Through helping such people my job is highly rewarding, and I devote to it the same passion and hard work as I would in any other setting. However, I could earn more as a secretary in a private law firm, and my educational debt stands just above $100,000. Moreover, my husband is a graduate student. The $15,000 per year my law school loans me to service my educational debt means the crucial difference between making it and being forced to take a private sector job.

From the beginning, the taxation of the law school's forgiveness of these loans has been a point of confusion. My law school's position was that the forgiveness, which in my school's program escalates throughout the five years of the program, was not taxable until the overall end of the program in year five. The IRS even assured me, in a verbal ruling, that the forgiveness should not be taxable at all. However, when the Clinton Administration proposal came out, it became clear that such forgiveness was immediately taxable and my husband and I are now scrambling to save the funds to pay roughly $2000 in back taxes for 1995 and 1996 and cannot see where we will get the roughly $3000 for 1997. My husband will not complete his Ph.D. for another year or so, and we will probably have to go into debt in order to make ends meet, or else I may have to leave behind my 150 clients to seek a higher pay in the for-profit sector. I believe my case demonstrates that the provision currently being debated in conference committee would make possible a great deal of good work at a very low cost to the government.

Finally, I want to emphasize that more than 50% of my sizeable debt is being serviced by private companies such as the Pennsylvania Higher Education Association (Graduate Loan Center) and P.L.A.T.O. Loans for Education. While most professional students borrow from federal loan programs, it is repayment programs like my law school's that enable more public-interest minded students to risk taking out the private loans as well.

I am delighted that the Clinton Admininstration is interested in assisting people in my position. I urge you not to allow the sacrifice of this sound policy initiative in conference.

Sincerely,

Beth Lyon

M. Beth Lyon

cc: Bob Grenawalt, Office of Senator Chafee
Barbara Riehle, Office of Senator Chafee
Barmak Nassirian, American Association of State Colleges and Universities
Jonathan Wharton, National Association of Graduate and Professional Students
Ivan Frishberg, USPIRG

Washington
WASHINGTON · UNIVERSITY · IN · ST · LOUIS

Mark S. Wrighton
Chancellor

July 14, 1997

Gene B. Sperling
Executive Office of the President
1600 Pennsylvania Ave., N.W.
Washington, DC 20500

Dear Mr. Sperling:

Thank you for all of your work to ensure that higher education is a priority in the tax bill currently being considered by Congress. Washington University strongly supports a higher education tax package that includes the following provisions:

- a Hope Tax Credit for the first two years of college,
- a tax credit or deduction for life-long learning available for undergraduate and graduate education,
- the permanent extension of employer-provided educational assistance (Section 127) for both undergraduate and graduate education,
- reinstatement of an "above-the-line" tax deduction for student loan interest,
- tax-advantaged savings incentives, and
- elimination of the cap on tax-exempt bonds for private 501(c)(3) institutions.

We also believe that the final tax bill should not include two provisions in the House-passed bill. These provisions would impose new taxes on students, employees, and retirement benefits. We ask that you:

- drop the House provision that would tax the tuition waivers of students and university employees (Section 117(d)), and
- drop the House provision that removes TIAA-CREF's long-standing tax exempt status, which would reduce earnings that otherwise would be credited as dividends to participants.

Washington University appreciates your leadership on these issues and your support of higher education.

Sincerely yours,

Mark S. Wrighton

Mark S. Wrighton

MSW:jm

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University of Notre Dame

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•
FAX: (219) 631-4183

Date:	July 23, 1997
Page:	1 of 2
To:	Robert Shireman Senior Policy Advisor, National Economic Council Fax: 202-456-2223
From:	Dr. James L. Merz. Vice President for Graduate Studies and Research

Comments:

If this fax is incomplete or if you have any questions regarding it, please call (219) 631-6291. Thank you.

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THE GRADUATE SCHOOL

UNIVERSITY OF NOTRE DAME
NOTRE DAME, INDIANA 46556-5602

July 23, 1997

Robert Shireman
Senior Policy Advisor, National Economic Council
The White House, Old Executive Office Building-Room 235
Washington, D.C. 20502

Dear Mr. Shireman,

I have recently become aware of legislation (HR 2014) introduced by Rep. Bill Archer, Chair of the House Ways and Means Committee, that would do great harm to higher education in this country. Archer's bill concerns taxing graduate students' tuition remission, which would be financially ruinous for graduate students and graduate programs everywhere. I represent graduate education at the University of Notre Dame, a truly national university with a large and loyal alumni(ae).

Most graduate students already struggle to make ends meet financially. They live in sub-standard housing, they have poor health-care insurance (if any); often their income approaches the poverty level. They put up with these conditions because they recognize the value of the degree for their future economic stability and for the personal career satisfaction that usually follows. To add to their burdens by taxing their tuition remission would be disastrous; it would in many cases at least double their tax burden, pushing them beyond the limit that they might think represents an acceptable sacrifice. Yet these are the academic, business, and industry leaders and visionaries of the next generation, trained by a system of scholarly inquiry and creativity that is considered to be the finest in the world.

It is hard to think of any idea that would stand to do greater harm to graduate education, and hence to the future well being of our nation, than this one.

I hope that you will continue to insist on legislation that is broad and supportive for higher education in this country, as you have done in the past. In particular, I respectfully ask that you work to DEFEAT the proposed repeal of Section 115(d) of the Tax Code, "Qualified Tuition Reductions".

Sincerely yours,

James L. Merz

James L. Merz
Vice President for Graduate Studies & Research
208 Hurley Hall
The University of Notre Dame
Notre Dame, IN 46556

BINGHAMTON
UNIVERSITY

PO Box 6000
Binghamton, New York 13902-6000
607-777-2070

VICE PROVOST FOR GRADUATE STUDIES AND TEACHING

July 23, 1997

Robert Shireman
Senior Policy Advisor
National Economic Council
The White House
Old Executive Office Building, Room 235
Washington, D.C. 20502

Dear Mr. Shireman:

I have read with great concern of the provision in the House Tax Bill to change Section 117(d), "Qualified Tuition Reductions." As the head of graduate education at a highly selective public university, I believe that the House proposal to tax tuition scholarships will have significant negative impact on all of our enrolled graduate students. My request is quite simple: I urge you to retain the current law provisions of Section 117(d).

On our campus, graduate students prepare for careers that are vital to the creation of new knowledge in academic settings, industry, and public sector jobs. We offer graduate education in engineering, education, nursing, management, and various fields in the arts and sciences. We are sure that the changes in Section 117(d) proposed in the House will make it far more difficult for all of our funded graduate students--the most outstanding students on our campus--to afford to continue their education. We believe we will see a drop in their numbers and increasing loan burdens carried by the very best of these students.

I urge you to do all you can to save graduate education for our nation's future by voting to retain Section 117(d).

Sincerely,

Susan Strehle

Susan Strehle
Vice Provost for Graduate Studies and Teaching

SS:alh

OPENING DOORS OF EDUCATIONAL OPPORTUNITY

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FYI
Marty Guthrie

MARTHA SEDESTROM GUTHRIE
DIRECTOR OF GOVERNMENTAL AFFAIRS

NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS
1920 L STREET N.W. SUITE 200 WASHINGTON, D.C. 20036 202-785-0453

July 17, 1997

The Honorable Richard W. Riley
Secretary of Education
Room 6161, FB-10
Washington, D.C. 20202

Dear Secretary Riley:

First and foremost, let me take this opportunity to sincerely thank you for taking the time from your busy schedule to serve as the keynote speaker for our annual conference in Philadelphia. You did an outstanding job and the members present were delighted to hear your informative remarks.

Second, I want to thank you and the President for making the constructive changes you announced on June 30 to the Administration's higher education tax cut proposal. It is a much stronger and more balanced package with the changes you have made.

Third, in our meeting on July 15, I told you we would certainly support the 20% Tax Credit proposal. Enclosed is a copy of the letter we have forwarded to all House and Senate conferees. In addition, we have distributed the letter you sent to college presidents to all of our members, along with copies of our own letter to the tax committees, and have encouraged them to express their views on these matters to their elected representatives and senators.

Finally, I have also enclosed a separate letter which we have sent to the Hill outlining the major problems associated with the HOPE Scholarship reporting requirements included in Section 6050S of HR-2014. The current requirements are not workable and need to be changed. If they are not modified, I fear that the HOPE Scholarship will be viewed by the public and institutions as simply an administrative nightmare rather than as a constructive middle-income family educational tax break. I fully appreciate the need for accountability that Treasury seeks, but there are better ways to provide this assistance without adding unnecessarily to reporting burden.

We look forward to working with you in successfully implementing all of the tax measures when they are enacted. Meanwhile, thank you for your leadership and support. If I can assist you further, please let me know.

Sincerely,

Dallas

Dallas Martin
President
NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

OPENING DOORS OF EDUCATIONAL OPPORTUNITY

N·A·S·F·A·A

July 16, 1997

Same letter sent to all Tax Conferees

The Honorable William V. Roth
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Roth:

Earlier this week, the members of the National Association of Student Financial Aid Administrators and other higher education associations joined in a letter submitted to you by the President of the American Council on Education (ACE), Stanley O. Ikenberry. This letter outlined the primary elements and provisions that all of us believe should be included in the final version of the Revenue Reconciliation Act of 1997.

In reviewing the House and Senate versions of this historic legislation, we have observed that one critical element needs to be added to the final bill in order to insure that all working middle income Americans and their families are truly provided a tax credit that will enable them throughout their lifetime to acquire the necessary knowledge and job skills to be a part of our nation's productive workforce. Clearly, it is our view that the best way to establish a foundation for all of our citizens to promote this kind of needed and necessary lifelong learning, is to include the 20% Tuition Tax Credit provision, proposed by President Clinton, as a part of this otherwise comprehensive set of educational tax provisions.

The best thing about the 20% Tuition Tax Credit proposal is that it provides a solid foundation which helps all students meet educational expenses, regardless if they are part-time or full-time, an undergraduate or a graduate student, or of traditional college age or an older adult student.

The 20% Tuition Tax Credit compliments all of the other educational tax proposals contained in the House and Senate bills and it is a far better, and fairer means of promoting lifelong learning than the President's original $10,000 tuition deduction proposal, which was a part of the original bipartisan tax negotiation agreement endorsed by the congressional leadership and the administration.

When this provision is included in the final bill with the other tax provisions outlined in the ACE letter, America will finally have a tax code that operates in concert with the existing federal need-based student assistance programs, to insure that all deserving Americans can pursue a postsecondary education. Therefore, we strongly encourage you to include the 20% Tuition Tax Credit in the final bill.

Again, thank you for your bipartisan support and for making education a top priority of the 105th Congress.

Sincerely,

Dallas Martin
President

NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS
1920 L STREET N.W. SUITE 200 WASHINGTON, D.C. 20036-5020 TELEPHONE: 202-785-0453 FAX: 202-785-1487

OPENING DOORS OF EDUCATIONAL OPPORTUNITY

N·A·S·F·A·A

July 16, 1997

Same letter sent to Rep. Bill Archer, Sen. Daniel Patrick Moynihan, and Rep. Charles B. Rangel

The Honorable William V. Roth
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Roth:

The members of the National Association of Student Financial Aid Administrators (NASFAA) are very appreciative of the array of educational tax provisions being considered as part of the Revenue Reconciliation Act of 1997. When enacted, these provision will assist thousands of working middle-income families to meet postsecondary educational expenses.

Given the significance of these provisions and the large number of tax filers that will be affected, it is very important that all of us work together to develop responsible reporting procedures to insure adequate safeguards within the system. At the same time, I am certain you would agree, we want to develop a reporting system that does not impose unnecessary and costly paperwork and reporting burdens on students, families, or institutions.

Therefore, we have carefully reviewed the reporting requirements listed in Section 6050S of HR 2014 governing the HOPE Scholarship Tax Credit. I regret to inform you that, as currently written, colleges and universities would not be able to comply with the requirements.

For example, the requirements would expect the institution to report the name, address, and taxpayer identification number (TIN) of the individual who attended the institution as well as the name, address and TIN of any other individual who might claim the student as a dependent for the purpose of filing for the HOPE Scholarship tax credit.

First of all, institutions do not maintain or collect social security numbers of a student's parents, stepparents, or spouse. In most cases, they also do not maintain a current listing of the student's parents', stepparents', or spouse's legal names and current addresses. The fact is, institutions do not need this type of data, so they do not collect it. In addition, most taxpayers are very reluctant to reveal their social security numbers to any third party--for security reasons--and family circumstances, marital status, and addresses are constantly changing. The ability of any institution to maintain and provide this kind of accurate data to the student or the IRS is simply not possible, nor is it necessary. The level of required taxpayer data is unreasonable and should be eliminated from the reporting procedures.

If the taxpayer listed the social security number of the qualifying student as part of claiming the HOPE Scholarship tax credit, the IRS could then run data base matches based on that number. Since taxpayers are already required to list the social security number for any dependent they claim, this approach would relieve parents, stepparents, spouses, or others from the requirement to share confidential data with an institution, and it would relieve all parties of the expenses and burdens associated with collecting, maintaining, and reporting such data.

In addition to the problems previously cited, we also are concerned about the ability of institutions to aggregate the amount of reimbursements or refunds which are paid to an individual over the course of a calendar year, particularly when the payments often come from many different sources. Further, institutions operate their student aid programs on an award year cycle that runs from July 1 to June 30 and keep records on that basis. Thus, developing a way to report payments for qualified tuition and related expenses for each student on a calendar year basis will require all institutions to completely revamp their current reporting systems.

This level of detailed reporting is unprecedented and not required for other allowable credits or deductions that are part of the tax code. In fact, other credits are self-reported by taxpayers, who know that if audited, they will have to document the credit. This type of approach works for other parts of the tax code, and it should work for the HOPE Tax Credit as well.

Therefore, the members of NASFAA strongly urge you and your colleagues to delete the specificity contained in Section 6050S and simply require the Departments of Treasury and Education to work with representatives of the higher education community to develop standardized reporting procedures, that will maintain the integrity of the programs while not imposing unreasonable reporting requirements on all parties.

Again, we thank you for your leadership and support in making postsecondary education more affordable for American students and their families.

Sincerely,

Dallas Martin
President

cc: Secretary Richard W. Riley
Secretary Robert E. Rubin

OPENING DOORS OF EDUCATIONAL OPPORTUNITY

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FYI

MARTHA SEDESTROM GUTHRIE
DIRECTOR OF GOVERNMENTAL AFFAIRS

NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS
1920 L STREET N.W. SUITE 200 WASHINGTON, D.C. 20036 202-785-0453

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Therefore, the members of NASFAA strongly urge you and your colleagues to delete the specificity contained in Section 6050S and simply require the Departments of Treasury and Education to work with representatives of the higher education community to develop standardized reporting procedures, that will maintain the integrity of the programs while not imposing unreasonable reporting requirements on all parties.

Again, we thank you for your leadership and support in making postsecondary education more affordable for American students and their families.

Sincerely,

Dallas Martin
President

cc: Secretary Richard W. Riley
Secretary Robert E. Rubin

U.S. DEPARTMENT OF EDUCATION
OFFICE OF THE DEPUTY SECRETARY
600 INDEPENDENCE AVENUE, S.W.
WASHINGTON, D.C. 20202-0500

DATE: 7/14/97

TO: Bob Shireman / Chuck Marr

ORGANIZATION:

PHONE: FAX: 456-2223

FROM: Pauline Abernathy

PHONE: 401-1000 FAX: (202) 401-9027

TOTAL PAGES (including cover) 3

Can you review this draft? — any helpful comments and revisions would be welcomed. Thanks.

Comparison of Selected Higher Education Tax Proposals

	Clinton Administration	House-Passed Bill	Senate-Passed Bill	Rangel Alternative	Daschle Alternative
HOPE tax credit (For first two years of college only. None of the proposals have a B-average requirement or a Pell offset)	$1,500 tax credit: 100% credit on first $1,000 of tuition and fees, and 50% credit on the next $1,000, beginning in 1998. After 2002, 100% credit on first $1,500 and 50% credit on next $1,000.	50% tax credit on up to $3,000 of tuition, fees, and books for the first two years of college, beginning in 1998.	For community colleges & technical schools: 75% tax credit on up to $2,000 of tuition, fees, & books. For other colleges: 50% tax credit on up to $3,000 of tuition. Both begin in 1998.	Phases in a $1,500 tax credit: 100% credit on the first $1,500 of tuition and fees.	Phases in a $1,500 tax credit: 100% credit on the first $1,000 of tuition and fees and 50% credit on additional tuition and fees up to the maximum.
Life-long learning tuition tax credit	Phases in a 20% credit on up to $10,000 of tuition for life-long learning. (maximum of $5000 of tuition in 1998-2000; $10,000 after 2000)	None	None	Phases in a 20% credit on up to $10,000 of tuition for life-long learning. (maximum of $4,000 of tuition in 1997-1999; $5,000 in 2000; $7,500 in 2001; $10,000 after 2001)	Phases in a 20% credit on up to $10,000 of tuition for life-long learning. (maximum of $4,000 of tuition in 1997-1999; $7,500 in 2000; $10,000 after 2000)
Total for HOPE and life-long learning tax credits:	$35 billion	$22 billion	$20 billion	$37 billion	$33 billion
Total for all education:	$45 billion	$31 billion	$33 billion	$42 billion	$41 billion
Employer-provided education assistance (Section 127)	Permanent extension for undergraduates & graduates	Extended only 6 months & only for undergraduates	Permanent extension for undergraduates & graduates	Permanent extension for undergraduates & graduates	Permanent extension for undergraduates & graduates
Student loan interest deduction	Restores interest deduction (annual $2,500 above-the-line)	None	Restores interest deduction (annual $2,500 above-the-line)	None	Restores interest deduction (annual $2,500 above-the-line)

Comparison of Selected Education Tax Proposals

	Clinton Administration	House-Passed Bill	Senate-Passed Bill	Rangel Alternative	Daschle Alternative
Education Savings **IRA withdrawals**	Penalty-free IRA withdrawals for post-secondary tuition and fees	Penalty-free IRA withdrawals for post-secondary tuition, fees, books, room and board	Penalty-free IRA withdrawals for post-secondary tuition, fees, books, room and board	None	None??
Kidsave Accounts	Option of putting $500 child tax credit plus up to an additional $500 in a Kidsave account for children to age 16 (18 in 2003) (credit phased in). Tax-free withdrawals for higher education.	None	To receive $500 child tax credit for children ages 13 to 16 (17 in 2003), parents must deposit it into an education IRA or prepaid tuition plan (optional for children under 13).	None	Parents receive $500 child credit instead of $350 child credit if put in an IRA for children to age 12 (17 in 2003) (credit phased in). Penalty-free withdrawals for higher education.
Qualified Tuition Programs and Education Investment Accounts	Maintains current law (permits qualified state tuition programs to allow tax-deferred accumulation)	Establishes education investment accounts and expands qualified tuition programs. Deduction of up to $10,000 of QTP/EIA interest a year for undergraduate education. No income limits.	Establishes education investment accounts and expands qualified tuition programs. Education accounts can be used for K-12 education as well after the year 2000. No income limits.	None	Allows tax-free distributions from qualified state tuition programs in years that student is not receiving HOPE tax credit
Tax-free student loan forgiveness	Allowed for those engaged in community service and under income-contingent loan repayment	Allowed for those engaged in community service and under income-contingent loan repayment	Allowed for loans forgiven by tax-exempt organizations	?Allowed for those engaged in community service and under income-contingent loan repayment	?Allowed for those engaged in community service and under income-contingent loan repayment
Tax incentives for K-12 school construction and renovation	Tax credits for schools in distressed urban and rural areas. Fixed amount of credits allocated to States for eligible schools	None	None-- $36 million over 5 years-expansion of small issuer arbitrage rebate exception	Allow local governments to issue up to $10 billion a year in interest-free bonds for schools in distressed urban and rural areas	Fixed amount of tax credits allocated to States for eligible schools.
Tax incentives for computer donations to K-12 schools	Tax credit for below-cost new computer sales to schools	Enhanced tax deduction for used computer donations to schools	None?	None	Enhanced tax deduction for used computer donations
Cap on tax-exempt bonds for colleges	Repeals $150 million cap	Raises cap to $200 million	Repeals $150 million cap	No change	Repeals $150 million cap

U.S. DEPARTMENT OF EDUCATION
OFFICE OF THE DEPUTY SECRETARY
600 INDEPENDENCE AVENUE, S.W.
WASHINGTON, D.C. 20202-0500

DATE: 7/17/97

TO: Bob Shireman

ORGANIZATION:

PHONE: FAX: 456-2223

FROM: Brooks Allen → Pauline Abernathy asked me to send this to you

PHONE: 401-8192 FAX: **(202) 401-9027**

TOTAL PAGES (including cover) 2

The following is completely up-to-date, and all old information is no longer available by way of the Dept. of Ed homepage or search engines.
Additional information re: the tax bills is available at:
http://www.ed.gov/news.html (under the July 4th heading)
Persons can now be safely referred to these sites.

America's HOPE Scholarship Proposal

Hope and Opportunity for Postsecondary Education (HOPE)

Updates and General Information

- Fact Sheet on Higher Education Tax Cuts
- A Comparison: Higher Education Tax Cuts
- State-by-State Analyses of Benefits
- Greater Benefits for More Families

Recent Announcements and News Releases

- Administration Releases State-By-State Analysis on Education Impact of Tax Cut Proposal--July 8, 1997
- Vice President Gore Highlights Administration Tax Cuts That Help More Students Afford Higher Education--July 8, 1997
- The President's Radio Address to the Nation--May 31, 1997

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last updated July 15, 1997 by *(kc)*

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Return to OPE Announcements Page

ED HOME

National Association
of Independent
Colleges and Universities

CUPA/NAICU Survey on Tuition Remission Benefits

General Background on Survey:

At the 614 respondent institutions, more than 418,000 faculty and staff are eligible for tuition remission benefits (covered under section 117(d) of the tax code). Over 50 institutions provide the benefit but could not provide specific data on the number of eligible employees. The actual number of eligible employees is most likely approaching 500,000 at the respondent institutions.

These data reflect the actual availability and usage of section 117 benefits at more than 600 institutions by approximately 500,000 college and university employees. The respondents reflect a range of institutional types, including (by Carnegie classification): 44 Research Universities, 54 Doctoral Universities, 171 Comprehensive Colleges and Universities, 208 Baccalaureate Colleges, and 114 Associate of Arts Colleges. 205 respondents were from public institutions, 221 were from private religious institutions, and 188 were from private institutions. All 50 states were represented in the survey.

Eligibility and Participation Rates: The following table lists the percentage of responding institutions that offer tuition remission benefits, and the eligible population within each employee category that participates in a section 117(d) program:

Category	Percent of Institutions Reporting that Employees are Eligible for Benefit	Percent of Employees Utilizing Benefit
Full-time Faculty	88.2%	16.9%
Part-time Faculty	37.3%	9.7%
Executive/Admin/Managerial	89.3%	14.3%
Other Prof (support/service)	87.0%	17.7%
Tech and paraprofessional	85.1%	18.6%
Clerical and Secretarial	88.3%	23.6%
Skilled Crafts	81.9%	12.1%
Service/Maintenance	86.5%	12.8%

- Over 85 percent of the respondent institutions offer section 117(d) benefits to their employees at all levels within the institution including technical, clerical, skilled craft and service/maintenance employees. In all categories, approximately 75 percent of the respondent institutions offer these benefits to the spouse and/or dependents of these employees.

- According to the National Center for Education Statistics, U.S. Department of Education, 50 percent of all full-time students receiving tuition waivers report family income of less than $30,000. (NPSAS: 93)

naicu 1025 Connecticut Avenue, N.W. • Suite 700 • Washington, D.C. 20036-5405 • 202/785-8868 • FAX: 202/835-0003

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 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,

Dick Riley

Richard W. Riley

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).

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

fax

Association of American Universities

voice: 202-408-7500 fax: 202-408-8184

1200 New York Avenue, NW • Suite 550 • Washington, DC • 20005

to: Bob Shireman
National Economic Council

from: Cornelius J. Pings

subject: Letter to Secretary Riley

date: July 17, 1997

AAU

Association of American Universities

President

July 16, 1997

Honorable Richard W. Riley
Secretary of Education
600 Independence Avenue, SW
Washington, D.C. 20202

Dear Mr. Secretary:

Thank you for meeting with me and my association colleagues on Tuesday morning. I agree with you that as part of a tax package including other provisions we have discussed with you, the lifelong learning credit proposed by the Administration would be very beneficial to students, especially those pursuing graduate and professional programs and other opportunities to upgrade skills that will be increasingly important to a competitive workforce. In this regard, I wanted to make sure you saw my letter to the editor published in Monday's *USA Today*, which is quite complimentary to the Administration's proposal.

I am also enclosing a copy of my alert today to the 62 AAU presidents and chancellors. As you will see, the memo emphasizes the importance of the lifelong learning credit. Also, we are very concerned about the House proposal phasing out Section 117(d) for both graduate students and university employees. While we are pleased with reports that conferees now recognize the harmful impact this provision would have on graduate students, imposing a tax on tuition benefits for university employees would also sharply reduce the educational opportunities now available to these employees and their families. Assistance from the Administration on this issue will be critical to a favorable outcome. A fact sheet enclosed with my memo provides additional information.

We are grateful for the leadership that you and the President have shown on this landmark piece of legislation, and we appreciate the opportunity to work with you to expand educational opportunity for the nation's students.

Sincerely,

Neal Pings

Cornelius J. Pings
President

CJP/GLL/rdk

Enclosures

1200 New York Avenue, NW • Suite 550 • Washington, DC • 20005 • 202/408-7500 • FAX 202/408-8184

AAU MEMORANDUM

THE ASSOCIATION OF AMERICAN UNIVERSITIES
1200 NEW YORK AVENUE NW, SUITE 550, WASHINGTON, D.C. 20005
Phone: 202-408-7500 Fax: 202-408-8184
WWW site: www.tulane.edu/~aau

July 16, 1997

To: AAU Presidents and Chancellors

From: Cornelius J. Pings

Subject: Upcoming Conference Deliberations on Tax Bill

URGENT - Action Required Within 48 Hours

I am writing to encourage you to contact all conferees on the tax bill within the next 48 hours.

Two weeks ago, I sent you a memo urging you to contact your members of the House and Senate in support of these six items we hope to see in a final tax bill:

- a *Hope Tax Credit* for the first two years of college (in the House, Senate, and Clinton plans)
- an additional *tax credit for lifelong learning* available for undergraduate and graduate education (in the Clinton plan only)
- meaningful *savings incentives* (in the House, Senate, and Clinton plans)
- *permanent extension of Section 127* for employer-provided educational assistance for both undergraduate and graduate education (in the Senate and Clinton plans)
- reinstatement of an "above-the-line" *tax deduction for student loan interest* (in the Senate and Clinton plans)
- *elimination of the tax-exempt bond cap* for facilities at private, 501(c)(3) institutions (in the Senate and Clinton plans).

We also believe that the final tax bill should not include two provisions in the House-passed bill that would impose new taxes on students, employees, and educational retirement plans:

- *drop House provision phasing out Section 117 (d),* which taxes tuition waivers used by RAs and TAs and college employees
- *drop House provision that removes TIAA-CREF's tax-exempt status,* which will have the effect of lowering the value of pensions held by TIAA-CREF.

Many of you did contact your congressional delegations and sent me copies of your correspondence. Thank you for your cooperation.

As you know, House and Senate conferees are meeting this week to wrap up the final agreement. It is possible these negotiations will conclude in the next few days. Therefore, it is urgent that as many AAU Presidents and Chancellors as possible *contact all conferees on the tax bill*—whether or not they represent your state—by telephone, fax or overnight mail. A list of tax conferees is included with this memo. We need to reemphasize our support for the six components we support and our strong opposition to the phase-out of tuition reduction benefits and the imposition of tax on TIAA-CREF benefits. I also encourage you to continue your communications with your own members of the House and Senate, since they may also have access to the conferees.

I particularly want to note that President Clinton's plan is the only one that includes a tax credit for "lifelong learning," providing tax benefits beyond the first two years of college. The Administration recognizes that it is seeking to accomplish a difficult objective by asking House and Senate conferees to include in the final agreement a provision that is not included in either the House or the Senate bill. However, I believe that for AAU institutions, which emphasize the importance of graduate education and lifelong learning, this Administration proposal is especially beneficial and is an important component of the package we are advocating.

Finally, concerning Section 117 tuition reduction benefits, there is great concern that conferees may agree to a compromise to protect graduate research assistants and teaching assistants but impose a tax on tuition benefits received by employees. I enclose a fact sheet to assist you in making the case on behalf of these benefits.

I am also enclosing a letter being sent today by the six presidential higher education associations to the conferees, and a letter to the editor published in *USA Today* on Monday.

cc: Council on Federal Relations

CJP/GLL/rdk

Attachments

Tax Bill Conferees:

Chairman William V. Roth, Jr. (R-DE)
SH-104, Washington, D.C. 20510
Phone: (202) 224-4515
Fax: (202) 228-0354

Senate Majority Leader Trent Lott (R-MS)
SR-487, Washington, D.C. 20510
Phone: (202) 224-6253
Fax: (202) 224-2262

Senator Daniel P. Moynihan (D-NY)
SR-464, Washington, D.C. 20510
Phone: (202) 224-4451
Fax: (202) 228-0406

Chairman John R. Kasich (R-OH)
1111 LHOB, Washington, D.C. 20515
Phone: (202) 225-5355
No Public Fax

Chairman Bill Archer (R-TX)
1236 LHOB, Washington, D.C. 20515
Phone: (202) 225-2571
Fax: (202) 225-4381

House Majority Leader Richard K. Armey (R-TX)
301 CHOB, Washington, D.C. 20515
Phone: (202) 225-7772
No Public Fax

House Majority Whip Tom DeLay (R-TX)
341 CHOB, Washington, D.C. 20515
Phone: (202) 225-5951
Fax: (202) 225-5241

Rep. Philip Crane (R-IL)
233 CHOB, Washington, D.C. 20515
Phone: (202) 225-3711
Fax: (202) 225-7830

Rep. William Thomas (R-CA)
2208 RHOB, Washington, D.C. 20515
Phone: (202) 225-2915
Fax: (202) 225-8798

Rep. Charles Rangel (D-NY)
2354 RHOB, Washington, D.C. 20515
Phone: (202) 225-4365
Fax: (202) 225-0816

Rep. Pete Stark (D-CA)
239 CHOB, Washington, D.C. 20515
Phone: (202) 225-5065
Fax: (202) 226-3805

Rep. Robert T. Matsui (D-CA)
2308 RHOB, Washington, D.C. 20515
Phone: (202) 225-7163
Fax: (202) 225-0566

CONGRESS SHOULD RETAIN CURRENT TAX TREATMENT OF TUITION REMISSIONS

The Budget Reconciliation Act, H.R. 2014, as passed by the House would phase out Internal Revenue Code section 117(d), providing tax-free treatment of tuition remissions for college, university, and private school employees and, in limited circumstances, graduate students performing teaching and research services. The Senate version of H.R. 2014 does not make any changes to section 117(d). **While the initial House offer in conference proposes to recede with respect to graduate students, the broader issue of phasing out section 117(d) for employees remains a conference issue.**

Arguments against eliminating current tax treatment of tuition remissions:

- Retaining this long-standing section of the Code is consistent with the legislative intent of the new educational provisions promoting education, because it encourages Americans who might not otherwise be able to afford a higher education to obtain a college or graduate degree.

- A broad cross-section of employees benefit from section 117(d). Under the present statute, institutions must provide benefits on a nondiscriminatory basis, similar to the rules governing many health care and other benefit plans. Over half of families receiving tuition benefits earn less than $30,000.

- Section 117(d) helps many small, private, denominational schools to compete against the private sector for top employees. Corporate America, especially in the areas of science and engineering, are able to offer many employee benefits not available to academia, such as stock options, ESOPs, and unlimited non-qualified deferred compensation.

- The provision helps many middle class and low income Americans afford a college education.

- Employees in other sectors of the economy receive unique benefits that are not taxed such as those in the airline, hotel, restaurant, and retail industries.

- Repeal of section 117(d) would increase costs for colleges and universities, since institutions would have to pay higher FICA taxes.

- Repeal would result in a tax increase on middle and working class Americans.

TUITION REMISSION: REAL-LIFE STORIES

Here are some personal stories of individuals who have benefited through section 117(d) tuition waiver programs:

At a private religiously-affiliated college in Michigan, employees who have been helped by the tuition waiver benefit include:

- A groundskeeper pursues an undergraduate degree on a part-time basis with a dream of going into missionary work.
- A secretary resumes her academic studies on a part-time basis after many years spent raising her children as a single parent. She finally has completed her degree this year and now has increased responsibilities in her work.
- The son and daughter of a deceased faculty member of the institution's music department attend college with the aid of the tuition waiver program. Their father died while in the service of the college.
- A clerk in the business office pursues a college degree on a part-time basis with the help of the tuition waiver program while raising two daughters.
- An employee in the custodial services department has a son and daughter, both of whom are enrolled at the college with the aid of the tuition waiver benefit.

At a university in Texas, many of the tuition waiver recipients earn between $10,000 and $12,000 annually, with most of the individuals working in a clerical capacity, including:

- A single parent who dropped out of college in 1956 to raise a family, pursued her degree on a part-time basis, earning that degree in 1996 through the tuition benefit program while balancing work and family obligations.
- A secretary, who is raising her children on her own and who also receives food stamps from the state, is pursuing a degree through the tuition benefit program of the university.

At another college in Texas, an example of the tuition waiver program benefiting the employee's family:

- The oldest daughter of a housekeeper at the college graduated from the institution through the tuition waiver program. Both parents originally came to the United States from Mexico as farm workers speaking little or no English.

A college in California has a similar story:

- A building attendant, who never even went to high school, was able to send his children to college because of the tuition aid program at the college where he was employed.

CUPA/NAICU Survey on Tuition Remission Benefits

General Background on Survey:

At the 614 respondent institutions, more than 418,000 faculty and staff are eligible for tuition remission benefits (covered under section 117(d) of the tax code). Over 50 institutions provide the benefit but could not provide specific data on the number of eligible employees. The actual number of eligible employees is most likely approaching 500,000 at the respondent institutions.

These data reflect the actual availability and usage of section 117 benefits at more than 600 institutions by approximately 500,000 college and university employees. The respondents reflect a range of institutional types, including (by Carnegie classification): 44 Research Universities, 54 Doctoral Universities, 171 Comprehensive Colleges and Universities, 208 Baccalaureate Colleges, and 114 Associate of Arts Colleges. 205 respondents were from public institutions, 221 were from private religious institutions, and 188 were from private institutions. All 50 states were represented in the survey.

Eligibility and Participation Rates: The following table lists the percentage of responding institutions that offer tuition remission benefits, and the eligible population within each employee category that participates in a section 117(d) program:

Category	Percent of Institutions Reporting that Employees are Eligible for Benefit	Percent of Employees Utilizing Benefit
Full-time Faculty	88.2%	16.9%
Part-time Faculty	37.3%	9.7%
Executive/Admin/Managerial	89.3%	14.3%
Other Prof (support/service)	87.0%	17.7%
Tech and paraprofessional	85.1%	18.6%
Clerical and Secretarial	88.3%	23.6%
Skilled Crafts	81.9%	12.1%
Service/Maintenance	86.5%	12.8%

- Over 85 percent of the respondent institutions offer section 117(d) benefits to their employees at all levels within the institution including technical, clerical, skilled craft and service/maintenance employees. In all categories, approximately 75 percent of the respondent institutions offer these benefits to the spouse and/or dependents of these employees.

- According to the National Center for Education Statistics, U.S. Department of Education, 50 percent of all full-time students receiving tuition waivers report family income of less than $30,000. (NPSAS: 93)

AMERICAN COUNCIL ON EDUCATION

OFFICE OF THE PRESIDENT

July 15, 1997

The Honorable Trent Lott
United States Senate
487 Russell Senate Office Building
Washington, DC 20510

Dear Senator Lott:

I write on behalf of the higher education associations listed below to express our views on the education tax provisions under consideration in the Revenue Reconciliation Act of 1997 (H.R. 2014).

We are grateful for the agreement by the congressional leadership and the administration that a comprehensive set of proposals to help families save and pay for higher education should be a central feature of any tax relief legislation. This decision recognizes that widespread access to higher education will generate substantial benefits for the nation as a whole in the forms of long-term economic growth and social progress.

We believe that any comprehensive higher education tax package should include six elements:

- A Hope Scholarship tax credit available to needy as well as middle income students for the first two years of college. Such a credit would help guarantee students access to two years of postsecondary education or training and should be the central feature of any plan. We note that neither the House nor Senate bills would allow all students to claim 100 percent of their allowable tuition and fees up to $1,500. We urge the conferees to structure the credit so that it is not reduced to the detriment of students attending low-cost institutions.

- A provision to encourage students to pursue postsecondary education after their eligibility for the Hope tax credit has expired, including features that promote lifelong learning, such as those proposed by President Clinton.

- Effective incentives to help families with young children save for college expenses—e.g., allowing the use of Individual Retirement Accounts for higher education expenses without penalty and authorizing the creation of "educational IRAs."

One Dupont Circle, NW, Washington, DC 20036-1193 • tel: (202) 939-9310 • fax: (202) 659-2212

- 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 higher education without adverse tax consequences.

- Reinstatement of the student loan interest deduction to help student borrowers repay their loans after graduation. The deduction should be "above the line," as in the Senate bill, to ensure that all borrowers benefit. In addition, we strongly endorse the provisions in the House and Senate bills that would exclude from federal taxation loans that are canceled by a college, university, or other nonprofit organization when college graduates pursue community service and other low-paying careers. Finally, we support the provision in both bills that would exclude from federal taxation any portion of student loans forgiven after 25 years under the federal income contingent repayment plan. This plan, established in 1992 to help individuals whose income remains low throughout their working lives, cancels any remaining federal student loan debt after 25 years of repayment. Borrowers who have worked to repay their debt and receive federal loan "forgiveness" benefit from this provision only because they have low income. They should not be expected to pay federal income tax on the amount forgiven.

- 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.

The House and Senate bills and the administration proposals can be combined to include these six elements. Such a package would provide a much needed and extraordinarily valuable set of tax cuts to help middle income families invest in education. Taken together, the six elements listed above would represent landmark legislation in the tradition of the GI Bill and the Higher Education Act.

We also strongly encourage you to drop two provisions included in the House version of the bill.

- The first would impose new taxes on college employees and students by phasing out Section 117(d) of the tax code. Under this provision, tuition reimbursements or waivers received by students, staff, and faculty are excluded from income. More than 50 percent of the faculty and staff members who benefit from this provision have adjusted gross incomes of less than $30,000. Removing this provision would increase the cost of education for these individuals sharply and dramatically. In addition, phasing out Section

117(d) would impose a substantial new tax burden on graduate teaching assistants, most of whom currently pay little or no tax on their small stipends.

- The second provision would eliminate the long-standing tax-exempt status of TIAA-CREF. Such a change could reduce earnings that otherwise would be credited as dividends to the two million participants in this retirement plan.

Again, we thank you for your bipartisan support of higher education, and your willingness to make higher education a priority in this important legislation. We look forward to working with you as the tax bill conference moves forward.

Sincerely,

Stanley O. Ikenberry

On behalf of the following associations:
American Council on Education
American Association of Community Colleges
American Association of Dental Schools
American Association of State Colleges and Universities
Association of American Universities
Association of Catholic Colleges and Universities
Association of Jesuit Colleges and Universities
Council of Independent Colleges
Council of Graduate Schools
Hispanic Association of Colleges and Universities
National Association of College and University Business Officers
National Association of State Universities and Land-Grant Colleges
National Association of Student Financial Aid Administrators

cc: President William J. Clinton

USA TODAY · MONDAY, JULY 14, 1997

LETTERS

Tax breaks will make higher education more accessible

I was disappointed to read your July 7 editorial stating that the tax bill pending in Congress "won't help much" for students seeking access to higher education ("Keeping costs down is colleges' next challenge," Our View, Debate).

We have three plans: the House's, the Senate's and President Clinton's. Each proposes to devote at least $30 billion — as much as $45 billion in the president's plan — over the next five years to make higher education more affordable and accessible.

Hundreds of thousands of students who otherwise would have great difficulty attending a college or university would benefit from the tax-credit proposals in all three plans. Up to $1,500 would be available each year for the first two years of college. And the life-long learning proposals in Clinton's plan would provide additional tax benefits after the first two years.

All plans offer incentives to help families save for education. Other provisions in the Senate bill and Clinton's proposals would relieve the debt burden that confronts millions of graduating students and restricts their career choices

Also, the Senate bill and the president's plan eliminate a restriction on bond financing to modernize facilities at private institutions. If these provisions remain in the final bill, I am optimistic we will see enactment this year of legislation representing the most significant federal investment in access to higher education since the GI Bill and Higher Education Act.

Paying for a high-quality education is a challenge that confronts many American families. That is why it is such good news that the president and the leadership in both parties and both houses want to provide some help to confront that challenge.

Cornelius J. Pings, president
Association of American Universities
Washington, D.C.

AAU Association of American Universities

1200 New York Avenue, NW • Suite 550 • Washington, DC • 20005 • 202-408-7500 • Fax 202-408-8184

To: Bob Shireman

From: John Vaughn

Subject: OSTP and 117

Date: 7/16/97

Printed By: John Vaughn 7/16/97 6:44 PM

Page: 1

From: John Vaughn(7/16/97)

To: Bob Shireman

CC:

BCC:

Priority: Urgent 1 attached file

Date sent: 7/16/97 6:41 PM

memo OSTP and 117 7/16/97 6:40

MEMORANDUM

Association of American Universities • 1200 New York Avenue N.W. • Suite 550 • Washington, DC 20005
202-408-7500 • Fax: 202-408-8184

July 16, 1997

To: Bob Shireman

From: John Vaughn

Subject: OSTP and 117

Bob, thanks so much for your help on 117. The draft text of the letter we proposed to send is attached, but we will sit on it unless we hear from you.

We are sending a letter to Secy Riley tomorrow morning on the tax issues--sort of a "thanks and let's keep working together on these issues" with a copy of a memo we sent today to our presidents and chancellors asking them to contact conferees, with a plug for a lifelong learning tax credit; we'll send you a copy when it goes.

JCV/kem

Draft

I understand that you have prepared a letter to conferees on the tax bill expressing concern over the phaseout of Internal Revenue Code Section 117(d) proposed in the House bill. Thank you for recognizing the harm this proposal could do to graduate research and teaching assistants, and for your willingness to be helpful to the university community.

I do have a concern that a letter solely addressing the impact of this provision on graduate research and teaching assistants could, at this point, have the unintended effect of bolstering support for a compromise proposed by House conferees, whereby graduate research and teaching assistants would not be taxed, but new taxes would be imposed on tuition benefits received by university employees.

Last Friday, Rep. Philip Crane, a member of the Republican team of conferees, stated on the House floor that "the conferees will clarify that no change in current law will apply to tuition remissions for graduate students. There was no intention on the part of the House to change the treatment of graduate students" (*Congressional Record*, 6/10/97, page H5046). In addition, House conferees have made an offer to the Senate to redraft the provision so that graduate students are not affected, but university employees would still be taxed. To my knowledge, Senate conferees have not accepted the offer, but the issue is very much in play.

I do believe the President's Science Advisor should be concerned about both parts of this issue—graduate students and university employees—because the House proposal will harm efforts to attract America's most talented scientists to university campuses. As you know, universities often cannot compete with industry in the compensation they can offer. Benefits like these help keep scientists in the research and discovery business on America's campuses.

In light of these developments, I hope you will consider expanding your letter so that it expresses concern about the impact of this provision on both students and employees. We understand this to be consistent with the Administration's position; Secretary of Education Riley said in a recent letter to college and university presidents that the phaseout of Section 117(d) for university employees and graduate students is not in the President's plan.

Pauline Abernathy
Office of the Deputy Secretary
U.S. Department of Education
600 Independence Avenue, SW
Washington, DC 20202-0500
Phone (202) 401-1000
Fax (202) 401-9027

TO: Bob Shireman

FAX: 456-2223

PAGES (including cover page):

FROM: **Pauline Abernathy**

RE: – Riley Stmt.

– 1-pager on who is eligible we are using

Eligibility for HOPE Scholarship and Tax Credit for Lifelong Learning Under President Clinton's Proposal

Student Eligibility

HOPE Scholarship

First- and second-year undergraduate students enrolled at least half-time in a degree or certificate program at an institution of higher education.

20% Tax Credit for Lifelong Learning

All students (any year of postsecondary education including graduate and professional schools) enrolled at least half-time in a degree or certificate program at an institution of higher education.

Individuals enrolled in at least one course that enables them to improve their job skills or to acquire new job skills. Students are not required to be enrolled in a degree or certificate program. Courses involving sports, games or hobbies are not eligible.

Institutional Eligibility

Colleges, universities and proprietary schools that are eligible to participate in the Title IV student financial aid programs. These institutions must be

Legally authorized within the State to provide an educational program beyond the secondary level;

Accredited by a nationally-recognized accrediting agency or association; and

Certified by the U.S. Department of Education as financially responsible and administratively capable to administer the Title IV student aid programs.

ED/OPE
July 16, 1997

UNITED STATES DEPARTMENT OF EDUCATION

PUBLIC AFFAIRS

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

Press Conference
Wednesday, July 16, 1997

The President's proposed tax credits for college are built on two big ideas that respond to what students and families tell us they need today:

- Making the first two years of college universally accessible to every American through the HOPE Scholarship tax credit, and;
- Providing incentives for each American to learn for a lifetime through the 20 percent tax credit for lifelong learning.

For adults who need courses to enhance their job skills -- say, a nurse who wants to develop a specialty, or a teacher, bank employee, farmer, or even a reporter who needs more computer know-how -- the President provides a tax credit for lower- and middle-income students of all ages.

Keep in mind: Parents, just like their children, can receive the credit. This is the essence of lifelong learning -- it is an incentive to encourage Americans of all ages to continue to upgrade their skills throughout their career. And it is available every year for life.

Lifelong learning is no dreamy idea for the future. In this Information Age economy, Americans must learn in order to earn. Lifelong learning will help each of us remain competitive, it will help to cultivate a stronger sense of civic pride and community spirit, and it will help families to navigate these changing times.

But the majority in Congress has failed to acknowledge this. The tax plans approved by the House and Senate offer no tax credit for lifelong learning -- no support for juniors, seniors and graduate students -- no support for adults who need to go to school now. The Congressional plans fall as much as $15 billion short of the President's plan, and their tax credit leaves out 7 million students who are aided by the President's plan.

Can that make sense when half of the nation's college students are 24 years of age or older? Can that make sense when knowledge-based industries will be the economic core of the Next Great American Century?

*** The Secretary may depart from prepared remarks.**

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

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

One of the biggest threats to our current economic growth is a shortage of skilled workers. The President's tax credit for lifelong learning serves the interests of employers and employees. It will sustain this expanding economy by preparing a workforce for the 21st century.

The lifelong learning tax credit -- combined with the HOPE Scholarship -- will be a down payment on developing that workforce. It will make dollars for business and industry, and it will make sense -- common sense -- for American families.

#####

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

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 Compared to	
	President	House/Senate	Difference	President	House	Senate	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	29.5	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	66	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	316.1	220.6	203.8	95.5	112.3
Georgia	266	119	147	152.0	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	669	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	169	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	12.6
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	62.6	57.6	26.5	31.3
Oregon	147	65	82	84.2	58.5	54.0	25.7	30.2
Pennsylvania	545	242	303	311.3	216.5	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	30.5
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

Total Pages: ____

LRM ID: REJ177

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Tuesday, July 15, 1997

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: James J. Jukes (for) Assistant Director for Legislative Reference
OMB CONTACT: Ronald E. Jones
PHONE: (202)395-3386 FAX: (202)395-3109

J

SUBJECT: **Office of Science and Technology Policy Report on HR2014 Taxpayer Relief Act of 1997**

DEADLINE: **5:00 PM TODAY Tuesday, July 15, 1997**

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. **Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.**

COMMENTS:
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LRM ID: REJ177 **SUBJECT:** Office of Science and Technology Policy Report on HR2014 Taxpayer Relief Act of 1997

RESPONSE TO
LEGISLATIVE REFERRAL
MEMORANDUM

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:
(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
(2) sending us a memo or letter
Please include the LRM number shown above, and the subject shown below.

TO: Ronald E. Jones Phone: 395-3386 Fax: 395-3109
Office of Management and Budget
Branch-Wide Line (to reach legislative assistant): 395-3454

FROM: ______________________ (Date)

______________________ (Name)

______________________ (Agency)

______________________ (Telephone)

The following is the reponse of our agency to your request for views on the above-captioned subject:

_____ Concur

_____ No Objection

_____ No Comment

_____ See proposed edits on pages _______

_____ Other: ________________

_____ FAX RETURN of ____ pages, attached to this reponse sheet

x Large [illegible] staff:
[illegible] needs [illegible]
[illegible] of good students.

[illegible]

Fax
[illegible]-6818

- DRAFT-

July 15, 1997

United States Senate
Washington, D.C. 20510

Dear Conferee:

A provision of H.R. 2014, the Taxpayer Relief Act of 1997, would delete Section 117(d) of the U.S. tax code, which excludes tuition waivers from taxation when they are granted to college and university employees. I am especially concerned about the impact of this provision on graduate teaching and research assistants and on the science and technology enterprise as a whole. Should the provision prevail in the Conference Committee and the bill signed into law, it could drain Federal dollars away from the performance of research and impede development of the next generation of scientists and engineers.

The Federal government plays an important role in making the U.S. higher education system the best in the world, particularly through its support of university-based research. One of the unique features of our higher education system is the strong linkage between research and education. Many universities and colleges grant tuition waivers to their graduate teaching and research assistants, and the tax code currently excludes such tuition waivers from taxation. Treating tuition waivers as taxable income, as provided for by H.R. 2014, has the potential to impose a significant tax burden on graduate students, whose disposable income is most often in the form of stipends that usually amount to no more than $15,000 per year. But the problem extends beyond that of the financial circumstances of individual graduate students to the more general issue of Federal funds available for research and for the development of the next generation of scientists and engineers. If graduate students become taxable on their tuition waivers, the scientists who provide them with the research and teaching experience will either have to use part of their research grants to gross up the stipends they pay, reducing the amount of Federal funds available for research, or risk losing talented young scientists who cannot afford the financial burden of graduate school.

Investments in research and education today are key to the nation's prosperity, security, and quality of life in the knowledge-driven society of the twenty-first century. The President is committed to education at all levels, and is especially concerned about maintaining the health of university-based science and technology. At the President's request, the National Science and Technology Council is reviewing the status of the government-university partnership in order to make recommendations for improving the policies, programs, and regulations that shape it, and to make it more efficient. We must do all we can to ensure that universities remain a vital component of the U.S. science and technology enterprise. As we work towards a balanced budget, we must also devise policies that enable us to get as much research out of each Federal dollar as possible.

If the House-passed provision making graduate student tuition waivers taxable prevails, it would send the wrong message about government priorities in science and technology. We urge you to drop this provision from the bill in light of the negative impact it would have on scientific research and education.

Sincerely,

John H. Gibbons
Assistant to the President
for
Science and Technology

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

July 8, 1997

College Board Statement on Educational Tax Proposals

Throughout recent deliberations on the proposed tax bill the College Board has urged targeted uses of the tax code for educational purposes, and recommended adjustments to ensure that any tax credit or deduction be equitable for all families. At the same time, the College Board has remained firm in its historic commitment to need-based student assistance as the most effective way to broaden access to higher education.

We are pleased that both the Senate plan (passed with bipartisan support) and the Administration's proposals of June 30th contain elements that use the tax code judiciously to help students and families finance postsecondary education.
The College Board commends the Administration for making the tax credit more equitable by removing the offset for Pell Grants. We remain concerned, however, that the tax credit will not help students and families with insufficient income to benefit from such tax provisions, regardless of the grant offset.

The College Board is gratified that the Senate bill and the most recent Administration proposal include:

- deductibility of interest on student loans that makes college-related debt less burdensome for the more than 4 million students who finance their education with loans
- permanent extension of Section 127 that provides employers and employees with a powerful incentive to upgrade education and skills
- education savings plans that encourage families to save for future college costs and provide the flexibility of penalty free withdrawals from IRA's to meet those costs

The College Board hopes that the final tax package would contain two other provisions that would best serve our neediest and most at-risk students: the tax free treatment of need-based grants and scholarships and the use of total cost of attendance in determining eligibility for the tax credit.

The College Board looks forward to working with members of Congress and the Administration on a tax plan that will help Americans meet the cost of higher education, and on a budget that will maximize investment in need-based student assistance.

For further information, please contact John Childers, Lawrence Gladieux or Irene Spero at 202/822-5900.

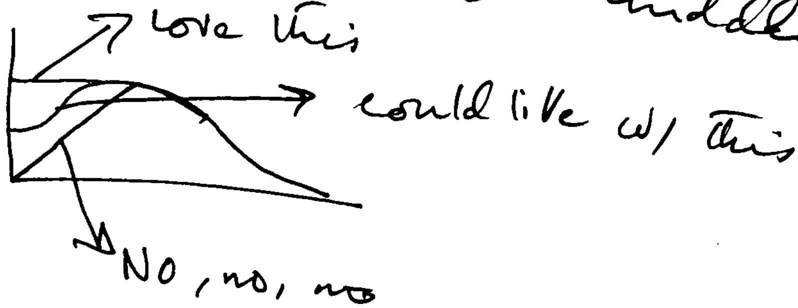
Bob:

AASOU Priorities:

1) a-Non-taxability of Part D ICL forgiveness
b-1 " " " community service
To 501(c)(3)
AND Publics

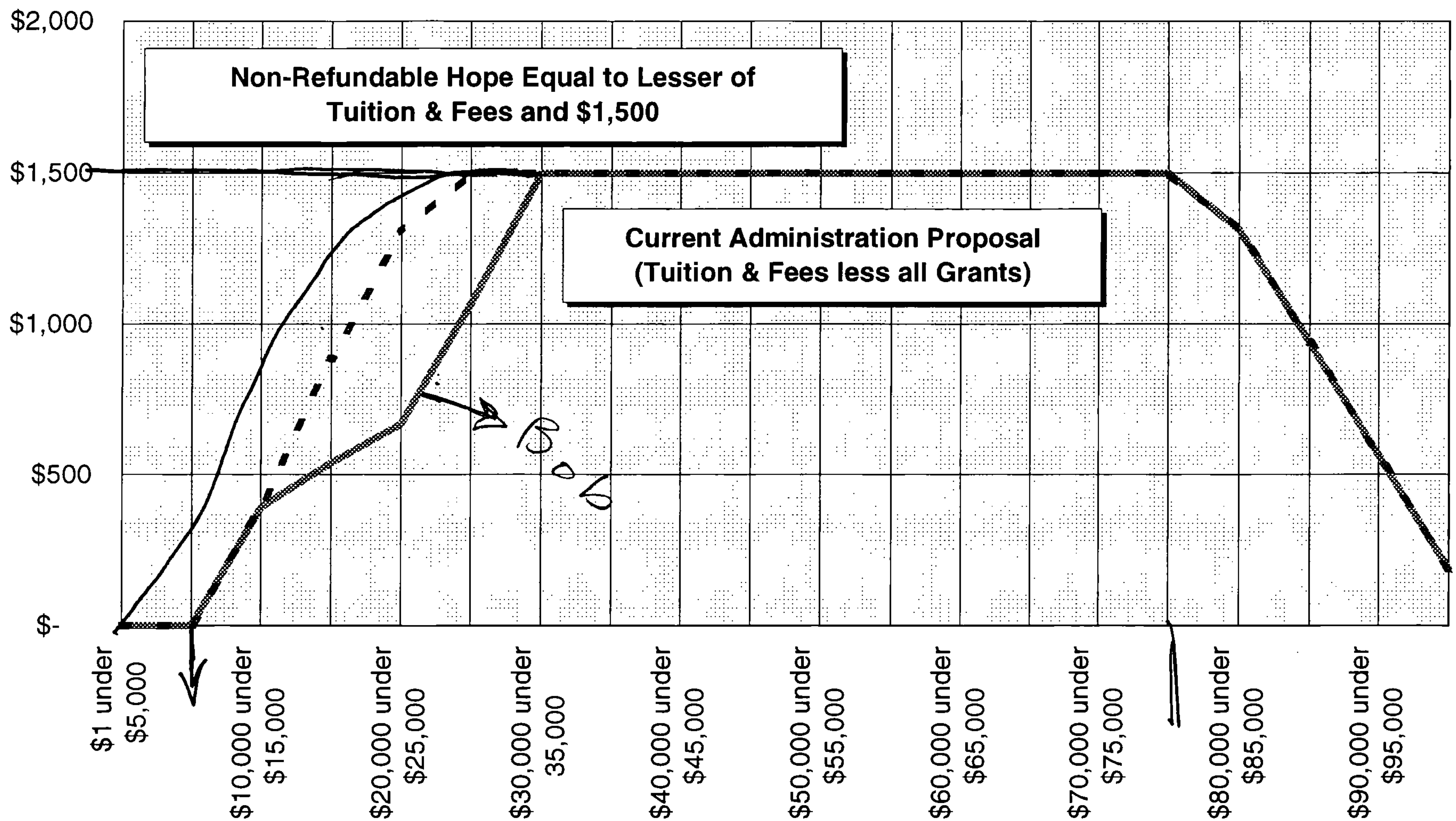
AND Compromise, write-off, discharge

2) HOPE scholarships that help low-income as well as middle



DRAFT

Estimated Average Hope Tax Credit for Freshmen at Public Four-Year Institutions (Current Administration Proposal and Based on Tuition Only),1998-99, by AGI

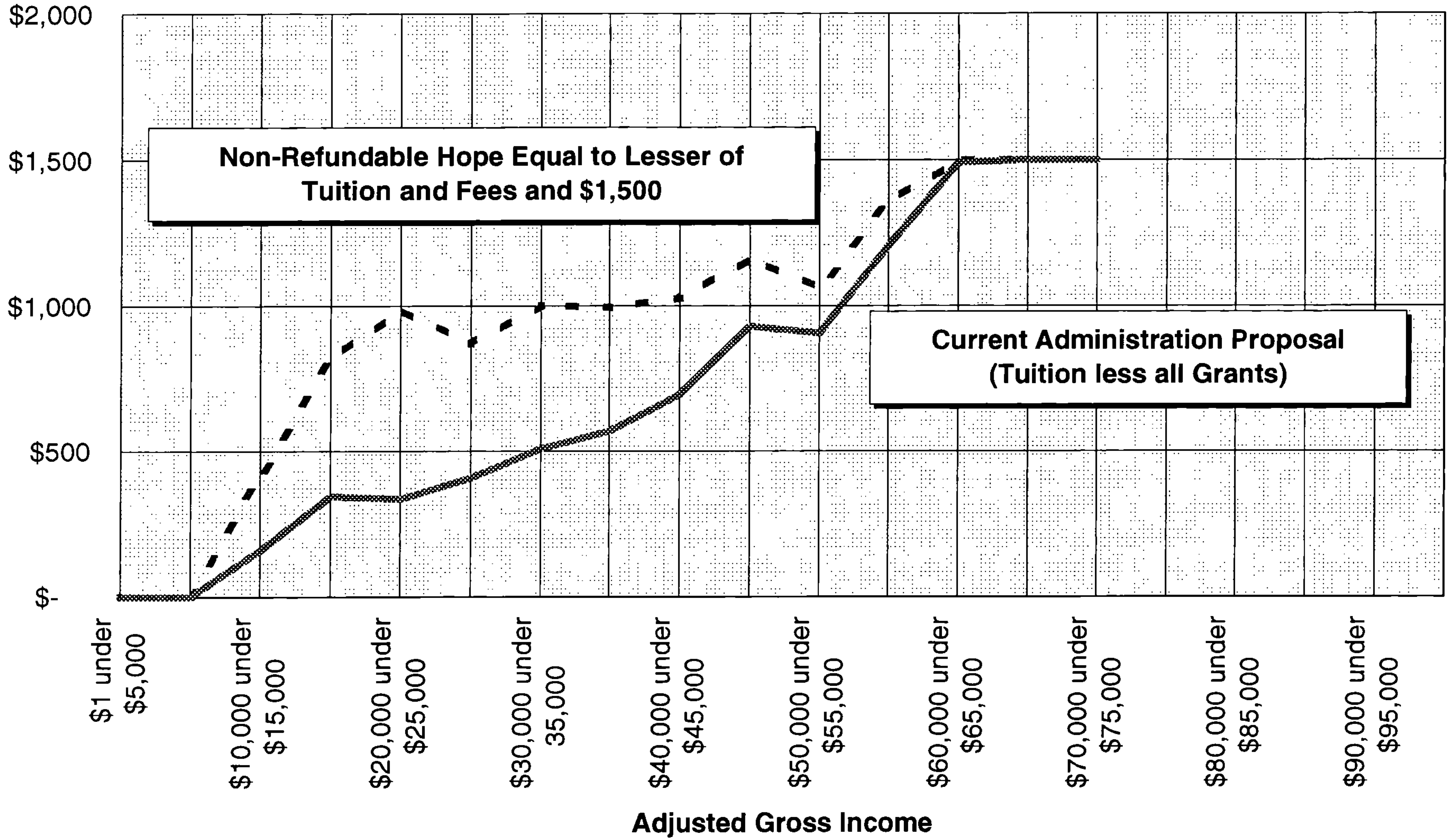


AASCU: Division of Governmental Relations
ACE: Division of Governmental Relations

6/3/97

DRAFT

Estimated Average Hope Tax Credit for Freshmen at Public Two-Year Institutions (Current Administration Proposal and Based on Tuition Only),1998-99, by AGI

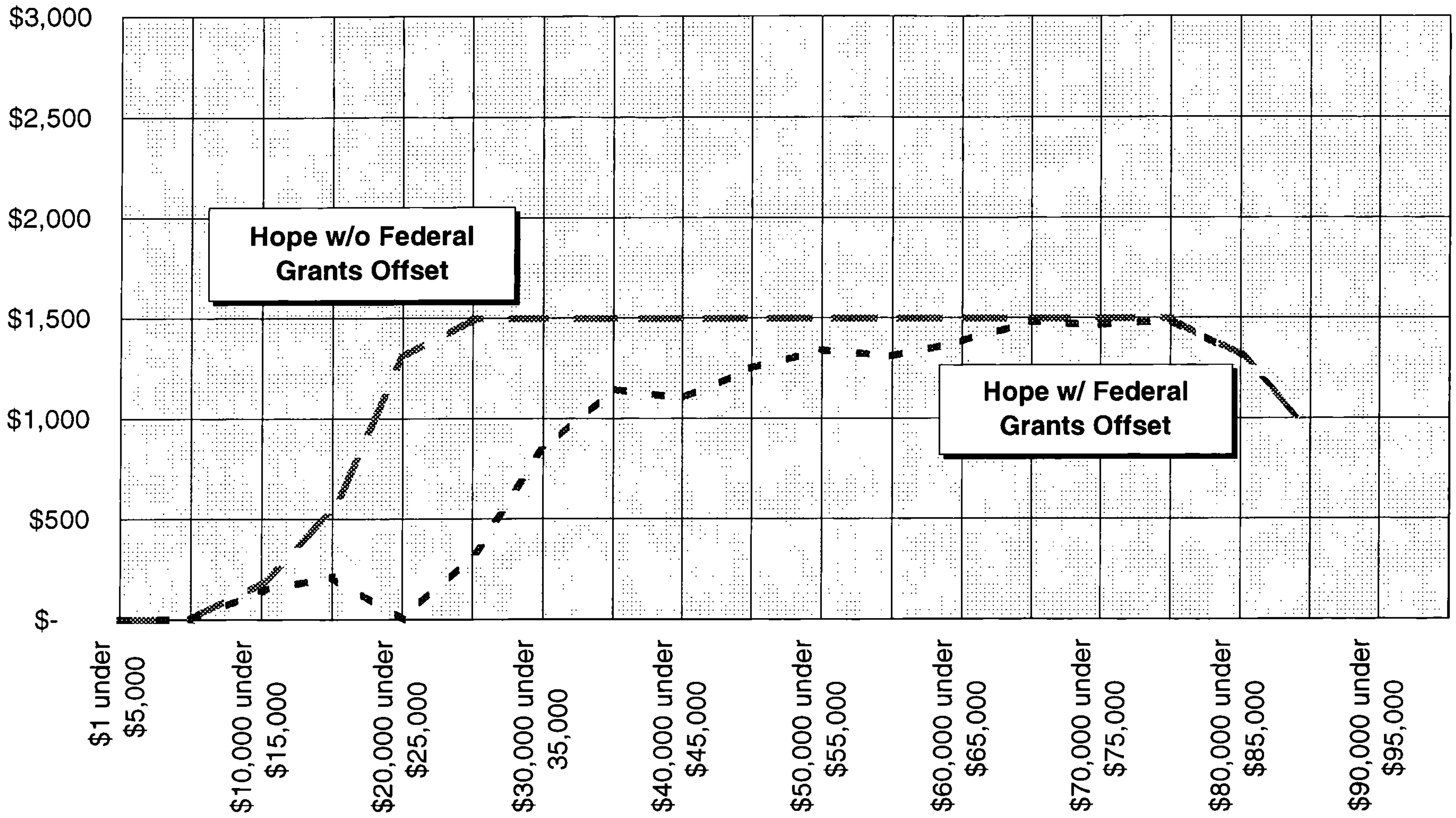


Note: Estimates not provided for incomes above $75,000 due to insufficient data.

AASCU: Division of Governmental Relations
ACE: Division of Governmental Relations

6/3/97

Estimated Average Hope Tax Credit for Freshmen at Private Institutions, (with and without Federal Grants Offset), 1998-99, by AGI



AASCU: Division of Governmental Relations
ACE: Division of Governmental Relations

5/28/97

USSA

"Organizing and Advocating for Students Across the Country"

United States Student Association / 815 15th St., NW Suite 838 / Washington D.C. 20005 / (202) 347-USSA
FAX# (202) 393-5886

To: Erica cc: Clay Chandler
Fr: Ivan

Student position on President's Changes to Higher Education Tax Package
June 3, 1997

Students should be encouraged by the recent changes that the President is proposing to his package of higher education tax proposals. Accept satisfactory academic progress rather than a B average to receive the second part of the Hope Tax credit will result in an important source of federal aid being delivered to students who, by all federal standards, are deserving of help in paying for their education.

Additionally, we are greatly encouraged by the forward motion in the President's effort to assist those who receive Pell and other need based grants. Being a recipient of a Pell or other need based grants should in no way limit a students access to the Hope scholarship. Doing so only discriminates against those who have already demonstrated a need for federal assistance.

We look forward to working with the Congress and the administration in further strengthening the Hope tax credit proposal. Of great importance to students is that the Hope Tax credit is ultimately constructed in a manner that delivers assistance to those without tax liability.

Explanation of State-by-State Tables

Table 1 — Benefits to Students under the HOPE Act

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

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

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

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

Table 2 — Pell Grant Benefits to Students

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

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

Methodology of State-by-State Analysis

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

Combined Tax Benefits for Calendar Year 1998
Using a nationally-representative sample of postsecondary students, we first determined the likelihood of a Pell and non-Pell recipient receiving a tax benefit. Using these data and the Pell Grant distributions discussed above, we estimated the number of students that would receive a tax benefit in each state. We then used this relative distribution of tax beneficiaries to allocate calendar year ~~1998~~ 1999 benefit amounts (~~$5.8~~ 7.2 billion) among the States.

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

DG

Treasury?
☐ Books
~~same tax · save — bear tax year of [illegible] phased in~~ season/year

☐ OPL ? —

Policy
☐ Mail on college preachers —
FAX

☐ Terry — the six points

Terms
☐ 'apply' tax credit

Admin
☐ Letter on conferees ? formally transmitted.

CCA — [illegible] will make the pitch — [illegible] long, remaining, more than 2 yrs....

Dear Rep. Amoroso

- Thank you for [illegible]...
- held 2

  Most recent, annual requests...

6/30/97

- Segall Prast
- BS
Cozberch
- Poelike

- Ikenberry
Mey
Apple
Raschen
Baum
Managan
Hamill
Eldrendorf

what we want

- to add to awe of Congress
- word that the due plan is broken.
- dead & / dist / ...
-
-

- WARS the ed'a stuff...

- "What are the groups doing?"

-

- Longanecker
  - 20% credit
  - HOPE...

Q's
- George Leventhal, AAU

- Ed - $44.8 billion

Scholarship - separate the 2 - credit / deduction...

Baume:
- $ for $ - Search gears...??

Kaschub
- Georgia: tricameral process...
- Who do you have to lead the charge??

Prez: $35 billion - short, short...

- Peter McGrath -
  - Any possibility at all that [illegible]

- Hoople / David...
  - TIAA-CREF
  - Sec. 117 (d)

  Lagomarcino - more than meddling?

wher ar al?

* - Treasury analysis - opposed or indifferent?

- HOPE offset against - Mark Hamill
  - 'the value of students fin. aid ad to subtracted from tuition & fees.'

- Dist. widely

-

- David Warren: Getting calls from folks...
  - FIAA - Chief
  - 117(d)

- Peter McGrath - agreed -
  - a consciousness - raising matter...

- Get a position

/ ACB, AAU, NASULGC
AASCU, NAICU, AACC

/ Big 6

/ Mike

/ David's

/ David Kovach

Groups

DL - AACT - Ray Taylor - rep(?)

Great call, willing to help in any way.
→ both back/main direction

DL - MMTZ

Bob - College Bd. - Don Spencer

- NAFEO - Leslie on Monday

DL - MASRAA - Dallas - very receptive, pleased. strong play supporter.
D → letter?

- NAGS - Jonathan [illegible] should be on the [illegible].

Bob - USA -

- USPTRG -

DL - UNCF - @ NAFEO

DL - Ed & Trust - Karen Haycock -

⇒ K-12 groups: campuses, const & teachers pol.

- Bill White - Professional groups...
  ANA, ABA, ...
  - parents + grand sn

- Womens Groups - ch credit...
  - women

Marra
  - include lifelong learning...

Haas

- Rita Beaver - CDS
- on beyond 457-4461

- 2 yrs. credit
- ex. Loan ↑ a salary
- ONLY the advice - ~~tax xmd 1st 2 yrs~~ part time - impr. job skills
junior - senior
graduate
~~improving job skills~~

President Clinton Unveils Tax Cut Proposal

June 30, 1997

DRAFT

Today, President Clinton unveiled a tax cut proposal. It is a fair proposal that places a priority on education tax cuts and provides a child tax credit to families who work hard and pay taxes. The proposal incorporates Republican priorities in a good faith effort to honor the budget accord and to reach final agreement on a tax cut the American people deserve.

- ✔ *A 2-year modified $1,500 HOPE Scholarship to make two years of college universally available and a 20% tuition credit to make the third and fourth years of college more affordable and to promote lifelong learning.*
- ✔ *A $500 child tax credit for tax-paying working families with children under 17 through 2002 and under 19 thereafter.*
- ✔ *Two-thirds of the President's tax cut goes to the middle 60 percent of families, twice as large a share as the congressional alternatives provide these middle class families.*
- ✔ *To honor the agreement, the President's plan allows taxpayers to exclude 30% of their capital gains from taxation and provides small businesses and farmers estate tax relief.*
- ✔ *Includes no tax time bombs that would explode in cost.*

Major Provisions (Treasury estimates unless otherwise indicated)	**5 Years ($ billion)**	**10 Years ($ billion)**
Education Tax Cuts:		
HOPE Scholarship and 20% Tuition Credit	34.5	94.1
Education and Retirement Savings Accounts	1.3	6.1
Tax Incentives for School Construction	2.9	7.6
Employer-Provided Education Benefits	3.8	8.5
Student Loan Interest Deduction and Forgiveness	1.8	4.4
Deduction for K-12 Computer Donations (JCT)	0.3	1.0
Repeal of bond cap for universities	0.3	1.0
Child Tax Credit	70.2	176.1
Brownfields and EZ/EC Expansion	2.4	3.9
Welfare-to-Work Tax Credit	0.6	0.6
Home Office Deduction	0.6	1.7
Small Business Capital Gains Relief	0.4	1.7
President's Home Sales Tax Cut	1.1	1.9
30% Exclusion of Capital Gains	7.1	15.6
Estate Tax Cut	2.3	7.2
DC Tax Incentives and Other Presidential Initiatives	1.3	6.3
Extensions of expiring provisions	3.9	3.9
GROSS TAX CUT	134.9	341.0
Revenue Raisers	(50.0)	(100.5)
NET TAX CUT	85.0	240.5

President Clinton's Tax Cut Proposal
A Fact Sheet

EDUCATION TAX CUTS

- *Two-year HOPE Scholarship.* A maximum $1,500 credit beginning in 1998. 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 of tuition and required fees. 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 earning between $80,000 and $100,000. Eligible students could receive both a Pell Grant and a HOPE Scholarship. The previously proposed B- rule has been dropped. 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 expenses.

- *20% Tuition Tax Credit.* Third and fourth year students, graduate students, plus working people going to school to improve their education and skills, would benefit from a 20% tax credit on the first $5,000 in 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.

- *Tax Incentives for School Construction.* Provides tax credits to finance construction and/or rehabilitation of elementary or secondary schools in distressed communities. States would be able to allocate a fixed amount of tax credits (based on population) to public schools to help pay for construction or renovation projects. The allocation would be for projects in school that are in empowerment zones or enterprise communities, or that have a high percentage of low-income students. This program would function similarly to the current low-income housing tax credit program.

- *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. This would apply to undergraduate and graduate education. 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 an average annual gross receipts of $10 million or less for the prior three years.

- *Student Loan Interest Deduction and Forgiveness.* Allows a deduction of up to $2,500 per year of interest education loans for expenses of students enrolled at least half-time 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 would apply even if the taxpayer does not itemize deductions.

  To encourage people to use their education and training in community service, the income exclusion for student loan forgiveness would be expanded to include loan forgiveness extended by nonprofit tax-exempt charitable or educational institutions. Currently, the exclusion generally covers only contingent forgiveness arrangements between students and government entities.

- *Incentives for K-12 Computer Donations.* Provides tax incentives for private sector donations of computer equipment to schools. The proposal would work in combination with the Telecommunications Act of 1996 to ensure that public schools have access to modern computer technology

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

- *Education and Retirement Savings Accounts.* Allows penalty-free IRA withdrawals for undergraduate, post-secondary vocational, and graduate education expense and the first-time purchase of a home. Additionally, taxpayers are given the opportunity to contribute their child tax credit plus an additional $500, up to $1,000, to 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.

CHILD TAX CREDIT

The President's child tax credit includes the following features:

- **Age.** Covers children under 17 through 2002 and under 19 thereafter.
- **Amount per child.** $400 in 1998, $500 in 1999 and then indexed.
- **Income Limits.** Phased out for families making $60,000 to $75,000 until 2000, and then $80,000 to $100,000 thereafter.
- **Refundability to Cover Out-of-Pocket Income and Payroll Taxes.** Working families that pay put of pocket federal taxes would benefit from the child tax credit. Child tax credit is calculated before the EITC and will be partially refundable. A family will get a child credit for their income taxes plus the extent to which their out-of-pocket (employee share) of payroll taxes exceed their EITC.
- **Savings Incentive Feature.** As described above taxpayers, who are entitled to a child credit, would be given the opportunity to contribute their child tax credit plus an additional $500 each year to a Kidsave account for the child's education, first time home purchase or the taxpayer's retirement. Earnings would accumulate tax-free in the account and no taxes would be due upon withdrawal for an approved purpose.

URBAN REVITALIZATION

- ***Incentives to Clean Up and Redevelop Contaminated Sites (Brownfields).*** Certain environmental remediation costs would provided tax favorable treatment, allowing them to be fully deduc~~ted~~ immediately, to spur clean-up and redevelopment of contaminated sites in high poverty areas. To qualify for this tax incentive, sites would have to satisfy use, geographic, and contamination requirements.

- ***Expand Empowerment Zones and Enterprise Communities.*** The proposal has the three main components that were in the President's budget. First, within 180 days of enactment, two additional urban empowerment zones would be authorized and would benefit from current tax incentives. Second, technical changes would be made to allow a broader range of businesses in EZs and ECs to borrow the proceeds of tax-exempt bonds. Third, authorizes the additional designation of 20 (15 urban and 5 rural) Empowerment Zones and 80 (50 urban and 30 rural) Enterprise Communities. The newly designated zones would have different available tax incentives than existing zones. The current law wage credit would not be available. The brownfields incentives would be available as would special expensing of business assets and qualification for private-activity bonds.

- ***Community Development Financial Institutions Fund.*** Up to $100 million in tax credits would be made available to the CDFI Fund to allocate to equity investors in community development financial institutions to leverage private investment in distressed areas and to stimulate economic revitalization.

WELFARE-TO-WORK TAX CREDIT

As proposed in the President's budget, to help move people from welfare to work, a new 50% tax credit would be made available on the first $10,000 in annual wages of certain long-term family assistance recipients for two years of employment.

SMALL BUSINESS TAX CUTS:

Home office deduction

The existing home office deduction would be broadened to cover small businesses where: (1) the office is exclusively used to conduct substantial and essential administrative or management activities on a regular basis; and (2) the taxpayer has no other location to conduct these essential administrative or management activities.

Small Business Capital Gains

Makes the existing 50% exclusion for equity investments held at least five years more attractive by eliminating some restrictions on the business activities of the eligible firms issuing stock and by doubling the eligibility limits on firm size from $50 million to $100 million.

PRESIDENT'S HOME SALES TAX CUT

Provides a $500,000 exclusion for capital gains on home sales for couples, providing tax relief and greatly simplifying record-keeping and compliance. The exclusion for single filers would be $250,000.

30% EXCLUSION FOR CAPITAL GAINS

Taxpayers would be allowed to exclude 30% of their long-term capital gains from taxation. Long-term capital gains will be defined, as under current law, as assets held one year. For example, a family in the 28% income tax bracket would face a capital gains tax rate of 19.6 percent.

ESTATE TAXES

A special exclusion is added for qualified family-owned businesses and farms. Currently, for married couples, only estates valued above $1.2 million pay any estate taxes. A special exclusion of $900,000 would be added to ensure that the first $2.1 million of family-owned business or farm would not be subject to estate taxes. This is a proposal advanced by Senator Daschle.

OTHER PRESIDENTIAL INITIATIVES

- ***Washington, DC*** - provides tax incentives for firms to hire District residents, for investment in District businesses, and for investment by District businesses, and would permit a newly-created Economic Development Corporation to issue tax-exempt debt to help finance new business activity in the District.
- ***Puerto Rico Tax Credit*** - would be extended indefinitely and modified to provide an incentive for new investments and increased economic activity.
- ***FSC Software*** - would extend the foreign sales corporation benefit, exempting a portion of income for tax purposes, to include computer software licensed for reproduction abroad.
- ***Equitable Tolling*** - would extend time people are allowed to claim a tax refund to include time that they are medically determined to be mentally or physically impaired.

EXTENSIONS OF EXPIRING PROVISIONS

The R&E tax credit would be extended through the end of 1998. Contributions of appreciated stock to private foundations, the Work Opportunity Tax Credit (including new targeted group), and the orphan drug credit would be extended for one year.

TOBACCO TAXES

The proposal includes a 20 cent increase in tobacco taxes that would be separated into a trust fund and dedicated entirely to expanding health coverage for children, addressing other children's development issues, and improving the overall public health.

Alternative Tax Cut Proposals
A Comparison of Distributional Impact

Income by Quintile	***President Clinton***	***House***	***Senate***
Lowest	1.2%	0.6%	0.4%
Second	10.1	2.5	2.7
Third	22.2	9.6	10.2
Fourth	34.6	20.0	21.3
Highest	31.5	66.8	65.0
Top 10%	11.7	47.3	42.3
Top 5%	6.5	34.9	28.2
Top1%	2.6	18.8	12.5
Middle 60% (Second,third, fourth quintiles)	**66.9%**	**32.1%**	**34.2%**

Source: U.S. Department of Treasury

Table includes major tax cut provisions in each of the plans: HOPE Scholarship, tuition credit, Section 127, Student loan interest deduction, child tax credit, Kidsave accounts, capital gains provisions, home office deduction, distressed areas initiatives, Puerto Rico tax incentives, individual and corporate AMT changes, prepaid tuition programs, IRAs, DC tax incentives, safe harbor for independent contractors, modifications of treatment of company owned life insurance.

IT IS WRONG TO DENY TAX RELIEF TO AMERICA'S WORKING FAMILIES

Four million working families will be denied a child tax credit under the congressional tax plans. The President strongly believes that families who work hard, play by the rules and make around $20,000 or $25,000, who pay taxes, and who are trying to do the best for their kids just like everybody else, deserve a tax cut too.

This is an issue that is susceptible to both eye-glazing technical jargon, talk of "stacking," and misleading rhetoric: "It's welfare." Setting aside the jargon and the rhetoric, this is an issue best weighed by looking at real people:

Example -- Family of Four with Two Children

Consider a family of four with two children living in a medium sized southern city. The father is a rookie police officer making $23,000, and the mother is taking a few years off from working. This family pays federal taxes well above the EITC they receive:

Federal Tax Situation Before Any Child Tax Credit:

Income taxes owed before EITC	$675
Payroll Taxes (just employee share)	$1,760
Excise Taxes/1	$354
Federal out of pocket taxes owed before EITC	$2,789
Employer Share of Payroll taxes	$1,760
Federal Taxes before EITC	$4,549
Benefit from EITC	$1,668

	President Clinton's Proposal	House Bill	Senate Bill
Child Tax Credit for family of rookie police officer making $23,000	**$767**	**$0**	**$0**

Notes:

1: Estimate calculated from Congressional Budget Office Data. CBO estimates that in 1998, families with incomes between $20,000 and $30,000 would pay 1.54 percent of their income in federal excise taxes.

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

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

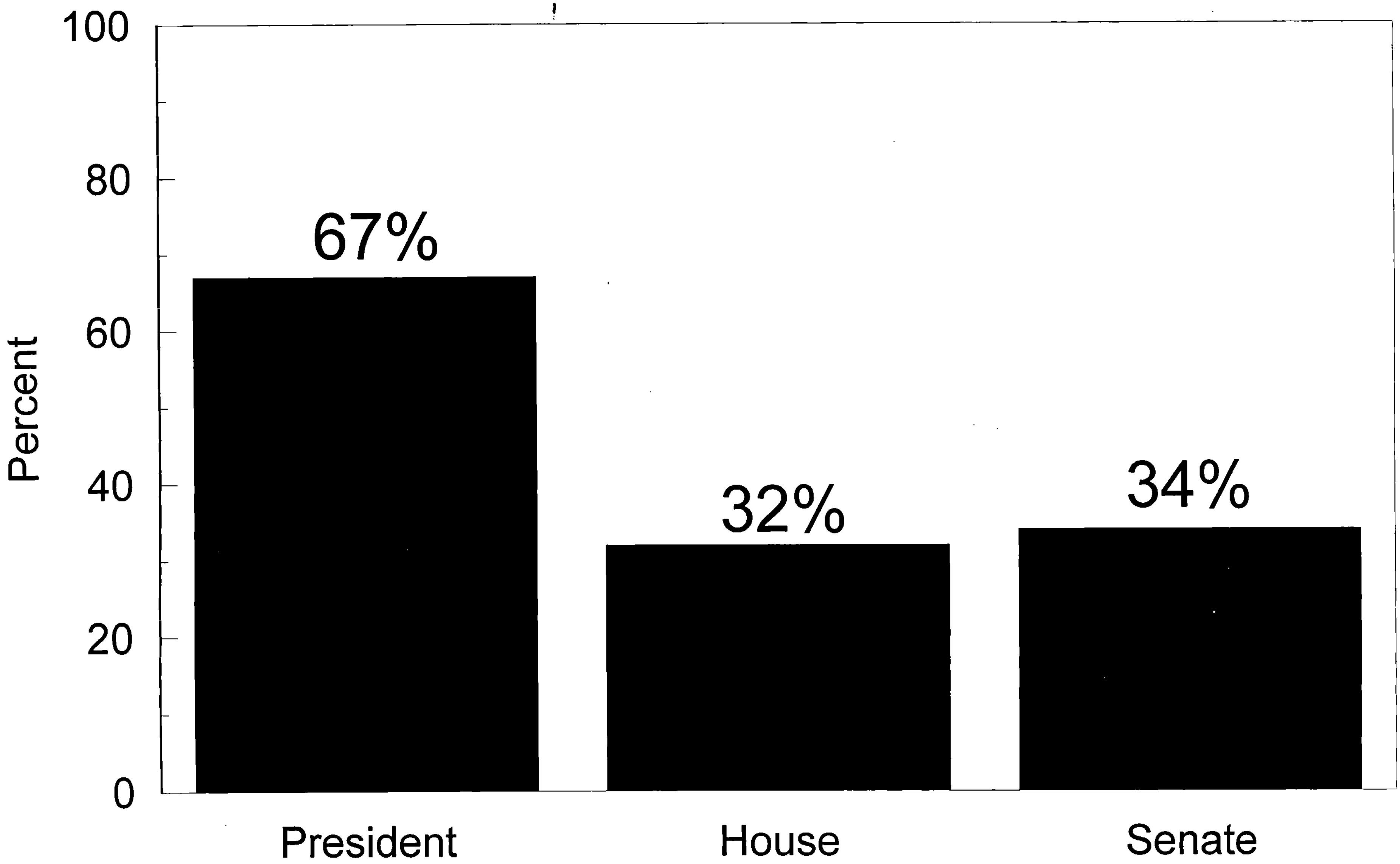
- part-time students;
- students beyond their first two years of undergraduate study;
- graduate students;
- workers who are improving job skills rather than seeking a degree;
- those not fortunate enough to have been able to put a lot of money into savings.

For many situations that families find themselves in, the plans passed by the Senate and the House provide little or no help. Consider the following common situations:

	House Plan	Senate Plan	President
Family with $50,000 income, one child going to an average community college full-time ($1,200 tuition and fees)	$600	$900	$1,100
Family with $30,000 income, one parent going to a public four-year college part-time ($2,000 tuition and fees)	$0	$0	$400
Family with $40,000 income, one child is **junior** at average private college ($12,000 tuition and fees)	$0	$0	$2,000
Homemaker, family income of $70,000, decides to go to graduate school at public university after being out of college for 20 years ($3,500 tuition and fees)	$0	$0	$700
Family uses funds from an education savings account (assumes $500 contributed for the four years preceding the relevant year in college, 10% return, 28% tax bracket)	$155	$155	$155

Sr. Laas ?

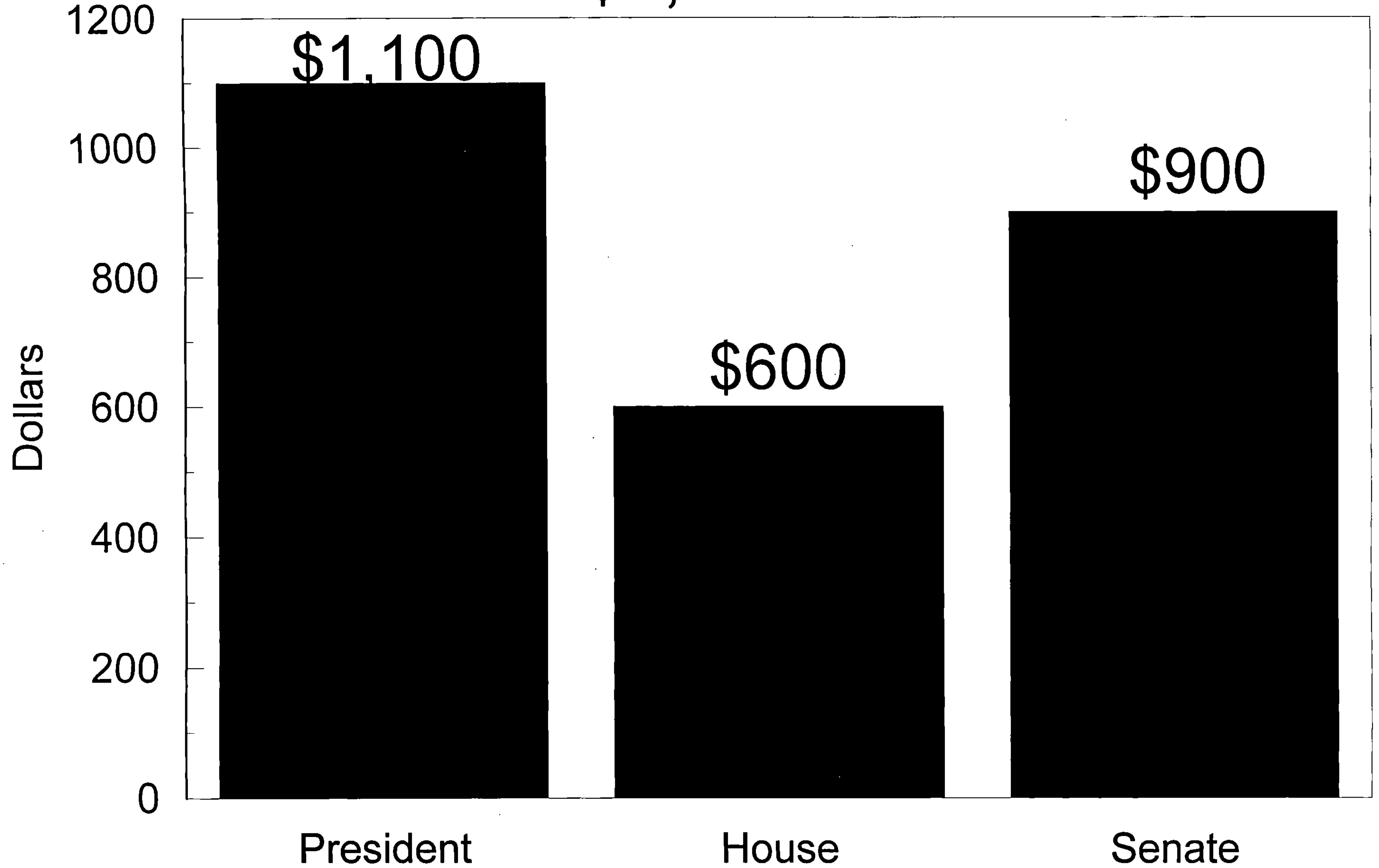
Share of Tax Cuts Going to Middle Sixty Percent of Families



Source: Department of Treasury

HOPE Scholarship for Student Attending Typical Community College

$1,200 Tuition



Remarque

R.A.S.

Example 1

Change in Income Tax: Comparison of Current Law With The President's Proposal and the House and Senate Tax Bills

Single Parent with Income of $20,000 and Child Age 6
(1999 Tax Parameters)

	Current Law	President's Proposal	House Tax Bill	Senate Tax Bill
Adjusted Gross Income (AGI) -- all earnings	20,000	20,000	20,000	20,000
Standard Deduction	6,400	6,400	6,400	6,400
Personal Exemptions	5,600	5,600	5,600	5,600
Taxable Income	8,000	8,000	8,000	8,000
Income Tax Before Credits	1,200	1,200	1,200	1,200
Employee Payroll Tax (7.65% of earnings)	1,530	1,530	1,530	1,530
Child Credit	0	500	0	0
Earned Income Credit (refundable)	1,150	1,150	1,150	1,150
Income Tax After Credits	50	-450	50	50
Income and Employee Payroll Taxes after Credits	1,580	1,080	1,580	1,580
Tax Savings Compared to Current Law		500	0	0

Department of the Treasury
Office of Tax Analysis

June 27, 1997

Example 2

Change in Income Tax: Comparison of Current Law With The President's Proposal and the House and Senate Tax Bills

Couple with Income of $23,000 and Children 6 and 12
(1999 Tax Parameters)

	Current Law	President's Proposal	House Tax Bill	Senate Tax Bill
Adjusted Gross Income (AGI) -- all earnings	23,000	23,000	23,000	23,000
Standard Deduction	7,300	7,300	7,300	7,300
Personal Exemptions	11,200	11,200	11,200	11,200
Taxable Income	4,500	4,500	4,500	4,500
Income Tax Before Credits	675	675	675	675
Employee Payroll Tax (7.65% of earnings)	1,760	1,760	1,760	1,760
Child Credits	0	767	0	0
Earned Income Credit (refundable)	1,668	1,668	1,668	1,668
Income Tax After Credits	-993	-1,760	-993	-993
Tax Savings Compared to Current Law		767	0	0

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Example 3

Change in Income Tax: Comparison of Current Law With The President's Proposal and the House and Senate Tax Bills

Couple with Income of $25,000 and Children 6 and 12

(1999 Tax Parameters)

	Current Law	President's Proposal	House Tax Bill	Senate Tax Bill
Adjusted Gross Income (AGI) -- all earnings	25,000	25,000	25,000	25,000
Standard Deduction	7,300	7,300	7,300	7,300
Personal Exemptions	11,200	11,200	11,200	11,200
Taxable Income	6,500	6,500	6,500	6,500
Income Tax Before Credits	975	975	975	975
Employee Payroll Tax (7.65% of earnings)	1,913	1,913	1,913	1,913
Child Credits	0	1,000	0	352
Earned Income Credit (refundable)	1,246	1,246	1,246	1,246
Income Tax After Credits	-271	-1,271	-271	-623
Tax Savings Compared to Current Law		1,000	0	352

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Example 4

Change in Income Tax: Comparison of Current Law With The President's Proposal and the House and Senate Tax Bills

Couple with Income of $40,000 and Children 6 and 12

(1999 Tax Parameters)

	Current Law	President's Proposal	House Tax Bill	Senate Tax Bill
Adjusted Gross Income (AGI) -- all earnings	40,000	40,000	40,000	40,000
Standard Deduction	7,300	7,300	7,300	7,300
Personal Exemptions	11,200	11,200	11,200	11,200
Taxable Income	21,500	21,500	21,500	21,500
Income Tax Before Credits	3,225	3,225	3,225	3,225
Child Credits	0	1,000	1,000	1,000
Income Tax After Credits	3,225	2,225	2,225	2,225
Tax Savings Compared to Current Law		1,000	1,000	1,000

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June 27, 1997

Less than part time

Example 5

Change in Income Tax: Comparison of Current Law With The President's Proposal and the House and Senate Tax Bills

Middle-Age Couple with Income of $40,000 and One Spouse in College with Tuition of $4,000
(1999 Tax Parameters)

	Current Law	President's Proposal	House Tax Bill	Senate Tax Bill
Adjusted Gross Income (AGI) -- all earnings	40,000	40,000	40,000	40,000
Standard Deduction	7,300	7,300	7,300	7,300
Personal Exemptions	5,600	5,600	5,600	5,600
Taxable Income	27,100	27,100	27,100	27,100
Income Tax Before Credits	4,065	4,065	4,065	4,065
Tuition Credit	0	800	0	0
Income Tax After Credits	4,065	3,265	4,065	4,065
Tax Savings Compared to Current Law		800	0	0

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Example 6

Change in Income Tax: Comparison of Current Law With The President's Proposal and the House and Senate Tax Bills

Couple with Income of $60,000 and Children 12 and 18
18 Year Old Enrolled in Four-Year College
Tuition of $4,000 and Book Expenditures of $500
(1999 Tax Parameters)

	Current Law	President's Proposal	House Tax Bill	Senate Tax Bill
Adjusted Gross Income (AGI)	60,000	60,000	60,000	60,000
Itemized Deductions (18% of AGI)	10,800	10,800	10,800	10,800
Personal Exemptions	11,200	11,200	11,200	11,200
Taxable Income	38,000	38,000	38,000	38,000
Income Tax Before Credits	5,700	5,700	5,700	5,700
Child Credit	0	500	500	500
HOPE Credit	0	1,500	1,500	1,500
Income Tax After Credits	5,700	3,700	3,700	3,700
Tax Savings Compared to Current Law		2,000	2,000	2,000

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June 27, 1997

Example 7

Change in Income Tax: Comparison of Current Law With The President's Proposal and the House and Senate Tax Bills

Couple with Income of $60,000 and Children 12 and 18
18 Year Old Enrolled in Junior College
Tuition of $1,500 and Book Expenditures of $500
(1999 Tax Parameters)

	Current Law	President's Proposal	House Tax Bill	Senate Tax Bill
Adjusted Gross Income (AGI)	60,000	60,000	60,000	60,000
Itemized Deductions (18% of AGI)	10,800	10,800	10,800	10,800
Personal Exemptions	11,200	11,200	11,200	11,200
Taxable Income	38,000	38,000	38,000	38,000
Income Tax Before Credits	5,700	5,700	5,700	5,700
Child Credit	0	500	500	500
HOPE Credit	0	~~1,200~~ 1500	1,000	1,500
Income Tax After Credits	5,700	4,000	4,200	3,700
Tax Savings Compared to Current Law		~~1,700~~ 2000	1,500	2,000

Department of the Treasury
Office of Tax Analysis

June 27, 1997

Don't use until you check with Karl

DRAFT: July 3, 1997 (2:25pm)

Dear College President:

I am writing to urge your support for 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.

<u>But the time for action is now.</u> In the next few weeks, Congress will consider three versions of tax cuts. The President's proposal is fair, providing 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.

in 1998

For higher education, the difference is clear. The President's plan will provide help ~~in 1998~~ to <u>seven million more</u> students than the House and Senate passed plans, because the President's plan is the <u>only</u> 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 undergraduate and graduate education; a student loan interest deduction; tax exclusion for community service and income-contingent loan forgiveness incentives. The President's proposal does <u>not</u>, 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 urge you to support the President's proposal to make college more affordable.

DLC

Democratic Leadership Council

CC: MIKE
BOB SHIREMAN

A service requirement would be less controversial than the B avg.
— BR

June 24, 1997

Dear DLC Friend:

This week, both the Senate and the House will begin floor debate and pass alternative tax bills that will implement the balanced budget accord that was reached by the President and GOP leaders in May. The bills in both chambers have already deviated enough from the original budget agreement to ensure a contentious debate between Congressional leaders and the Administration over specific areas of the package when the bill reaches a conference committee later this Summer. One area where such disagreement exists is how to spend the $35 billion in tax relief that has been earmarked for helping families send their children to college.

The bill that came out of the Senate Finance Committee provides families with a tax credit worth 75% of tuition costs up to $2,000 for community college at a cost to the government of $20.4 billion over five years. The bill that came out of the House Ways and Means Committee permits taxpayers to take a nonrefundable tax credit equivalent to 50% of up to $3,000 for tuition expenses and books for two years, at a cost to the government of $22.3 billion over five years. President Clinton's proposed HOPE scholarship would allow families sending children to college to deduct up to $10,000 in tuition costs for two years or claim a $1,500 tax credit for tuition costs for two years, at a cost of $35 billion over five years. While the goals of all three plans are sound, they would not result in expanded access to college for students from lowincome families, and in fact could lead to higher tuition costs, thereby actually inhibiting the ability of lowerincome students to attend college.

Against this backdrop, the Progressive Policy Institute has developed an education tax credit alternative that ensures that every young person able to make the grade and willing to serve his or her community will be able to go to college. The PPI proposal, which fits within the $35 billion set aside in the budget accord for higher education tax relief, provides a $2,500 tax credit for tuition and fees at any instate college or university in the country. This credit, combined with existing federal aid grant programs, would ensure that no student is denied a college education for financial reasons.

Attached please find a PPI backgrounder that details this alternative education tax credit. If you have any questions about the proposal or you would like to speak about it in more detail, please do not hesitate to call me at (202) 546-0007.

Sincerely,

Debbie

Debbie Cox
Field Director

518 C Street, NE • Washington, DC 20002 • 202-546-0007 • Fax: 202-544-5002 • E-mail: info@dlcppi.org • WWW: http://www.dlcppi.org/

PROGRESSIVE POLICY INSTITUTE

Backgrounder

June 1997

Hope Revisited

Using Tax Policy to Expand Access to Higher Education

by Jonathan E. Kaplan and Chris J. Soares

President Clinton has made balancing the budget and expanding access to a college education central missions of his presidency, and rightly so. Spurring private investment by reducing the deficit, while enabling millions of young Americans to develop productive and advanced skills, is critical to ensuring strong growth and restoring broad upward mobility in the next century. To these ends, the $35 billion earmarked in the budget deal to help families send their children to college offers a landmark opportunity: We can inaugurate a new era in American education in which any young person able to make the grade and willing to serve his or her community will be able to go to college.

To achieve this goal, Congress should dramatically expand access to higher education by redesigning the President's proposed HOPE tax credit and tuition tax deduction. In its place, we propose a four-year, refundable tax credit for families of students who attend public, in-state institutions and are willing to perform community service. Combined with existing federal aid programs, a $2,500 annual tax credit would cover the tuition and fees at most state colleges and universities in the country, with money left over for living expenses. By tying the new tax credit to community service, we also would reinforce the value, introduced by President Clinton in his Americorps initiative, that anyone receiving government assistance should give something back to the country.

The President's current proposal would allow families sending children to college to either deduct up to $10,000 in tuition costs for two years or claim a $1,500 tax credit for tuition costs for two years. While the goal is sound, as the proposal now stands it would provide tax relief to middle-class families already capable of sending their children to college, but not expand access to college for students from low-income families. Most research shows that with the current provision of public and private assistance, rising college costs today do *not* reduce college attendance among children from middle-class families, but rather only affect *which* institutions they attend. Studies show, however, that the cost of college *does* reduce enrollment among children from poor families. But these families do not earn sufficient income to take advantage of the proposed new tax credit and deduction. Moreover, since the value of any tax deduction increases with a taxpayer's tax bracket, the greatest benefits would go to the more affluent families who need them least.

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The current proposals would have another unintended effect: higher tuition prices for everyone. This is likely to occur through a normal economic process called "capitalization," in which markets build into the price of a product part of the value of any tax preference associated with the purchase of that product. If the new deduction is worth an average of $1,000 to families sending their children to college, schools will be able to raise their tuition by some amount up to $1,000 without sacrificing enrollment. In all likelihood, only part of this deduction would translate into higher tuition charges. But to the extent this occurs over time, the proposal will end up raising the price of tuition, offsetting the tax benefits to those sending their children to college while subsidizing salaries and other expenses in higher education.

By pushing up tuition charges, the plan could actually *reduce* overall access to college, especially among children from poor families who would not benefit from the new deduction or tax credit. Increased tuition inflation is the last thing low-income students need: Even if tuition prices continue to rise only at the rate of the past 20 years, by 2015 almost seven million students could be priced out of higher education, according to a new study by the Council on Aid to Education.

For all of these reasons, the President's proposals have not found much support in Congress. The plan can be redesigned to target more of its resources to those who, without its help, could not afford to stay in college or even to attend at all. PPI's new plan would create a four-year tax credit—available to students from poor families along with everyone else—if they attend a public, in-state college or university and agree to perform community service. We estimate that by 2001, 3.7 million young Americans would take advantage of this tax credit to pursue higher education, including 1.1 million who otherwise would not have been able to go to college, and more than 400,000 who would have had to drop out for financial reasons. To achieve this, Congress should do the following:

- **Instead of providing a two-year, $10,000 tuition deduction or a two-year, $1,500 tax credit, offer one benefit: *a $2,500 tax credit indexed to inflation and available for four years.*** The credit would cover the tuition and fees for in-state students at most public institutions. Providing the credit for up to four years would cover an entire college education, and indexing the level of the credit to inflation would maintain its value over time.

- **Make the tax credit refundable, so that low-income families owing no income tax could still receive the $2,500 to cover their children's college tuition costs.** In this way, the policy would help those aspiring college students who need it most. Today, less than 40 percent of high school graduates from low-income families go on to college, as compared to more than 55 percent from middle-class families and some 80 percent from affluent backgrounds. Moreover, receiving this benefit would not preclude receiving other federal aid, such as Pell Grants. For those students from moderate or poor circumstances, the $2,500 credit, along with a Pell Grant, would cover tuition, fees, books, and at least a portion of living expenses at most state colleges and universities.

- **The credit should be directed to students attending two-year or four-year public colleges or universities in their home states.** This condition will help limit the policy's cost and target limited public resources to those who most need them, since more affluent students choosing to attend a private college or go out of state would not receive the tax benefit.

  Directing these public resources to public institutions would also reduce the potential for tuition inflation. Among private institutions, there would be no new inflation pressures. Attempts by public colleges and universities to capitalize the tax benefit into higher tuition prices would face a serious hurdle: Approval by Boards of Regents answerable to governors or state legislatures answerable to voters—including some voters with children attending a public college or university, but unable to claim the new tax credit.

- **Students receiving this credit should also agree to perform community service—before, during, or after college.** Tying the benefit to a young person's willingness to perform public service would extend the compact of mutual responsibility between young people and the country. It would also help target the resources to those who most need or want them, since they would be willing to incur this additional obligation. This restriction would also prevent the HOPE Scholarship from becoming a welfare-state benefit that imposes no responsibility on those receiving it.

This strategy would achieve the President's goal, and more. For the first time in our history, every young American with the ability and tenacity to pursue a higher education will have the resources to do so, so long as they are willing to pay the country back with some form of public service. Once again, we estimate that by 2001, 3.7 million college students would take advantage of this opportunity, including 1.1 million who otherwise could not have attended college and more than 400,000 who would have had to drop out for financial reasons.

These estimates, while necessarily speculative, are based on all the available data and econometric analysis—for example, evidence that each $150 reduction in tuition costs increases college enrollments by 1.6 percent, that 81 percent of students attend public institutions, that 79 percent of those attend them in their home states, and that approximately 32 percent of college students from middle- and upper-income families currently perform community service.

Year	*Number of Students*	*Maximum Value*	*Cost*
FY 1998	1,170,000	$2,500	$ 2.7 billion
FY 1999	2,160,000	$2,575	$ 5.1 billion
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This strategy would cost $33.2 billion over the first five years. Compared to the President's proposals, this approach would further expand educational opportunities, promote a greater sense of responsibility among the young people receiving its benefits, stimulate less inflation in tuition prices, and cost less.

Jonathan Kaplan and Chris Soares are Economic Policy Analysts at the Progressive Policy Institute. PPI Research Analyst Stephanie Soler also contributed to this report.

AVERAGE ANNUAL UNDERGRADUATE IN-STATE TUITION AT 4-YEAR INSTITUTIONS OF HIGHER EDUCATION STATE-BY-STATE, 1995-96

State	Tuition
Alabama	$2,240
Alaska	2,489
Arizona	1,926
Arkansas	2,028
California	2,666
Colorado	2,473
Connecticut	3,845
Delaware	3,981
D.C.	1,118
Florida	1,767
Georgia	2,103
Hawaii	1,576
Idaho	1,682
Illinois	3,352
Indiana	3,037
Iowa	2,565
Kansas	2,120
Kentucky	2,161
Louisiana	2,221
Maine	3,474
Maryland	3,572
Massachusetts	4,253
Michigan	3,895
Minnesota	3,216
Mississippi	2,459
Missouri	3,015

State	Tuition
Montana	$2,367
Nebraska	2,182
Nevada	1,684
New Hampshire	4,446
New Jersey	3,972
New Mexico	1,940
New York	3,714
North Carolina	1,639
North Dakota	2,248
Ohio	3,603
Oklahoma	1,839
Oregon	3,233
Pennsylvania	4,723
Rhode Island	3,856
South Carolina	3,094
South Dakota	2,642
Tennessee	1,990
Texas	1,820
Utah	2,011
Vermont	5,898
Virginia	3,907
Washington	2,791
West Virginia	2,024
Wisconsin	2,614
Wyoming	2,005

Source: *The Digest of Education Statistics 1996*. U.S. Department of Education.

EDUCATION TAX CREDIT PROPOSALS

	PPI Proposal	Clinton Proposal	Senate Proposal	House Proposal
Tax Credit	$2,500 indexed for inflation	$1,500 (or permits a $10,000 tax deduction)	75% of tuition costs up to $2,000	50% of tuition costs up to $3,000
Refundable	YES	NO	NO	NO
Phased out?	NO	phases out for individuals with incomes over $70,000 and couples with incomes over $100,000	phases out for individuals with incomes over $50,000 and for couples with incomes over $100,000	phases out for individuals with incomes over $50,000 and for couples with incomes over $100,000
Service Requirement	YES	NO	NO	NO
# of years credit is eligible to be taken	four	two	two	two
Estimated cost	$35 billion over five years	$35 billion over five years	$20.4 billion over five years	$22.3 billion over five years

The DLC Update

For copies of the PPI Backgrounder, *Hope Revisited: Using Tax Policy to Expand Access to Higher Education,* visit our website at http://www/dlcppi.org/ or call the publications desk 800/546-0027.

The Democratic Leadership Council——Tuesday, June 24,

A Chance to Make College Affordable for All

One of the President's major accomplishments in negotiating this year's budget agreement was the provision reserving $35 billion (over five years) in tax cuts for higher education costs. The high priority the President placed on tax benefits for college attendance reflected his clear understanding that expanded access to higher education is essential to the task of preparing Americans to succeed in the Information Age.

But it is increasingly clear, as Congress considers tax legislation this week, that there is no consensus in either party about the best way to distribute education tax benefits, while there are many legitimate doubts about the competing proposals.

This creates a window of opportunity for a fresh look at the options for expanding access to college. If designed properly, $35 billion in tax benefits are sufficient to make college affordable for virtually every American. In a new PPI Backgrounder, *Hope Revisited: Using Tax Policy to Expand Access to Higher Education*, **Jonathan Kaplan** and **Chris Soares** of the Progressive Policy Institute show how a variation on the President's Hope Scholarship Tax Credit could achieve that long-sought goal, and strike the greatest blow for educational opportunity since the GI Bill.

Given current trends in the cost of college, it is unconscionable to throw $35 billion in new federal money into the higher education system without paying careful attention to the impact on affordability. A major study by The Education Trust recently concluded that lack of funds was a major factor in high college drop-out rates (only about half of high school graduates entering college earn a degree), especially among minority students. Further, a new study on college finances released last week by the Council for Aid to Education Ipredicted that rising tuitions could price more than six million more students out of college by the year 2015.

The "Hope Revisited" proposal would reverse these troublesome trends. It provides a four-year, $2,500 per year refundable tax credit for families of students who attend public, in-state institutions and are willing to peform community service before, during, or after college. Combined with existing federal aid programs, the credit would cover tuition and fees at any state college, university, or technical institute in the country, with money left over for living expenses. Most importantly, PPI estimates that by the year 2001, the credit would enable more than a million students to go to college who would not otherwise be able to afford it, and more than 400,000 students to continue college who would otherwise drop out.

Key elements of the Hope Revisited proposal include:

First, it provides a tax credit, rather than a deduction, because deductions perversely give higher-income taxpayers—those with the least need—higher benefits.

Second, the credit is refundable, so that the poorest families—those with the greatest need—can participate. Without refundability, most families with income under $20,000 per year are excluded entirely.

Third, the credit can only be used at in-state, public institutions, because state colleges and universities are accountable to elected officials who can be expected to resist efforts to hike tuitions for their own citizens. Without such a limitation, new tax benefits are likely to fuel tuition inflation, not only undermining their value for beneficiaries, but actually making college more expensive for everyone, including students who do not qualify for the tax benefits.

And **fourth**, reflecting the ethic of the GI Bill, students benefitting from the credit would be expected to give something back to the country in the form of community service—performed before, during, or after college. This service requirement changes what would otherwise be an entitlement into an earned benefit that reinforces the principle of reciprocal responsibility, while ensuring that beneficiaries are serious about bettering themselves and their communities.

Hope Revisited could enormously enrich the legacy associated with this year's historic budget agreement: a balanced budget, with tax relief, that also makes the single most important element of the American Dream—a college education—a real opportunity for every American.

New PPI Paper on "The Meaning of Hong Kong"

In a new analysis released last week by the Progressive Policy Institute, Senior Fellow **Robert A. Manning** outlines the history, the importance, and the agreed upon terms of Hong Kong's reunification with China, set to take place at one minute past midnight on July 1, 1997. In ***The Meaning of Hong Kong: Revealing China's Hand***, Manning recommends specific policy benchmarks and proposals that will protect America's interests during this historic transfer of power. For copies of the report, call the publications desk 800/546-0027 or visit our website at http://www/dlcppi.org/.

THE PRESIDENT HAS SEEN
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What do you think?
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FAX TRANSMITTAL SHEET

Pages (including cover): 6

Phone:

Fax: 456-6703

To: Nancy Hernreich

From: AL FROM

Comments: Please pass on to the President. He asked me to send it today.

IF THERE ARE ANY PROBLEMS WITH THIS TRANSMISSION, PLEASE CALL (202) 546-0007. THANK YOU.

June 27, 1997
Memorandum to the President
From: Al From AL
Subject: Guaranteed College Tuition Plan

It was good to see you today and terrific to see you getting around so well.

As promised, I've attached our compromise higher education plan. This plan would further the goal of expanding access to college that you set out when you offered the Hope Scholarship. But it would go even further. It would guarantee that no young person who makes the grade and agrees to do community service would be unable to go to college for inability to pay. And, it would reinforce the linkage of college aid to community service, which is another important part of your legacy.

If, as it appears, you can't get support in the Conference for your plan -- and you don't like the House and Senate plans -- I think you might want to give serious consideration to offering this as a compromise.

Here's how the plan would work:

1. It would offer a four year refundable $2500 annual tax credit (adjusted for inflation) to families of students who attend public, in-state institutions and are willing to perform community service.

2. That tax credit, combined with the new $3000 Pell grant (or other existing higher education aid), would cover the fees and tuition costs at most state colleges, with a significant amount left over for living expenses.

The plan is explained in more detail in the PPI backgrounder I've attached. I think the most attractive part of it is that it would establish a national policy that makes college affordable for every young person no matter how poor. It is not unlike the policy we used to sell the EITC -- that no one who works, full-time, year round to support a family should have a wage below the poverty level.

I think it is a political 10 strike -- and it has the added benefits of being good policy and furthering main objectives of your Administration.

If you have any interest in pursuing this, I'll be in Annapolis this weekend, where I can be reached at 410-626-1236.

I'll follow up on our larger conversation when you get back from Madrid.

PPI PROGRESSIVE POLICY INSTITUTE

Backgrounder

June 1997

Hope Revisited

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[illegible]

other federal aid, such as Pell Grants. For those students from moderate or poor circumstances, the $2,500 credit, along with a Pell Grant, would cover tuition, fees, books, and at least a portion of living expenses at most state colleges and universities.

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Lawrence Moore, National Association of Social Workers
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Wyatt Closs, Service Employees International Union
Mary Jean Piraino, United Food and Commercial Workers
Ivan Frishberg, U.S. PIRG
Brian Adelschlemer, U.S. Student Association
Ruby Coles, Women Work!

Amy Wilkins, The Education Trust

Re: Revisions to the Administration's Higher Education Tax Cut Proposal

Date: July 1, 1997

Attached please find a summary of the Administration's revised proposal on higher education tax cuts prepared by the Department of Education. This proposal is as undeserving of your organization's support as the original proposal was. The revisions simply fiddle around on the margins and fail to address the fundamental flaw contained in the original. The revision, like the original, denies help to the families who need it most, because it is not refundable. Like the original, the revision leaves 30% of the families with children—the lowest income families—without one penny more to meet the cost of college and fails to deliver the full $1,500 to 42% of the families with children.

Reviewing this proposal, in light of President Clinton's comments on affirmative action a few weeks ago, it is hard not to recall Martin Luther King's question, "What good is the right to eat at the lunch counter if you can't afford the hamburger?"

Given this proposal, we believe it best to turn our attention and energies to other pressing education issues—securing the promised increase in Pell Grants, improving the Higher Education Act and enacting legislation to improve the quality of teaching in high poverty schools—and leave the fate of President Clinton's legacy as the education President to the goodwill of Chairmen Archer and Roth.

Thanks to all of you who worked on this issue. We look forward to working with you in the future to improve equity and quality in America's schools and colleges, to close the achievement gap and to ensure that all students —kindergarten through college—achieve at the highest levels. If you have any questions or need additional information, please feel free to give me a call at 202-293-1217 x 329.

e of Tax Cuts Going to Sixty Percent of Families

67%