Education – Education Savings Accounts

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

March 29, 2000
(House Rules)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

H.R. 7 – Education Savings and School Excellence Act of 2000
(Hulshof (R) Missouri and 46 cosponsors)

If H.R. 7 were presented to the President, the Secretaries of the Treasury and Education would recommend that he veto the bill. In 1998, the President vetoed legislation -- H.R. 2646, the "Education Savings and School Excellence Act of 1998" -- that included provisions similar to those contained in H.R. 7. At that time, the President described the bill's modifications to Education IRAs as bad education policy and bad tax policy. H.R. 7 is equally flawed.

Both the Senate and the House have already passed other costly tax cut legislation this year. The Administration is concerned that piecemeal enactment of significant unpaid-for tax cut bills outside of an overall fiscal framework will threaten to undermine Social Security, Medicare and debt reduction, and impair the Federal Government's ability to address other important national priorities.

Every American child deserves a high-quality elementary and secondary education. The President's FY 2001 Budget contains a series of education tax initiatives, including a College Opportunity tax cut to defray the cost of higher education for families, and tax-credit bonds to assist State and local governments in meeting the cost of financing construction, rehabilitation, or repair of public schools.

H.R. 7 fails to advance education reform and distracts from the need to invest in public schools, where the vast majority of the Nation's students learn. It does nothing to reduce class size, improve teacher quality, or help students meet high academic standards. In addition, the provisions to repair or modernize schools are woefully inadequate. Targeting limited Federal resources toward building stronger public schools will help ensure that all our Nation's children receive the education they need to become productive citizens. H.R. 7 would divert needed resources away from public schools.

H.R. 7 would disproportionately benefit the most affluent families and provide little benefit to lower- and middle-income families. Moreover, given the expansion of tax-preferred savings vehicles in the Taxpayer Relief Act of 1997, which the Administration supported, further increasing the contribution limits for Education IRAs is unlikely to provide significant additional incentives for families to increase their savings for educational purposes. Instead, H.R. 7 would reward many families, particularly those with substantial incomes, for what they may already do.

H.R. 7 would also create significant compliance problems. The bill permits tax-free withdrawals from Education IRAs for, among other things, tuition, fees, academic tutoring, special needs services, books, room and board, and supplies and equipment expenses incurred in connection with enrollment or attendance in public or private elementary or secondary schools. Distinguishing between withdrawals that should not be subject to tax and those that should will add significant record-keeping requirements for families and schools and will lead to frequent disputes about the use of the withdrawals for discretionary purchases.

H.R. 7 also would liberalize the tax-exempt bond arbitrage rebate exceptions for public school construction bonds. Increasing the current-law two-year expenditure exception to the arbitrage rebate requirement to four years would not address the needs for the construction, rehabilitation, or repair of public schools. This proposal would only encourage delayed construction and riskier investment strategies for a minimal gain in construction. The Administration strongly supports the school modernization tax credit proposal that was included in the alternative offered by Representatives Johnson and Rangel which would provide for the issuance of $25 billion in tax credit bonds for school construction. The Administration would ask that the House Rules Committee make in order the Johnson-Rangel amendment for floor consideration.

H.R. 7 would reduce Federal receipts; therefore, it is subject to the pay-as-you-go requirement of the Omnibus Budget Reconciliation Act of 1990. In addition, without any further action to provide offsets, H.R. 7 could contribute to a sequester of mandatory spending.

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