Final

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 Congressman Rangel 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 Rangel 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 Congressman Rangel's substitute.

Sincerely,

Robert E. Rubin
Secretary of the Treasury

Richard W. Riley
Secretary of Education

Rangel Allocation to Coverdell

FAX TRANSMISSION

U.S. DEPARTMENT OF EDUCATION
Office of Legislation and Congressional Affairs
600 Independence Ave., SW, Room 6337
Washington, DC 20202-3100
(202)401-1028
Fax: (202)401-1438

Date: 9/30/97 Fax: 456-7028

To: Bill Kincaid

Office of :

From: **Sandra Cook**

Number of Pages (including cover sheet):

If there are any problems with this transmission, please contact me at: (202)401-0020

Comments: F.Y.I.
We are working with Rangel on this.
I have people working on new & improved talking points.

were allowed to accumulate in the account over a period of years. Therefore, even the few fortunate families able to save for next year's tuition costs would receive little benefit.

3. To receive the maximum benefit, a family would need to have both young children (so that there is time to accumulate income in the account) and substantial investment assets. The following table indicates that few families meet that requirement. This table is based on data collected by the Federal Reserve Board in its 1995 Survey of Consumer Finances. It shows the median amount of non-retirement investment assets held by families in various income categories. Non-retirement investment assets include checking accounts, savings accounts, and all other financial assets not held in a retirement plan. Not surprisingly, it shows that young families and families with children have relatively small amounts of non-retirement investment assets.

Income Category	Percent of Families in Income Category	Median Amount of Non-Retirement Investment Assets: All Families	Families Headed by Individual under 35 years of age	Families with Children under 18 years of age
Less than $10,000	16	$ 440	$ 150	$ 10
$10,000 to 20,000	18	1,750	500	400
$20,000 to 30,000	15	3,000	1,230	1,200
$30,000 to 40,000	15	5,400	2,500	2,700
$40,000 to 50,000	10	7,900	3,400	4,950
$50,000 to 75,000	14	15,800	8,420	10,800
$75,000 to 100,000	6	27,300	23,200	22,300
$100,000 to 200,000	5	58,000	43,000	49,200
Over $200,000	1	255,000	270,000	183,100

I believe that the table above amply demonstrates which families will benefit from the Coverdell legislation. The amount of non-retirement investment assets is a very good measure of a family's ability to take advantage of the Coverdell legislation. Without those assets, a family would have to save out of current-year wages $2,000 per year, per child to take full advantage. We all know how few families can afford to do this.

Assuming that families must retain some minimum amount in their checking accounts, the median non-retirement investment assets for approximately 64 percent of families with children under age 18 is less than the maximum contribution of $2,000 per child per year. If these families placed all of their non-retirement investment assets in the tax-favored account created by the Coverdell legislation, the initial tax savings for most of them would be less than $15 per year. Even if they were able to retain those assets in the account for 5 years, the aggregate tax benefit for the 5-year period would be less than $150.

For all of the reasons discussed above, I urge you to oppose the Coverdell legislation and to support an alternative that will provide assistance to the schools that serve 90 percent of our students.

Sincerely,

Charlie

Charles B. Rangel
Ranking Democrat

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6348

September 29, 1997

THE RIGHT SCHOOL CHOICE — PUBLIC SCHOOLS OR TAX BREAKS FOR THE WEALTHY?

Dear Democratic Colleague:

The Senate version of the recently enacted tax legislation contained an amendment offered by Senator Coverdell that would provide tax benefits for investment accounts used to pay for elementary and secondary school expenses. That amendment was not included in the final version of the tax bill after President Clinton threatened a veto. The Coverdell legislation has been introduced in the House as H.R. 2373, and the Committee on Ways and Means is expected to mark up that bill in early October. As the Ranking Member on the Committee on Ways and Means, I want to provide you with information on the substance of the legislation and its impact.

I would like to make my position very clear. I will vigorously oppose the Coverdell legislation because I believe that improving our public school system should be our highest priority. Approximately 90 percent of the students attending kindergarten through 12th grade attend a public school. If additional tax incentives are to be provided for education, those incentives should be focused on improving the public school system that serves such a large segment of our children. The Taxpayer Relief Act of 1997 contained a proposal that I authored to use tax credits to provide an interest-free source of capital to public schools participating in public/private partnerships to improve their academic programs. I intend to offer an expansion of that program as a substitute for the Coverdell legislation.

However, I recognize that opposing a proposal advertised as promoting school choice is not an easy vote for some Members. If you are one of those Members, I urge you to examine the substance of the Coverdell legislation. If the legislation promotes school choice, it does so only for a small, wealthy category of families.

The Facts

As introduced, H.R. 2373 would permit families to place $2,000 per year, per child, in a dedicated investment account. Amounts in that account would accumulate on a tax-free basis and would be exempt from tax when used to pay educational expenses. The bill purports to apply to parents with children in public school, but as we all know, those parents would receive little benefit because they have far less in qualified educational expenses than parents who choose private schools. As discussed below, even most families choosing to send their children to private schools would receive little benefit.

1. The only families who would benefit from the legislation are families with sufficient investment assets to enable them to accumulate income on those assets over a long period of time. Families paying educational expenses out of wage and salary income would receive no benefit under the Coverdell legislation — no matter where those children were schooled.

2. Families with school-age children would receive little benefit. If a family currently has a child in private school, that family would benefit from the Coverdell legislation only if it could contribute $2,000 to an investment account after paying the current-year costs of the private school. With private school costs averaging over $3,000 per year, only a few very fortunate families could afford to make such a contribution. In addition, the Coverdell legislation would provide substantial benefits only if the money

... back up. I won't stop asking for what this city needs to survive, and I can't stop fighting for full democracy.

How, then, should I operate? First, let me in the room where the decisons of my district are being made. If you tell me it's my money or my rights, I'll tell you that the price is too high. But don't expect me to give up until I get a better deal for the city.

The writer is the District of Columbia's delegate to Congress.

... politics seems subversive of the social order.

His insouciant indelicacy stops just short of quoting U.S. Grant to Helms: "I propose to fight it out on this line, if it takes all summer." But if Weld's Senate allies force Helms to hold hearings, Weld will have the unenviable task of squaring his support for legalizing "medical" uses of marijuana with the ...

... muddle portion of this story, which currently concerns the Senate's sense of itself.

After Munich, it was said that Czechoslovakia was the most neutral nation because it did not intervene even in its own internal affairs. The question is whether one senator is making many other senators feel as Czechs once did.

... passe, but they require ... nation and (2) guts. One of the rare Washington figures with that combo is, as it turns out, Chairman Helms himself.

I confess to having a twinge of shameful admiration for Helms. He's an ornery man, 'tis true, but he's one ...

But Weld has, in an ... way, illuminated Jesse Helms ... man possessed of shabby, antique thoughts. Lacking the ability to persuade, he can only obstruct. In the end, his strength amounts to that of your standard off-the-shelf bully—the weakness of his opponents.

Coverdell

Robert D. Novak

Clinton's Whip Hand

For all of the tax bill's multiple shortcomings, social conservative leader Gary Bauer was delighted last week to learn that Republicans had wedged an unexpected provision into the measure. It extended President Clinton's proposed tax-free savings for college costs to also cover primary and secondary school tuition. That would be a step toward school choice, feared and abhorred by the education establishment.

Then, on July 29, as the White House and congressional leaders triumphantly announced agreement on the tax bill, Capitol Hill staffers tipped off Bauer about serious trouble. Although the bill was supposedly locked up, the school choice amendment, sponsored by Republican Sen. Paul Coverdell of Georgia, was doomed because the president belatedly objected.

Bauer, president of the Family Research Council, called Senate Majority Leader Trent Lott. The offending provision, said Lott, would not be deleted unless Clinton wrote him a letter threatening a veto because of the Coverdell amendment. Actually, the president's intent to send the letter had been conveyed before Bauer called Lott.

According to Bauer, Lott said he would not risk a veto "over a little thing like that." Lott told me he never called the Coverdell amendment "a little thing," adding: "That's Gary Bauer's language. I didn't say that. I wouldn't say that." Bauer insisted to me: "That's what he said."

Whatever they really said, Clinton's one-paragraph letter arrived that very day, declaring: "I would veto any tax package that would undermine public education by providing tax benefits for private and parochial school expenses"—meaning the Coverdell amendment.

This incident illuminates current power realities. The president has the "whip hand" (says a Cabinet member), and Republicans suffer from "beaten-child syndrome" (says a GOP operative). Clinton was able to reopen a settled bill because Republican leaders would flinch from another veto battle, and that set two prominent conservative Republicans at each other's throats.

The Coverdell amendment had been cleared by the president's sharp-eyed agents. It would merely permit parents who contributed up to $2,500 each year to an "education IRA" (individual retirement account) to make tax-free withdrawals for tuition at Sacred Heart parochial school as well as Harvard or Notre Dame.

When details of the tax bill emerged from behind closed doors last week, the powerful teachers' union—the National Education Association (NEA)—went wild. Competition from private schools was wholly unacceptable to the pro-Clinton NEA, it was made clear to the president. The Coverdell amendment was done for.

Lott has now assailed "labor union bosses" and pledged with House Speaker Newt Gingrich to press for a separate Coverdell bill. But considering the probability of a Senate filibuster and the certainty of a presidential veto, this proposal's hour likely has come and gone.

That moment was missed because of a new power shift away from the legislative branch toward the executive. In 1947-48, three tax-cut bills were vetoed by Democrat Harry Truman, but the Republican 80th Congress persevered and overrode the third veto after two were sustained. Since then, there has been no example of a Republican president's dictating the details of a bill that has already gone through a Democratic Congress.

The whip now is in the hand of the president. Clinton has mastered the cumbersome budget process in a way Ronald Reagan and George Bush did not. A veto of the tax bill would have required an agonizing return to square one: consideration of the budget resolution, like the one that was passed in May. Would the president really have voided the whole process over "a little thing like that"? Republican leaders were certain he would and feared that he would win the subsequent battle of public opinion. That's credibility, and that's power.

Wash Post 8/7/97 A23

Vouchers / Coverdell

WHITE_WI @ A1
08/09/97 04:14:00 PM

Record Type: Record

To: Michael Cohen, William R. Kincaid

cc:

Subject: SENATOR ASKS PUBLIC TO BACK TAX BREAK FOR ...

Date: 08/09/97 Time: 15:34

RSenator asks public to back tax break for private-school parents

WASHINGTON (AP) The Republican sponsor of a bill to provide tax breaks for parents of children in private schools asked Americans to tell President Clinton his opposition to the idea is wrongheaded.

``With your help, we can convince him to put the interests of school kids ahead of the special interests that oppose parents' rights in schooling,'' Sen. Paul Coverdell of said Saturday in the GOP's weekly radio address.

During budget negotiations in July, Clinton warned in a letter that he would veto the balanced-budget agreement if Coverdell's proposal were included. The plan would allow parents and grandparents to contribute up to $500 per child per year to an education savings account similar to the Individual Retirement Account.

The account could have been used to help send children to private school, from kindergarten through high school, or to pay the costs of home schooling.

``I would veto any tax package that would undermine public education by providing tax benefits for private and parochial school expenses,'' Clinton said then.

But Coverdell, R-Ga., urged the public to help change the president's mind. He portrayed Clinton's veto threat as ``a sneak attack, almost a Pearl Harbor for education reform.''

``President Clinton has aligned himself with those who have a vested interest in the system remaining the same,'' Coverdell said. ``With your help, we can get Mr. Clinton to reconsider his veto threat.''

In response, White House spokesman Joe Lockhart said Clinton ``supports school choice within the public school system'' and ``has been a leader in the charter school effort.''

Lockhart denied that the president acted sneakily. ``Our position was well known and was made clear under the bright sunshine of the balanced budget negotiations,'' he said. ``The letter was requested by the Republicans late in the process, but our position's been consistent and clear all along.''

APNP-08-09-97 1533EDT

Vouchers/
Coverdell
Amendment

final version
submitted to
press office
7/30

Press Guidance on the Coverdell Amendment

Background

The Coverdell Amendment would allow parents to contribute $2,000 per year to an educational individual retirement account for each child until the child reaches 18. Funds in the account would be tax free and could be used for tuition at public, private, or sectarian elementary and secondary schools. In addition to tuition, the amendment would provide a tax subsidy for tutoring, books and supplies, equipment, transportation and supplementary expenses related to education.

The provision was removed from the budget package at the Administration's insistence, and last night the President wrote the Republican leadership indicating that he "would veto any tax package that would undermine public education by providing tax benefits for private and parochial school expenses."

Suggested Response

Q: Today Sen. Coverdell held a press conference denouncing the President's threat to veto his proposal to provide tax benefits for K-12 schooling, including private and parochial schools. Given how hard the President pushed for tax benefits for postsecondary education, how can you explain the President's position?

A: As the President's letter indicated, the Coverdell provision would have undermined public education:

- The Coverdell Amendment would have little practical benefit for families with students in public elementary and secondary schools, where the vast majority of students attend, and which do not charge tuition. Instead, these tax provisions would have primarily subsidized private school tuition.

- The revenue lost from the Coverdell Amendment could be much better spent on efforts to improve our public schools, like repairing crumbling buildings, or recruiting excellent teachers for poor urban and rural areas, or keeping schools open late as safe places for students to study.

- The amendment would have covered almost any expense even remotely connected to the costs of K-12 education, including high-priced running shoes, cellular phones, and camcorders. This would create a very real "loophole" for using funds in ways that were not intended.

[And what about this point, that ED used: "The Coverdell Amendment is a "tax windfall" that would largely subsidize savings that would occur without the tax incentive and expenses that parents would pay anyway."]

THE WHITE HOUSE

WASHINGTON

July 29, 1997

Dear Mr. Leader:

I want to again thank you for working in a productive, bipartisan manner to develop this bipartisan budget agreement. I feel particularly good about the strong education package that is included in the tax bill. 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.

Sincerely,

Bill Clinton

The Honorable Trent Lott
Majority Leader
United States Senate
Washington, D.C. 20510

FAX TRANSMISSION

U.S. DEPARTMENT OF EDUCATION
Office of Legislation and Congressional Affairs
600 Independence Ave., SW, Room 6337
Washington, DC 20202-3100
(202)401-1028
Fax: (202)401-1438

Date: 7/30/97

Fax: 456-7028

To: Bill Kencaid

Office of :

From: Sandra Cook

Number of Pages (including cover sheet):

If there are any problems with this transmission, please contact me at: (202)401-0020

Comments:

NEWS RELEASE
Paul Coverdell
United States Senator Georgia

FOR IMMEDIATE RELEASE
Wednesday, July 30, 1997

CONTACT: Jonathan Baron
(202) 224-8049

Georgia's senior Senator wins support for education reform . . .

ALVEDA KING HITS CLINTON VETO THREAT OVER COVERDELL EDUCATION AMENDMENT

--"I cannot understand President Clinton's opposition"--

WASHINGTON, DC -- Alveda Celeste King -- author, educator, community activist, and niece of the late Dr. Martin Luther King, Jr. -- today sharply criticized President Clinton for his opposition to U.S. Senator Paul Coverdell's (R-GA) education savings initiative, which would expand proposed education savings accounts to cover expenses for primary and secondary schools.

During a morning press conference with Coverdell in the Capitol, Ms. King, a resident of Atlanta, Georgia, remarked, "The Coverdell Amendment was the only tax relief provision under consideration that would have addressed the profound crisis that confronts our elementary and high schools. I fully endorse Senator Coverdell's initiative.

"I cannot understand President Clinton's opposition to this common-sense education reform and urge him to withdraw his objections. Senator Coverdell's initiative would have provided real help to families struggling to give their children the best education possible. That President Clinton would undo the entire budget agreement to stop families from receiving this critical assistance is almost unbelievable."

Ms. King held a seat in the Georgia state legislature from 1979 to 1983. She currently serves as Chairman of King for America, an organization dedicated to helping people enrich their lives, and a member of the *Save the Kids, Now!* Coalition, which works to promote parental choice in education.

Coverdell's initiative -- approved by the Senate by a 59 to 41 margin on June 27 -- altered S. 949 the *Tax Fairness Bill* and would permit withdrawal of funds in education IRAs for expenses, including tuition, associated with any school, private, public, or sectarian, from kindergarten through 12th grade.

"I want to thank Ms. King for endorsing this initiative to improve primary and secondary education in America. I am extremely disappointed that President Clinton has chosen to reject our this education assistance for America's families. Make no mistake: we continue the struggle to improve primary and secondary education in America," Coverdell concluded.

###

KING FOR AMERICA INC.

Corporate Office
1776 Peachtree Street
Suite 205 South
Atlanta GA 30309
(404)262-6996
National Number
(800)205-5776
Regional Office
424 Madison Avenue
9th Floor Suite 900
New York NY 10017

July 25, 1997

To Whom It May Concern.

"Senator Coverdell's effort to extend meaningful tax relief to primary and secondary education is critical to improving the overall quality of education in America. The Coverdell Amendment would help parents provide their children with the very best education possible

"Advancing the causes of equality and opportunity require that we give mothers and fathers the chance to choose how their children are educated, from kindergarten through college. Senator Coverdell's Amendment would move us exactly in that direction, a direction I believe will ultimately lead to real racial unity and broad prosperity for all of our citizens

"I want to thank Paul Coverdell for leading the fight to improve our primary and secondary schools. The Coverdell Amendment is the only tax relief provision under consideration that would address the profound crisis that confronts our elementary and high schools.

I fully endorse Senator Coverdell's initiative and urge President Clinton to withdraw his opposition and, instead, embrace this important education reform"

Alveda Celeste King

ALVEDA CELESTE KING
Chairman & Founder

KING FOR AMERICA INC.

Corporate Office
1776 Peachtree Street
Suite 205 South
Atlanta GA 30309
(404)262-6996
National Number
(800)205-5776
Regional Office
424 Madison Avenue
9th Floor Suite 900
New York NY 10017

Alveda Celeste King

Alveda Celeste King is Founder and Chairman of King for America Inc. The purpose of this organization is to assist people in enriching their lives spiritually, personally, mentally and economically.

Ms. King was born in Atlanta, Georgia to the late Rev. Alfred King I., and Naomi B. King on January 22, 1951. She is the granddaughter of Dr. Martin Luther King Sr. And is the niece of the late Dr. Martin Luther King. Jr.

Ms. King spent her early part of her childhood in Birmingham, Alabama where her family's home was bombed in 1963. It was this event that embarked Ms. King's active involvement on the Civil Rights Movement. Ms. King participated in peaceful demonstrations and nonviolent sit-ins with her uncle and father during the peak of the Civil Rights Movement.

Ms. King is a graduate of Georgia State University in the field of journalism with a minor in sociology. She continued her education at the National Center of Paralegal Training and at Central University of Michigan, where she received M.A. degree in Business Management.

Ms. King has been an active member of the Atlanta community while maintaining her teaching career at Atlanta Metropolitan College and raising her six children: Jarrett, Eddie III, Celeste, John, Jennifer and Joshua. She has served as editor for the King Center newsletter. She is also a member of numerous community organizations including: Martin Luther King, Jr. Center for Nonviolent Social Change , The Southwest Federation of Associated Discipline and the Christian Writers Guild.

In 1978, Ms. King was elected to the Georgia Legislature as a Representative. She was re-elected in 1980. During her four years of service to the state, Ms. King served on committees on education, human relations, natural resources and on the Marta Board which is Atlanta's transit system.

An established author, Ms. King has published several books, The Arab Heart, Images, Amazing Grace and I Don't Want Your Man, I Want My Own. She is a civil- rights activist who believes that faith in God and in one's self is the key to positive action.

Office of the House Majority Leader

For immediate release --
July 30, 1997

Contact: Michele Davis
(202) 225-6007

House Majority Leader Dick Armey made the following statement about the President's letter (attached) declaring that allowing families to use IRA savings for K-12 education expenses would provoke a veto of the entire tax relief package:

"I'm disappointed that the President would veto the $500-per-child tax credit and his HOPE scholarships simply to deny families the freedom to save tax-free for K-12 education expenses. What is the point of making two years of college more accessible if we do nothing to help prepare children for college? Abandoning our children to poor quality education until they reach age 18, and then provide 2 years of college to teach then what they should already know is simply unfair."

-- 30 --

`(B) Special rule for homeschooling.--Scuh term shall include expenses described in subparagraph (A) required for education provided for homeschooling if the requirements of any applicable State or local law are met with respect to such education.

`(C) School.--The term `school' means any school which provides elementary education or secondary education (through grade 12), as determined under State law.

`(c) Tax Treatment of Distributions.--

`(1) In general.--Any amount paid or distributed shall be includible in gross income to the extent required by section 529(c)(3) (determined as if such account were a qualified tuition program and as
if qualified higher education expenses include qualified education expenses).

`(2) Special rules for applying estate and gift taxes with respect to account.--Rules similar to the rules of paragraphs (2), (4), and (5) of section 529(c) shall apply for purposes of this section.

`(3) Additional tax for distributions not used for educational expenses.--

`(A) In general.--The tax imposed by section 529(f) shall apply to payments and distributions from
an education individual retirement account in the same manner as such tax applies to qualified tuition
programs (as defined in section 529), except that section 529(f) shall be applied by reference by qualified education expenses.

`(C) No part of the trust assets will be invested in life insurance contracts.

`(D) The assets of the trust shall not be commingled with other property except in a common trust
fund or common investment fund.

`(E) Upon the death of the account holder, any balance in the account will be distributed as required
under section 529(b)(8) (as if such account were a qualified tuition program).

`(F) The account becomes an IRA Plus as of the date the account holder attains age 30 (and meets
all requirements for an IRA Plus on and after such date), unless the account holder elects to have sections 529(b)(8) apply as of such date (as if such account were a qualified tuition program).

`(2) Qualified education expenses.--

`(A) In general.--The term `qualified education expenses' means--

`(i) qualified higher education expenses (as defined in section 529(e)(3), and

`(ii) in the case of taxable years beginning after December 31, 2000, qualified elementary and secondary education expenses (as defined in paragraph (5)).

`(B) Qualified tuition programs.--Such term shall include amounts paid or incurred to purchase tuition credits or certificates, or to make contributions to an account, under a qualified tuition program (as defined in section 529(b)) for the benefit of the account holder.

`(3) Eligible educational institution.--The term `eligible educational institution' has the meaning given such term by section 529(e)(5).

`(4) Account holder.--The term `account holder' means the individual for whose benefit the education individual retirement account is established.

`(5) Qualified elementary and secondary education expenses.--

`(A) In general.--The term `qualified elementary and secondary education expenses' means tuition,
fees, tutoring, special needs services, books, supplies, equipment, transportation, and supplementary
expenses required for the enrollment or attendance at a public, private, or sectarian school of any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section
151.

COVERDELL (AND OTHERS) AMENDMENT NO. 574
(Senate - June 27, 1997)

[Page: S6766]

Mr. COVERDELL (for himself, Mr. Abraham, Mr. Coats, Mr. Craig, Mr. Santorum, and Mr. Ashcroft) proposed an amendment to the bill, S. 949, supra, as follows:

On page 19, between lines 14 and 15, insert:

`(D) Adjustment.--The Secretary shall reduce the dollar amounts otherwise in effect under this paragraph for any calendar year to the extent necessary to increase Federal revenues by the amount
the Secretary estimates Federal revenues will be reduced by reason of allowing distributions from education individual retirement accounts under section 530 to be used for qualified elementary and
secondary education expenses described in section 530(b)(2)(A)(ii).'

On line 64, beginning with line 8, strike all through page 67, line 15, and insert:

`(1) Education individual retirement account.--The term `education individual retirement account' means a trust created or organized in the United States exclusively for the purpose of paying the qualified education expenses of the account holder, but only if the written governing instrument creating the trust meets the following requirements:

`(A) No contribution will be accepted--

`(i) unless it is in cash,

`(ii) after the date on which the account holder attains age 18, or

`(iii) except in the case of rollover contributions, if such contribution would result in aggregate contributions for the taxable year exceeding the sum of--

`(I) $2,000, plus

`(II) the amount of the credit allowable under section 25A for the taxable year for 1 qualifying child.

`(B) The trustee is a bank (as defined in section 408(n)) or another person who demonstrates to the
satisfaction of the Secretary that the manner in which that person will administer the trust will be consistent with the requirements of this section.

Coverdell Amendment--Summary

This amendment in the Senate reconciliation bill (S. 949) would allow taxpayers to establish an "education individual retirement account" to pay the "qualified education expenses" of their dependents. Non-deductible contributions to the account would be limited to $2,000 per year (plus the amount of the applicable child tax credit) until the dependent reaches 18. Income from the account would accumulate tax-free, and withdrawals from the account would be tax-free so long as they are used for qualified education expenses. When the dependent reaches 30, the education individual retirement account would become a regular IRA.

Beginning January 1, 2001, qualified education expenses would include, in addition to higher education expenses, "qualified elementary and secondary education expenses" defined as "tuition, fees, tutoring, special needs services, books, supplies, equipment, transportation, and supplementary expenses required for the enrollment or attendance at a public, private, or sectarian school." The expenses of home schooling the dependent would also be allowed as a qualified expense "if the requirements of any applicable State or local law are met with respect to such education."

Q Another question on Coverdell. I just got handed some wire copy that says that the President specifically, in a conversation with Trent Lott and Gingrich last night, told them that he would veto it.

MR. MCCURRY: I think we put out the President's letter. We told Senator Lott and the Speaker that -- in working out the final agreement, I strongly oppose the Coverdell amendment; I would veto any tax package that would undermine public education by providing tax benefits for private and parochial school expenses.

We had some of our team on the Hill until about 10:30 p.m. last night, working through what we would euphemistically describe as drafting issues.

Q Did the President personally call the Speaker last night to deliver that?

MR. MCCURRY: He called the Speaker after that message had been delivered, but mostly to compliment the Speaker on the work that had been done to clean up the remaining issues on the bill so it could go to final consideration today.

Q Did he mention Coverdell in the conversation?

MR. MCCURRY: It was in the past tense at that point.

Q If I could follow on what he's asking, you came away from last night's meeting feeling confident that the Coverdell amendment would not end up in the legislation?

MR. MCCURRY: It's not in the legislation that's being considered now.

Q It's being considered, but you felt confident after the meeting that it would not be a part of the legislation?

MR. MCCURRY: It's not being considered unless he offers it as a separate amendment. It will be opposed by the -- it will be made clear by the conferees that it's not part of the final agreement reached by the negotiators.

Q Is the President threatening to veto the tax plan if it includes the Coverdell amendment on school vouchers?

MR. MCCURRY: He pointed out his strong objections and that is not included in the agreement.

Q But if it's added later, he would veto?

MR. MCCURRY: It's not going to be added. The President would have strongly opposed any effort, as he always has, any effort to take taxpayer funds or public -- or tax preferences or subsidies and use them to subsidize private education. That's long been his view. That's been his view on vouchers. And this opposition to the Coverdell amendment was consistent with those long-standing views.

Press Guidance on the Coverdell Amendment

Background

The Coverdell Amendment would have allowed parents to withdraw funds from an IRA tax-free to pay for tuition at public, private, or sectarian elementary and secondary schools. In addition to tuition, the amendment would have provided a tax subsidy for tutoring, books and supplies, equipment, transportation and supplementary expenses related to education.

The provision was removed from the budget package at the Administration's insistence, and last night the President wrote the Republican leadership indicating that he "would veto any tax package that would undermine public education by providing tax benefits for private and parochial school expenses."

Suggested Response

Q: Today Sen. Coverdell held a press conference denouncing the President's threat to veto his proposal to provide tax benefits for K-12 schooling, including private and parochial schools. How can you explain the President's position?

A:

- This is consistent with the President's long-standing position on private school vouchers. As the President's letter indicated, the Coverdell provision would have undermined public schools, where the vast majority of the nation's students attend.
- The Coverdell Amendment would have little practical benefit for families with students in public elementary and secondary schools. Instead, these tax provisions would have primarily subsidized private school tuition.
- The revenue lost from the amendment could be much better spent on efforts to improve our public schools, such as repairing crumbling buildings.
- In addition, the amendment would have covered almost any expense even remotely connected to the costs of K-12 education. This would open the door to abuse, as some would try to claim a subsidy for items not truly necessary or directly related to education.

Vouchers/Coverdell Amendment

THE WHITE HOUSE
WASHINGTON

From the Office of:

The Domestic Policy Council

Elena Kagan
Deputy Assistant to the President
for Domestic Policy

TO: Bill Kincaid

FAX: 67028

PHONE:

PAGES: 2

MESSAGE:

Please call (202) 456-5584 if there are any problems with the transmission.

Bill — send it as [illegible] edited Thanks Gene

Press Guidance on the Coverdell Amendment

Background

The Coverdell Amendment would have allowed parents to withdraw funds from an IRA tax-free to pay for ~~for~~ tuition at public, private, or sectarian elementary and secondary schools. ~~In addition to tuition, the amendment would have provided a tax subsidy for tutoring, books and supplies, equipment, transportation and supplementary expenses related to education.~~ KET

The provision was removed from the budget package at the Administration's insistence, and last night the President wrote the Republican leadership indicating that he "would veto any tax package that would undermine public education by providing tax benefits for private and parochial school expenses."

Suggested Response

Q: Today Sen. Coverdell held a press conference denouncing the President's threat to veto his proposal to provide tax benefits for K-12 schooling, including private and parochial schools. ~~Given how hard the President pushed for tax benefits for postsecondary education,~~ how can you explain the President's position?

A:

- This is consistent with the President's long-standing position on private school vouchers. As the President's letter indicated, the Coverdell provision would have undermined public ~~education.~~ schools, which the vast majority of the nation's students attend.
- The Coverdell Amendment would have little practical benefit for families with students in public elementary and secondary schools, ~~where the vast majority of students attend, and which do not charge tuition~~. Instead, these tax provisions would have primarily subsidized private school tuition.
- The revenue lost from the amendment could be much better spent on efforts to improve our public schools, such as repairing crumbling buildings.
- In addition, the amendment would have covered almost any expense even remotely connected to the costs of K-12 education, ~~including high-priced running shoes, cellular phones, and camcorders.~~ This would ~~create a very real "loophole" for using funds in ways that were not intended and have opened the door to abuse.~~ open the door to abuse, as some would ~~[illegible]~~ try to claim a subsidy for items not truly necessary or directly related to education.

Coverdell Amendment

Sandra_Cook @ ed.gov
07/18/97 08:22:00 AM

Record Type: Record

To: William R. Kincaid, Jonathan H. Schnur/OVP @ OVP

cc:

Subject: Coverdell

Talking Points on Coverdell Amendment

The Coverdell Amendment would allow parents to contribute $2,000 per year to an educational individual retirement account for each child until the child reaches 18. Funds in the account would be tax free and could be used for tuition at public, private, or sectarian elementary and secondary schools. In effect, Coverdell is using the tax system to subsidize families who want to send their children to private schools, with the subsidy to the vast majority of tuition who for the children K-12 limited

as opposed to postsecond educat; long-term gov

(1)

The Coverdell Amendment ~~is "regressive" because it~~ would be of little value to parents ~~struggling to pay~~ for day to day expenses. The accounts would benefit only those families that already have the capacity to save substantial sums on a regular basis.

(2)

From an economic standpoint, the tax- free accumulation of funds would lead to significant revenue loss--money that could be used for direct services to kids who need them most.

The Coverdell Amendment is a "tax windfall" that would largely subsidize expenses that parents would pay anyway. In addition to tuition, the amendment would provide a tax subsidy for ~~tutoring~~, books and supplies, equipment, transportation and supplementary expenses related to education.

"Qualified expenses" are defined so broadly that parents might justify almost any expense even remotely connected to the costs of K-12 education, including high-priced running shoes, cellular phones, and camcorders. This would create a very real "loophole" for people to use funds in ways that were not intended.

(3)