DRAFT
Feb. 4, 1998
5:00 PM

History of Coverdell/Archer Education IRAs for K-12

Taxpayer Relief Act of 1997 (P.L. 105-34)

On June 27, the Senate approved Coverdell's amendment to S. 949 (the Senate companion to H.R. 2014), by a vote of 59-41. (See the June 27 Congressional Record at S6683-84.) The amendment would have allowed tax-free expenditures from an Education IRA for elementary and secondary education expenses.

On July 29, while the bill was in conference, the President sent a 3-sentence letter to Speaker Gingrich, the last 2 sentences of which read,

> As you know, in working out the final agreement, I strongly opposed the Coverdell amendment. I would veto any tax package that would undermine public education by providing tax benefits for private and parochial school expenses.

On July 30, the House-Senate conferees issued their conference agreement and report, which did not include the Coverdell amendment. (See House (Conference) Report 105-220 at 362-364, reprinted in the July 30 Congressional Record at H6501.)

[Note: The House bill did not include a Coverdell-type provision, although it did include the "Cardin amendment" (§204 of the House-passed bill), which would have provided a tax credit of up to $150 of the costs incurred by the parents of an elementary or secondary student for undefined "supplementary education" with respect to reading, math, or any other subject that the student is taking in schools. (It is widely surmised that the Sylvan Learning Centers and similar providers stood to be major beneficiaries of this provision.) This provision was added to the House bill by the House Ways and Means Committee at its June 13 mark-up and is described in House Report 105-148 at pp. 330-31. Like Coverdell's amendment, the Cardin amendment was deleted in conference (see House (Conference) Report 105-220 at 369-70, reprinted in the July 30 Congressional Record at H6503). It has not been introduced as a free-standing bill or appeared as part of other legislation.]

Freestanding bills (S. 1133 and H.R. 2646)

After it became clear that the final version of the Taxpayer Relief Act (signed by the President on August 5) would not include the Coverdell amendment, both Senator Coverdell and Representative Archer (Chairman of the House Ways and Means

Committee) introduced the Coverdell amendment as a freestanding bill.

1. S. 1133. Senator Coverdell introduced S. 1133 on July 31, 1997. It was referred to the Senate Committee on Finance, which has taken no action on it. To date, the bill has 43 cosponsors.

2. H.R. 2373/2646. On August 1, Speaker Gingrich introduced H.R. 2373, the House companion to S. 1133. On October 9, Archer and Gingrich introduced H.R. 2646 as a replacement for H.R. 2373.

On October 21, the House Ways and Means Committee approved a modified version of the bill by a vote of 19-17 (2 Republicans voted "no" in what was otherwise a party-line vote). (See House Report 105-332.)

On October 23, the House passed H.R. 2646 by a vote of 230-198, after rejecting the Rangel substitute relating to school construction and rehabilitation. (See the October 21 Congressional Record at H9056-76.)

On October 31 and November 4, the Senate failed to end debate on H.R. 2646, by votes of 56-41 and 56-44, respectively.

Clinton\Riley\Rubin

July 29: Clinton letter to Gingrich threatening to veto the tax bill if it includes the Coverdell amendment. (See second paragraph of this summary.)

Sept. 15: Riley and Coverdell write opposing articles in the Washington Times Sunday magazine

Sept. 23: Riley's speech at the National Press Club, "What Really Matters in American Education", includes the statement, "I will also urge the President to veto any legislation that includes the DC voucher proposal now moving through Congress or the Coverdell IRA proposal -- which is a voucher by another name."

Oct. 7: Riley responds to Coverdell's Sept. 25 letter.

Oct. 9: Joint Riley-Rubin letters on H.R. 2373/2646 to Archer and Rangel (ranking minority member) stating that they would recommend a veto.

Oct. 21: OMB Statement of Administration Policy, sent to House Rules Committee, says that Riley and Rubin would recommend a veto of H.R. 2646.

Oct. 22: Riley appears with Rangel and Rep. Stenholm to oppose Coverdell/Archer.

BOOKS bill (S. 1590)

On January 29, 1998, Senator Coverdell introduced S. 1590, the Better Opportunities for Our Kids and Schools Act. Section 102 of Title I, the A+ Accounts for Public and Private Schools Act, is identical to section 2 of H.R. 2646, as passed by the House.

October 9, 1997

The Honorable William Archer
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

We write to express our strong opposition to The Education Savings Act for Public and Private Schools which the House Committee on Ways and Means is scheduled to consider today. Last summer, when a similar proposal was passed by the Senate, the President stated that he would veto the legislation that contained it. This bill raises the same concerns as the proposal in the Senate bill. We would recommend that the President veto this bill should it reach his desk.

Every American child deserves a high quality elementary and secondary education. We believe that targeting our limited Federal resources to build stronger public schools will help ensure all our children receive the education they need to be productive citizens. Public schools serve approximately 90 percent of students in grades K-12 and currently face record-breaking enrollments. By focusing resources on public schools, we can leverage community investment to help parents, teachers and administrators meet the important educational challenges they face in serving the vast majority of our children: meeting high standards for learning and discipline, fixing school buildings, and providing a safe, drug-free environment for children. In contrast the Education Savings Act for Public and Private Schools diverts needed attention and resources from our public schools.

The bill disproportionately benefits the most affluent families and provides little benefit to lower and middle-income families. First, the average family typically saves a modest amount, and, therefore, would get little reward from the compounding of tax-free earnings in an Education IRA. By contrast, wealthy families save more, and, therefore, would have greater accumulations of tax-free earnings in an Education IRA. Second, the benefit of tax-free accumulation under the bill increases with a family's marginal tax rate. Thus, for example, a family in the 31 percent marginal tax bracket that saved $2,500 per year for six years would realize twice the tax benefit under the bill ($1046) as a family in the 15 percent bracket saving the same amount ($514).

We are also concerned the bill would create significant tax compliance problems. The legislation allows tax-free withdrawals from Education IRAs for "supplementary expenses required for [the child's] enrollment or attendance at a public, private or sectarian school," but provides no guidance in identifying what these expenses are. Distinguishing between an appropriately tax-free withdrawal and one that should be subject to tax and penalty would lead to significant additional tax complexity for families.

Finally, we do not believe that increasing the contribution limits for tax-preferred saving opportunities will generate much additional saving and instead, will reward families, particularly those with significant means, for what they would otherwise do.

We understand that you intends to offer an amendment in the nature of a substitute that would use the revenue that would be lost by the Education Savings Act for Public and Private Schools to increase the volume of qualified zone academy bonds. We strongly prefer the your proposal and other alternatives that devote Federal revenue to improving the public schools, rather than legislation having the effect of subsidizing private alternatives, so that a high-quality education is available to every American child regardless of their family income. The qualified zone academy bond program helps public schools with a substantial number of low-income students afford improvements in their infrastructure, their equipment and their teacher training. Therefore, we support your substitute.

Sincerely,

Robert E. Rubin
Secretary of the Treasury

Richard W. Riley
Secretary of Education

newstream

Senate Kills Education Accounts

By ROBERT GREENE
AP Education Writer

WASHINGTON (AP) A largely Republican plan to let parents save money tax-free for education expenses, including home computers and private school tuition, was killed today in the Senate.

Backers of the so-called "A-plus Education Savings Account" fell four short of the 60 votes needed to force a debate and vote on the bill. The chief sponsor, Sen. Paul Coverdell, R-Ga., said he hopes lawmakers will reconsider the measure next year.

Although the bill had some Democratic backing, it was vehemently opposed by President Clinton and most Democrats. They argued that it provided a federal subsidy for private and religious schools.

Coverdell denied that.

"It is the parents' money," he said. "This is private money, and we're allowing the parent the opportunity to get focused on that child's education."

He said most of the tax breaks would have gone to parents of public school children.

The House, whose Republican leaders are intent on winning federal support for private education, had passed the bill.

The measure would have allowed parents, relatives, companies or foundations to put up to $2,500 a year in a child's account starting at birth. The built-up interest would be tax-free, as would withdrawals if used for a variety of educational purposes.

Before the vote, Senate Minority Leader Tom Daschle, D-S.D., said he opposed bringing the measure to a vote because the bill had been brought to the floor without hearings.

He said Democrats were divided on the issue. Some were interested in making child care equally eligible for the tax breaks. He said the bill should be taken up next year.

(04 Nov 1997 12:20 EST)

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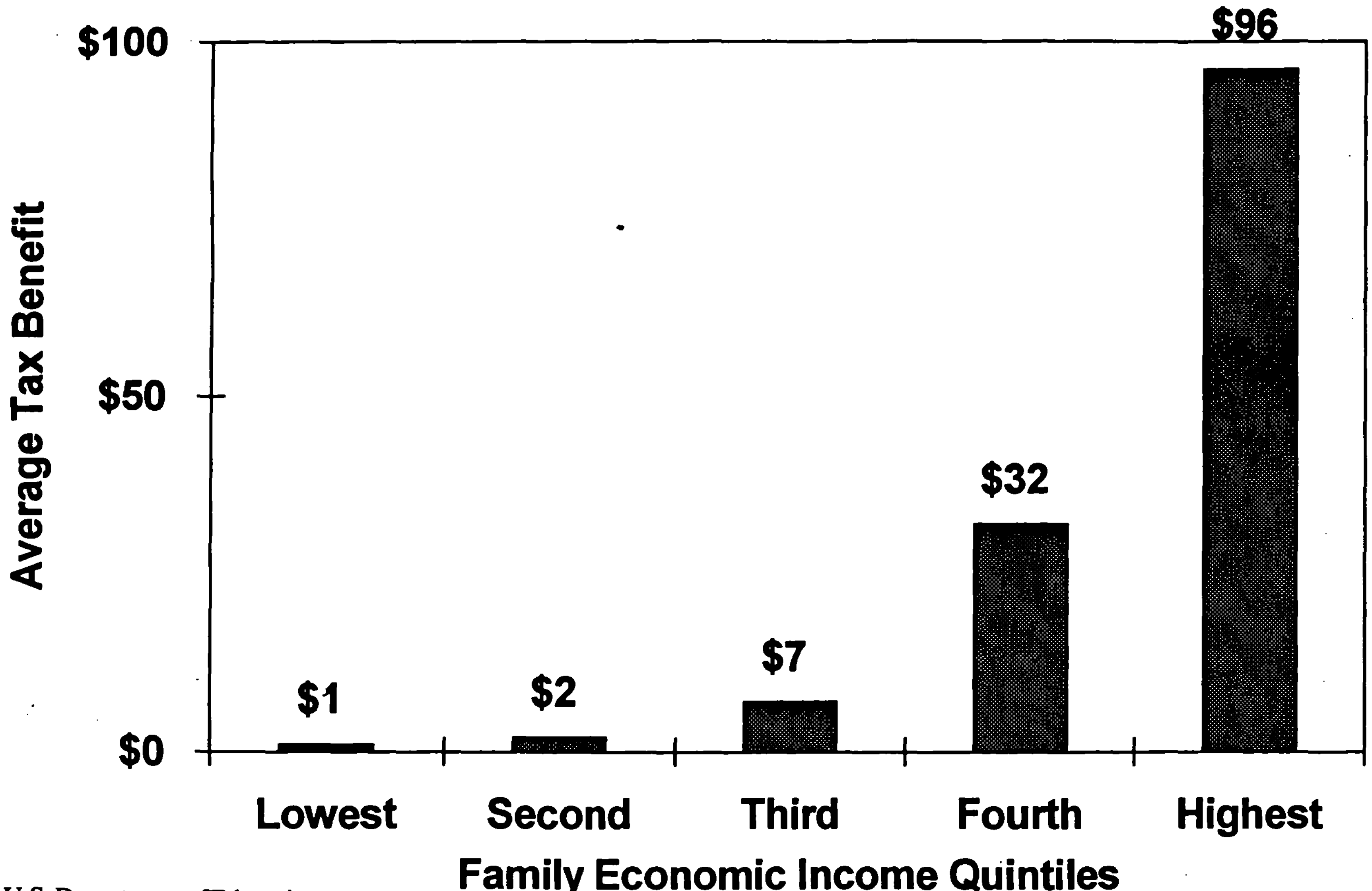
Inequities in Coverdell/Archer IRA



U.S. Department of Education

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
October 22, 1997

Contact: Susan Lewis Sallet
(202) 622-2920

STATEMENT OF LAWRENCE H. SUMMERS
DEPUTY SECRETARY, U.S. DEPARTMENT OF TREASURY
REGARDING THE COVERDELL PARENT AND STUDENT
SAVINGS ACCOUNT PLUS ACT

I am sorry I cannot join Secretary Riley and Congressmen Rangel, Clay and Stenholm in person today to speak on this important issue. This Administration is strongly committed to improving the quality of primary and secondary education for every child in our country. However, we do not support the Coverdell proposal which would divert needed attention and resources from our public schools.

As stated recently in a letter from Treasury Secretary Rubin and Education Secretary Riley, this proposal raises the same concerns as the proposal passed by the Senate last summer and opposed by the Administration. At that time, the President stated that he would veto the legislation that contained this measure, and Secretary Rubin and Secretary Riley stated that they would recommend that he veto this bill should it reach his desk.

The Coverdell proposal would disproportionately benefit the most affluent families and provide little benefit to lower and middle-income families. According to a Treasury Department analysis, almost 70 percent of the benefits of this proposal would flow to families in the top 20 percent of income distribution and about 27 percent to families in the top ten percent. Low- and moderate income families are less likely to have assets to contribute to education IRAs and the benefit of the proposal depends on the family's marginal tax rate, which lessens its value for these families.

In addition, we do not believe that increasing the contribution limits for tax-preferred saving opportunities will generate much additional saving and instead, will reward families, particularly those with significant means, for what they would otherwise do.

We are also concerned the bill could create significant tax compliance problems. The legislation allows tax-free withdrawals from Education IRAs for "supplementary expenses required for [the child's] enrollment or attendance at a public, private or sectarian school," but provides no

RR2005

guidance in identifying what these expenses are. Distinguishing between an appropriately tax-free withdrawal and one that should be subject to tax and penalty would lead to significant additional tax complexity for families.

Congressman Rangel's substitute proposal would instead increase the volume of qualified zone academy bonds to help public schools with a substantial number of low-income students afford improvements in their infrastructure, their equipment and their teacher training. We support this and other proposals that would help the majority of students who are in public schools rather than using federal funds to encourage a shift away from these important community resources.

-30-

NEWS RELEASE
ROBERT TORRICELLI

UNITED STATES SENATOR FOR NEW JERSEY

FOR IMMEDIATE RELEASE
October 28, 1997

CONTACT: Joy Howell
224-3224

Sen. Torricelli Announces White House Meeting to Discuss A+ Education Savings Accounts

Washington, D.C. --- Sen. Robert Torricelli today announced that he and Sen. Paul Coverdell (R-Ga) will meet with President Bill Clinton at 7 p.m. Thursday, October 30 at The White House. The meeting will focus on the Coverdell-Torricelli A+ Education Savings Accounts bill which allows parents to contribute up to $2,500 per child per year for education purposes.

"A+ accounts should not be confused with school vouchers. These accounts are similar to the education IRAs that President Clinton established for higher education expenses. Education savings accounts will give parents and extended family members the opportunity to use their tax free savings for home computers, school uniforms, tutors and other educational purposes," Torricelli said.

Sen. Torricelli expressed optimism that his fellow senators would support the bill after closer examination and that President Clinton would be supportive as well.

# # #

UNITED STATES DEPARTMENT OF EDUCATION Coverdell

OFFICE OF THE SECRETARY

FAX TRANSMITTAL

TO Mike Cohen

PHONE ______ FAX 456-5581

FROM DAVID FRANK, Communications Director

PHONE 202-401-3026 FAX 202-401-0596

PAGE(S) TO FOLLOW ______

MESSAGE:

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UNITED STATES
DEPARTMENT OF EDUCATION NEWS

Contact: David Frank 401-3026
Erica Lepping 401-2571

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

In opposition to the Archer/Coverdell IRA Proposal
October 22, 1997

I am here today to join Cong. Rangel and Cong. Stenholm in opposing the Archer/Coverdell IRA proposal. This proposal is a good example of the Congressional leadership fiddling on the margins again and not getting serious about what needs to be done to improve American education.

Families making less than $50,000-- and that's the majority of American families--will only get a tax cut of $2.50 from this legislation. That's just ridiculous. You can't even buy a good box of crayons for that amount of money. Families who are in the upper brackets -- over $100,000 -- will get $97.00 This piece of legislation is not well thought-out. Seventy percent of the benefits goes to the top 20 percent of American families.

This is an empty promise if ever there was one. I want to contrast this empty promise with the many well-thought out tax cuts to help families pay for their children's higher education that were included in the balanced budget bill. These tax cuts included the $1,500 Hope Scholarship, the $1,000 Lifetime Learning Tax credit, the creation of a $500 Education IRA to pay for higher education, a student loan interest deduction worth up to $1,000 in 1998, and a tax-free community service loan forgiveness provision.

We focused these tax cuts on higher education for two very clear reasons. First, college tuition rates have been consistently going up for many years now at a time when college tuition aid in the form of grants has not been keeping pace. College tuition has been taking a serious slice out of family income. We wanted to make sure that all Americans have the financial opportunity and access they need to go to college.

Second, we did not extend this provision to elementary and secondary schools (K-12) for the very simple reason that almost 90% of all of America's children go to free public schools. You don't pay tuition to go to your local neighborhood school. Providing free public education is a state responsibility and many states have made the principle of a free, public education a central part of their state constitution.

So we accomplished a lot in passing the balanced budget bill. The one thing we did not accomplish was getting the Republican majority in the Congress to support the President's $5 billion school construction initiative. If the Congress wants to revisit any education issue that is really pressing, it should revisit school construction within a balanced budget framework.

I have been traveling all around the country -- from Alaska to Florida -- and I can tell you that school construction and overcrowding are something I hear about constantly from parents and teachers. It's a suburban, urban and rural issue, and in some states like Florida, Texas, New York and California, the problem has just about reached a crisis level.

We have 52.2 million children in our nation's schools, a new national record, and we are going to break that record every year for the next ten years. We estimate that this country has to build 6,000 new schools and modernize thousands of others. This is a problem that isn't going to go away. Local school districts certainly could use some help in reducing their interest rates.

The worst thing we can do with classrooms bursting at the seams right now is to shift public tax dollars out of public education and into some voucher-like program. I say that as a friend of private and parochial education. So if Congress is going to revisit any education issue on the tax side of the equation it should revisit school construction within a balanced budget framework. The Rangel "academy bonds" alternative gets us moving in that direction.

The truth of the matter is this: the House Ways and Means Committee is trying to sell the American people a regressive tax policy that is masquerading as something good for education. It doesn't give any real financial help to low-income, working and middle class families and it certainly doesn't help us in the classroom either.

This is simply bad education policy. It diverts attention from what really matters: mastering the basics once and for all -- improving reading and math -- higher standards, better-trained teachers, more accountability. I have yet to figure out what essential "educational problem" this IRA is trying to solve.

Now, I want to be very clear that I do everything I can to support private and parochial education. They bring a great strength to our democracy. But we should not go down the road toward vouchers, either directly or indirectly, as this proposal would do.

Once again, I urge the Congressional leadership to get serious about education. Stop fiddling on the margins. Get focused on the essentials. We need a reading bill. We need the voluntary national tests. We need an education appropriations bill. The Senate should pass the voc-ed bill. And I urge strong support for bipartisan charter school legislation which will help us increase public school choice.

Thank you.

###

House version of Coverdell/SAP

Total Pages: ____

LRM ID: REJ288

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

Thursday, October 16, 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

SUBJECT: **OMB Statement of Administration Policy on HR2646 Education Savings Act for Public and Private Schools**

DEADLINE: **Noon Friday, October 17, 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: The attached SAP includes a proposed veto threat from the Secretaries of Education and the Treasury.

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LRM ID: REJ288 SUBJECT: OMB Statement of Administration Policy on HR2646 Education Savings Act for Public and Private Schools

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**

DRAFT -- NOT FOR RELEASE

October 16, 1997
(House Rules)

H.R. 2646 - Education Savings Act for Public and Private Schools
(Archer (R) Texas and Gingrich (R) Georgia)

If H.R. 2646 is presented to the President, the Secretaries of Education and the Treasury would recommend that he veto the bill because it is bad education policy and bad tax policy.

Every American child deserves a high quality elementary and secondary education. Targeting limited Federal resources to build stronger public schools will help ensure that all our Nation's children receive the education they need to become productive citizens. H.R. 2646 would divert needed resources from these schools.

H.R. 2646 would disproportionately benefit the most affluent families and provide little benefit to lower- and middle-income families. Families in the highest income bracket that saved the maximum amount permitted by H.R. 2646 would receive more than twice the benefit of families in the lowest tax bracket that saved the same amount. Moreover, the bill would not create a significant incentive for families to increase their savings for educational purposes; it would instead reward families, particularly those with substantial incomes, for what they already do.

* * * * * * *

Coverdell Parent and Student Savings Account Plus Act (1)

(1998 Income Levels)

Family Economic Income Quintile (2)	Number of Families (millions)	Average Tax Change ($)	Total Tax Change: Amount (3) ($M)	Total Tax Change: Percent Distribution (%)	Tax Change as a Percent of: Current Federal Taxes (4) (%)	Tax Change as a Percent of: Family Economic Income (%)
Lowest (5)	21.6	-1	-13	0.4	-0.10	-0.01
Second	22.2	-2	-39	1.3	-0.06	-0.01
Third	22.3	-7	-158	5.1	-0.10	-0.02
Fourth	22.3	-32	-716	23.3	-0.23	-0.04
Highest	22.3	-96	-2147	69.8	-0.24	-0.05
Total (5)	111.3	-28	-3076	100.0	-0.21	-0.04
Top 10%	11.1	-75	-840	27.3	-0.13	-0.03
Top 5%	5.6	-24	-135	4.4	-0.03	-0.01
Top 1%	1.1	-1	-1	0.0	-0.00	-0.00

Department of the Treasury
Office of Tax Analysis

October 21, 1997

(1) This table distributes the estimated change in tax burdens due to the Parent and Student Savings Account Plus Act introduced by Senator Coverdell, as adopted by the Ways and Means Committee.

(2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and underreported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

(3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. The change is measured as the present value of the tax savings from one year's contributions. The technical correction pertaining to mandatory distributions at age 30 with a ten percent penalty for distributions not used for education expenses is assumed to have been passed.

(4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.

(5) Families with negative incomes are excluded from the lowest quintile but included in the total line.

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

Coverdell Parent and Student Savings Account Plus Act (1)

(1998 Income Levels)

Family Economic Income Class (2) (000)	Number of Families (millions)	Average Tax Change ($)	Total Tax Change: Amount (3) ($M)	Total Tax Change: Percent Distribution (%)	Tax Change as a Percent of: Current Federal Taxes (4) (%)	Tax Change as a Percent of: Family Economic Income (%)
0 - 15	18.5	-1	-10	0.3	-0.11	-0.01
15 - 30	21.8	-1	-32	1.0	-0.06	-0.01
30 - 40	12.1	-3	-41	1.3	-0.07	-0.01
40 - 50	9.7	-8	-74	2.4	-0.10	-0.02
50 - 60	7.9	-15	-115	3.7	-0.15	-0.03
60 - 75	9.4	-23	-219	7.1	-0.18	-0.03
75 - 100	11.7	-59	-690	22.4	-0.34	-0.07
100 - 200	15.6	-118	-1842	59.9	-0.43	-0.09
200 & over	3.9	-13	-50	1.6	-0.01	-0.00
Total (5)	111.3	-28	-3078	100.0	-0.21	-0.04

Department of the Treasury
Office of Tax Analysis

October 21, 1997

(1) This table distributes the estimated change in tax burdens due to the Parent and Student Savings Account Plus Act introduced by Senator Coverdell, as adopted by the Ways and Means Committee.

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(3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. The change is measured as the present value of the tax savings from one year's contributions. The technical correction pertaining to mandatory distributions at age 30 with a ten percent penalty for distributions not used for education expenses is assumed to have been passed.

(4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.

(5) Families with negative incomes are included in the total line but not shown separately.