Tax Plan

TAX CUT ROLLOUT PLAN

This plan spells out our tax rollout strategy and the key tasks that must be completed on Sunday, Monday and Tuesday. The tax rollout serves to achieve the following two goals: (1) frame President Clinton's plan as a new offer ("Clinton Unveils Tax Cut Plan") and (2) as the Conference negotiations approach, shift the focus from the differences between the House plan and the Senate plan to the differences between the President's plan and the more regressive Congressional plans.

SATURDAY/SUNDAY

Complete and Be Prepared to Distribute Final Paper

- Talking points
- Fact sheet and summary table
- Detailed revenue table
- Distribution table (comparison)
- Examples of how the tax cuts impact real people
- Internal Q&A

Weekend Press

<u>Sunday Show Strategy</u>:

1. *Do we make news and in what context?*
2. *Brief Sunday show pundits*

MONDAY/TUESDAY

POTUS ANNOUNCEMENT -- TBD for Monday morning

BUDGET TEAM

➪ ***Press Briefing***

- Budget/Economic team briefs press corps Monday on tax plan details

- Press office recommends waiting until noon so that White House press corps can hear live feed from filing center in Boston

➪ ***Regional Press Strategy***

- Media Affairs targets radio and television in top markets and assigns budget team, Cabinet members, and senior White House staff to cover

- Regional newspapers

  -- Separate conference calls with regional editorial writers by Rubin, Summers, or Raines (Tuesday)
  -- Roundtable with bureau chiefs/political editors of major regional papers on Tuesday (Sperling)
  -- Editorial board mailing to top 100 regional newspapers with charts and fact sheets (to go out Monday)

- Specialty Press

➪ ***National Press Strategy/Calls***

Sec. Rubin
- Network pundits: Tim Russert, Cokie Roberts, Bob Schieffer

Frank Raines
- Network correspondents: David Bloom, Rita Braver, and John Donvan.
- Editorial boards: LA Times and USA Today

John Hilley
- Hill correspondents: Lisa Myers, John Cochran
- Congressional budget reporters: Eric Pianin (Post); Christopher Georges (WSJ), David Rogers (WSJ), Adam Clymer (NY Times)

Gene Sperling
- Wires: Terry Hunt or Alan Fram of Associated Press

- Budget reporters: Dick Stevenson (NY Times), Clay Chandler (Post), Jackie Calmes (WSJ), Bill Nichols or Bill Welch (USA Today), and Art Pine or Jonathan Peterson (LA Times)
- Editorial boards: Weinstein (NY Times) and Peter Milius (Washington Post)

Rahm Emanuel
- Wires/CNN: John King and/or Wolf Blitzer at CNN
- White House political reporters: John Harris (Post), Alison Mitchell (NY Times), Elizabeth Shogren (LA Times), and Hilary Stout (WSJ)
- Columnists: E.J. Dionne (Post.)

Larry Summers
- Wires: Larry McQuillen or Arshad Mohammad of Reuters
- Magazines and columnists: Michael Duffy (Time), Jim Fallows (US News), Evan Thomas (Newsweek), and Owen Ullman (Business Week) -- **could call later in the week**; Gerry Seib (Wall Street Journal)

Janet Yellen
- Magazines and columnists: Peter Passell (Times), Jonathan Alter (Newsweek) and John Judis (New Republic)

Jack Lew
- Magazines and columnists: Matt Miller (US News) and Susan Denzter (Business Week.)

➪ ***Validation Strategy***

- Sperling calls Bob Greenstein, Al From
- Summers calls Robert McIntyre (Citizens for Tax Justice)
- Riley calls higher education leaders, including Ikenberry, Munitz, David Pierce, David Warren, and others
- Riley calls regional college presidents

CABINET ROLLOUT (Marshall; Higgins; Silverman; McHugh)

- Cabinet Affairs faxes talking points and tax plan packet to all Cabinet members and subcabinet on Monday morning
- Cabinet Affairs sets up conference call with agency communications directors and Chiefs of Staff
  - -- Lew, Baer, Marshall conduct tax package briefing on conference call
  - -- Silverman and McHugh assign list of key regional media markets

- Carol Browner and Andrew Cuomo conduct media/events around Brownfields, other urban/enviro issues with mayors

GOVERNORS AND MAYORS (Ibarra)

- Ibarra and Intergovernmental team make key first calls to mayors and governors
- Organize separate conference calls for key governors, mayors, and county officials (Sperling and Lew will brief them on tax package)
- Hook mayors into events conducted by Carol Browner and Andrew Cuomo on Brownfields, other urban/enviro issues
- Provide specific one-pager to mayors and governors on tax package (e.g., Brownfields, CDFI)

CONSTITUENCIES: Labor, Minority and Ethnic (Echaveste)

- Call Major Labor Leaders -- Podesta, Echaveste, and others coordinate calls regarding overall tax package; paper faxed to appropriate labor leaders

- Other Calls

  -- Echaveste develops list of additional calls for senior White House staff to make

EDUCATION TEAM (Smith; Longanecker; Shireman)

- Call Education Leaders on higher education tax cuts

  -- Gov. Miller
  -- Barry Munitz (Smith/Longanecker)
  -- Stan Ikenberry (Smith/Longanecker)
  -- Ed Elmendorf (Shireman)
  -- David Pierce (Shireman)
  -- Cornelius Pings (Smith/Longanecker)
  -- David Warren (Smith/Longanecker)
  -- Student groups (Shireman)

- Call Key Education Reporters

  -- Robert Greene, AP (Smith, Longanecker)
  -- Applebome, NY Times (Smith, Shireman)
  -- Richard Whitmire, Gannett (Smith, Longanecker)
  -- Paul Nyhan, Bloomberg (Smith, Longanecker)
  -- Doug Lederman, Chronicle of Higher Education (Shireman)
  -- Rebecca Weiner, Education Daily (Shireman)

Tax package

National Association of Graduate-Professional Students, Inc.

NEWS
RELEASE

June 11, 1997

Contact: Bryan Hannegan, (714) 824-1133
Kevin Boyer, (847) 256-1562
Jonathan Wharton, (202) 223-3791

Tax Bill Assaults Graduate Teachers and Researchers

"It feels like *deja vu* all over again," says national student group.

Washington, DC . . . Rep. Bill Archer (R-TX), Chair of the House Ways and Means Committee, released his tax proposals this week and graduate students throughout the U.S. have found themselves, once again, in the crosshairs of Congressional Budget Cutters. This time, however, the tax committee has targeted graduate teaching and research assistants, graduate students who teach up to 40% of the courses on some of the nation's largest university campuses and conduct a large portion of the nation's technological, defense, medical, engineering, chemical and other research.

"This isn't tax relief that will help make education more accessible," said Bryan Hannegan, a graduate student at the University of California/Irvine and President of the National Association of Graduate-Professional Students (NAGPS). "The proposed changes in the tax code could push people out of graduate school due to costs, could force universities to dramatically increase teaching and research assistant salaries, could increase tuition for undergraduates throughout the US, and could dramatically reduce the value of our nation's research dollars - much of it federal money."

The proposed provision would eliminate a subsection 117(d) of the tax code that presently allows universities to waive the tuition of its graduate teaching and research assistants in return for the services provided by the student. The tax code specifically excludes this tuition waiver from income tax. "This makes sense since the student never even sees the actual money," said Hannegan. The provision is widely used by universities to make graduate school affordable to students, to recruit highly-qualified graduate students, and to lower labor costs, thus keeping tuition lower.

- more -

825 Green Bay Road • Suite 270 • Wilmette, IL 60091 • (847) 256-1562 • FAX (847) 256-8954

"Eliminating the exclusion from tax of these tuition waivers would have a catastrophic effect on students, as well as the entire education system," said Kevin Boyer, NAGPS Executive Director. In some cases, students receive a $10,000 stipend per year for serving as a teaching assistant. Tuition waivers can have a value of up to $20,000 per year at some institutions. The Chairman's tax provision would force the student to pay taxes on $30,000 in "income," despite the fact that the student would only have $10,000 in "cash income" from which to pay the tax. If a student pays 20% of his/her income in tax, the "stipend" has a after-tax-value of $8,000 now. Paying 20% of $30,000 ($6,000) reduces the $10,000 "stipend" to an after-tax-value of $4,000 - a 50% cut in net income.

Boyer notes that three other provisions in the tax code also target graduate/professional students. 1) The HOPE scholarships will be available only to those in the first 2 years of post high school education; 2) The deduction for higher education expenses specifically excludes graduate school; and, 3) the extension of the Employer Provided Educational Assistance portion of the tax code (Section 127) applies only to undergraduate courses.

In addition, the Student Loan Interest Deduction does not appear in the Chairman's tax proposal, despite promises by both presidential campaigns in 1996 and widespread support from both sides of the aisle in the Congress.

"Graduate students should feel betrayed by this tax proposal," said Boyer. "Not only does it contain odious provisions that are sure to make graduate school unaffordable for millions of Americans throughout the next decade, but it fails to deliver on promises made by Congressional Republicans during the last election campaign. This tax proposals smells more and more like budget proposals in 1995 in which students were targeted for $30 billion in budget cuts. Cutting funding to students - at all levels was a bad idea then and it is a bad idea now. We should be focusing on improving access to graduate education, concentrating on spiraling graduate debt, and encouraging all forms of investment in graduate education by students, universities and employers. This tax proposal is a dramatic step in the wrong direction."

NAGPS Board members and students will take their message to Congress next week during a June 19 Lobby Day in Washington, DC. More information about the NAGPS Lobby Day, including press activities, may be found at the NAGPS web site at http://www.nagps.org/NAGPS/ under "Student Aid Awareness" links.

A copy of the Chairman's mark can be found on the web at:
http://gop.house.gov/taxrelief/060997Description.htm

Provisions identified above can be found in sections

* II-A-1 Chairman excludes grad students from HOPE)
* II-A-2 Chairman excludes grad students from education tax deductions)
* II-B-1 Chairman taxes employer provided educational assistance for graduate students)
* II-B-4 Chairman taxes graduate teaching/research assistant tuition waivers).

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Tax package

All Cot Dpe Staff

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

June 11, 1997

SECRETARY OF THE TREASURY

The Honorable Bill Archer
Chairman, Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515-4005

Dear Bill:

I have reviewed the Chairman's Mark you released earlier this week, providing the details of the tax portion of the bipartisan budget agreement. The President is eager to sign legislation implementing the agreement into law, but in its present form, the proposal you have put forth does not meet the test of fairness to working families and has other serious problems. Over 35 percent of the benefits from your tax cuts go to families with incomes in the top five percent of the income distribution, and 68 percent of the benefits go to families in the top 20 percent. I have included preliminary Treasury distribution tables for your package after this letter.

Your bill will reduce the value of the $500 child credit for millions of low income families by requiring a family to take the child credit only after the earned income tax credit is taken against their tax liability. A family with two children and $25,000 of income, for example, would receive no tax relief from the child credit under your proposal. Under the President's plan, this family would get $1,000, the same as a family that earned twice as much. We would favor a refundable child credit that better targets low and middle income working families. The credit should be indexed for inflation. We would also permit taxpayers to place their child credit into a tax-favored savings account to finance their children's college education. In combination with our tuition deduction, this proposal would allow families to save and pay for college tax-free.

The proposed legislation singles out six million families who pay for child care and gives them a smaller tax cut. Beginning in 2002, families who receive a tax credit for their child care expenses would lose 50 cents for each dollar of their child credit. This provision unfairly reduces tax relief for working parents who are struggling to maintain a decent standard of living and to pay for child care. For example, a family with two working parents making $45,000 who pay for child care for their two children would seemingly be eligible for a $1,000 child tax credit. But under the proposed legislation, they would also lose $480 of their child tax credit. Furthermore, because dependent care constitutes a cost of earning income, the child and dependent care credit should not be phased out.

The education package falls nearly $13 billion short of the agreed goal of $35 billion in tax cuts for education, which are consistent with the HOPE scholarship and tuition deduction proposals in the President's FY98 Budget. Furthermore, as compared to the President's proposals, it directs more benefits toward upper-income families while reducing the benefits to lower-income families. It introduces serious administrative complications and is less effective at easing the burden of college attendance for working families.

- The HOPE credit would be cut to 50 percent of tuition expenses, halving the value of education benefits for millions of students attending community colleges and other low-cost institutions.

- Unlike the broadly available tuition deduction in the President's package, the tuition deduction in your proposal would be available only if education expenses are paid from certain education savings plans. Hence, no help is given beyond the first two years of higher education to low-income students and students who must borrow to pay tuition. In addition, your proposal does much less to encourage lifelong learning, one of the central objectives of the President's package.

- Tax-free savings offered through new education investment accounts and the opportunities for tax-deferred saving through private prepaid tuition plans are overly generous to upper income families, since they have neither income limits nor contribution limits. This would give high-income taxpayers an incentive to use these vehicles to save tax-free, even if they never intend to use the savings for education expenses. In the early years, the benefits for education will only be available to those who already have large reserves of cash to deposit in these accounts, not to others who can contribute only modest amounts each year.

The American Dream IRAs are not sufficiently targeted. Contributions could be made to these back-loaded IRAs without any income limits, which would surely result in a substantial shifting of existing savings into tax-preferred investment vehicles by high-income taxpayers, rather than creating new savings.

The proposal to index certain capital assets and lower the rate of tax on capital gains provides a double benefit to taxpayers, substantially overcompensating them for the effects of inflation. The package would disproportionately benefit the wealthy over lower- and middle-income wage earners. The package also has an explosive revenue cost in years after 2007, possibly jeopardizing all our important work to balance the budget. In addition, the indexing proposal is enormously complex and difficult to administer. To quote the New York State Bar Association, indexing is "fundamentally flawed" and would create problems that would "overwhelm taxpayers and the IRS."

We want a capital gains tax cut that will help the economy and will not explode in cost. Therefore, we propose an expansion of the existing exclusion for long-term equity investments in smaller businesses. The expansion of the capital gains incentive for small businesses will help more start-ups get off the ground, and ensure that America continues to lead the world in high technology.

At a time when business conditions are strong and profits are at their highest shared of GDP in two decades, you have proposed to spend $34 billion over 10 years to eliminate the corporate alternative minimum tax. This provision would return us to the days when some of the largest and most profitable corporations paid zero income taxes.

Your plan contains other provisions that raise serious concerns. The safe-harbor for independent contractor status would permit employers to avoid essential worker protections. At a time when we are trying to expand health and pension coverage, this proposal could lead to widespread shifting of employees to independent contractor status, resulting in loss of worker protections such as pension and health coverage, and consequently wage and hour protections, unemployment insurance benefits and compensation for work-related injuries.

Under your proposal, Indian tribes would be subject to the unrelated business income tax on all income earned from commercial activities. Contrary to long-established U.S. policy, this tax fails to respect the sovereignty of Indian tribes and their special status as domestic dependent nations. This lack of respect for sovereignty is particularly apparent in the difference the proposal would create between tribes and States. In addition, the proposal would be extremely difficult to administer.

We are very disappointed that your proposal excluded a number of important initiatives for the President's FY 1998 Budget that were included in the budget agreement. For example, the Nation's mayors and urban and rural communities have been extremely supportive of the President's brownfields provision, which provides a tax incentive for environmental cleanup and encourages economic development in formerly contaminated areas. Your proposal excludes this provision. And while tax relief is provided for the District of Columbia, no additional Empowerment Zones or Enterprise Communities for the rest of the country are provided.

In addition, no provision is included to stimulate investments in Community Development Financial Institutions to revitalize distressed neighborhoods around the country. No provision is included for equitable tolling, which protects a taxpayer's rights when he or she is incapacitated, or for restructuring our Nation's affordable housing portfolio.

Your bill also includes a provision to raise the debt ceiling. We believe that it should be included in the other reconciliation bill.

In summary, we think this package disproportionately benefits the most well off in society at the expense of working families. Given the tough choices that need to be made within this tax package, we think it is unwise, for example, to eliminate the corporate AMT, while at the same time denying tax relief provided by the child credit to millions of hard-working taxpayers with children who receive the earned income tax credit. Moreover, the provisions in the package that drive up costs beyond the ten year budget window, are those that most advantage high-income taxpayers.

We look forward to working with the Congress to design a tax package that helps working families pay for education, buy and sell homes, and raise their children. We are committed to achieving a tax package that is fair to all Americans.

Sincerely,

Robert E. Rubin

Attachments

Tax package

The Education Trust

June 16, 1997

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

Dear Chairman Roth,

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

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

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

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

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

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

The Education Trust, Inc. 1725 K Street, NW, Suite 200 Washington, DC 20006 Phone (202) 293-1217 Fax (202) 293-2605

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

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

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

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

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

Tax Package / Budget Agreement

Robert M. Shireman
07/31/97 01:40:31 AM

Record Type: Record

To: See the distribution list at the bottom of this message

cc: pauline_abernathy @ ed.gov @ inet, tom_corwin @ ed.gov @ inet, susan_frost @ ed.gov @ inet
Subject: Education tax items

The bill is now available (on the Speaker's web site). The only surprise in education is an increase in the arbitrage rebate exception for government bonds used for financing construction of public school facilities. This was something that we'd been lobbied to do. I'll have to ask Tanya, Tom Corwin, Kathy Stack, Mozelle how significant it is to the overall school construction scene?

Other details on education that were not in the one-pager (see end for Rangel):

--HOPE is indexed (both $1000 amounts, and the income phase-outs) after 2001.

--The 20% credit is called the "Lifetime Learning Credit" (and it is $10,000 after 2002).

--Allowed withdrawals from education IRAs and pre-paid tuition plans are set at the cost-of-attendance (as defined in the Higher Education Act) for the institution minus non-taxable grant aid (refers to the same list that offsets tuition and fees in HOPE).

--The pre-paid tuition stuff is too complicated for this hour, maybe for any hour (Pauline's assistance is welcomed).

--Sec. 127 for undergrads is through May 31, 2000.

--Student loan interest deduction starts in 1998 at $1000, rises $500/year until reaches $2500. Available for loans (government or private, student or parent) made prior to 1998 to the extent that the borrowers are still in the first five years of repayment. The income phase-outs are indexed after 2002. Loan amounts eligible for the deduction are limited to cost-of-attendance minus grant aid. It is above the line.

--Tax deduction for donations of computer technology or equipment (if no more than 2 years old) to K-12 schools, 1998 and 1999 only.

ZONE ACADEMY BONDS:

--$400 million/year in 1998 and 1999 in tax credits allocated to states (based on population below the poverty line) for certain expenses (including renovation, but not construction) of public school "academies" in empowerment zones and empowerment communities (if 35% free/reduced price lunch at the school). The requirements for being academy were eased somewhat from Rangel's original bill. I think we should use this to expand school-to-work in EZ/ECs. The text of the provision:

"PART IV--INCENTIVES FOR EDUCATION ZONES

"Sec. 1397E. Credit to holders of qualified zone academy bonds."

"SEC. 1397E. CREDIT TO HOLDERS OF QUALIFIED ZONE ACADEMY BONDS.

"(a) Allowance of Credit.--In the case of an eligible taxpayer who holds a qualified zone academy bond on the credit allowance date of such bond which occurs during the taxable year, there shall be
allowed as a credit against the tax imposed by this chapter for such taxable year the amount determined under subsection (b).

"(b) Amount of Credit.--

"(1) In general.--The amount of the credit determined under this subsection with respect to any qualified zone academy bond is the amount equal to the product of--

"(A) the credit rate determined by the Secretary under paragraph (2) for the month in which such bond was issued, multiplied by

"(B) the face amount of the bond held by the taxpayer on the credit allowance date.

"(2) Determination.--During each calendar month, the Secretary shall determine a credit rate which
shall apply to bonds issued during the following calendar month. The credit rate for any month is the
percentage which the Secretary estimates will permit the issuance of qualified zone academy bonds
without discount and without interest cost to the issuer.

"(c) Limitation Based on Amount of Tax.--The credit allowed under subsection (a) for any taxable
year shall not exceed the excess of--

"(1) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section
55, over

"(2) the sum of the credits allowable under part IV of subchapter A (other than subpart C thereof, relating to refundable credits).

"(d) Qualified Zone Academy Bond.--For purposes of this section--

"(1) In general.--The term `qualified zone academy bond' means any bond issued as part of an issue
if--

"(A) 95 percent or more of the proceeds of such issue are to be used for a qualified purpose with respect to a qualified zone academy established by an eligible local education agency,

"(B) the bond is issued by a State or local government within the jurisdiction of which such academy
is located,

"(C) the issuer--

"(i) designates such bond for purposes of this section,

"(ii) certifies that it has written assurances that the private business contribution requirement of paragraph (2) will be met with respect to such academy, and

"(iii) certifies that it has the written approval of the eligible local education agency for such bond issuance, and

"(D) the term of each bond which is part of such issue does not exceed the maximum term permitted
under paragraph (3).

"(2) Private business contribution requirement.--

"(A) In general.--For purposes of paragraph (1), the private business contribution requirement of this paragraph is met with respect to any issue if the eligible local education agency that established
the qualified zone academy has written commitments from private entities to make qualified contributions having a present value (as of the date of issuance of the issue) of not less than 10 percent of the proceeds of the issue.

"(B) Qualified contributions.--For purposes of subparagraph (A), the term `qualified contribution' means any contribution (of a type and quality acceptable to the eligible local education agency) of--

"(i) equipment for use in the qualified zone academy (including state-of-the-art technology and vocational equipment),

"(ii) technical assistance in developing curriculum or in training teachers in order to promote appropriate market driven technology in the classroom,

"(iii) services of employees as volunteer mentors,

"(iv) internships, field trips, or other educational opportunities outside the academy for students, or

"(v) any other property or service specified by the eligible local education agency.

"(3) Term requirement.--During each calendar month, the Secretary shall determine the maximum term permitted under this paragraph for bonds issued during the following calendar month. Such maximum term shall be the term which the Secretary estimates will result in the present value of the
obligation to repay the principal on the bond being equal to 50 percent of the face amount of the bond. Such present value shall be determined using as a discount rate the average annual interest rate of tax-exempt obligations having a term of 10 years or more which are issued during the month.
If the term as so determined is not a multiple of a whole year, such term shall be rounded to the next
highest whole year.

"(4) Qualified zone academy.--

"(A) In general.--The term `qualified zone academy' means any public school (or academic program
within a public school) which is established by and operated under the supervision of an eligible local education agency to provide education or training below the postsecondary level if--

"(i) such public school or program (as the case may be) is designed in cooperation with business to
enhance the academic curriculum, increase graduation and employment rates, and better prepare students for the rigors of college and the increasingly complex workforce,

"(ii) students in such public school or program (as the case may be) will be subject to the same academic standards and assessments as other students educated by the eligible local education agency,

"(iii) the comprehensive education plan of such public school or program is approved by the eligible
local education agency, and

"(iv)(I) such public school is located in an empowerment zone or enterprise community (including any such zone or community designated after the date of the enactment of this section), or

"(II) there is a reasonable expectation (as of the date of issuance of the bonds) that at least 35 percent of the students attending such school or participating in such program (as the case may be)
will be eligible for free or reduced-cost lunches under the school lunch program established under the National School Lunch Act.

"(B) Eligible local education agency.--The term `eligible local education agency' means any local education agency as defined in section 14101 of the Elementary and Secondary Education Act of 1965.

"(5) Qualified purpose.--The term `qualified purpose' means, with respect to any qualified zone academy--

"(A) rehabilitating or repairing the public school facility in which the academy is established,

"(B) providing equipment for use at such academy,

"(C) developing course materials for education to be provided at such academy, and

"(D) training teachers and other school personnel in such academy.

"(6) Eligible taxpayer.--The term `eligible taxpayer' means--

"(A) a bank (within the meaning of section 581),

"(B) an insurance company to which subchapter L applies, and

"(C) a corporation actively engaged in the business of lending money.

"(e) Limitation on Amount of Bonds Designated.--

"(1) National limitation.--There is a national zone academy bond limitation for each calendar year. Such limitation is $400,000,000 for 1998 and 1999, and, except as provided in paragraph (4), zero thereafter.

"(2) Allocation of limitation.--The national zone academy bond limitation for a calendar year shall be allocated by the Secretary among the States on the basis of their respective populations of individuals below the poverty line (as defined by the Office of Management and Budget). The limitation amount allocated to a State under the preceding sentence shall be allocated by the State education agency to qualified zone academies within such State.

"(3) Designation subject to limitation amount.--The maximum aggregate face amount of bonds issued during any calendar year which may be designated under subsection (d)(1) with respect to any qualified zone academy shall not exceed the limitation amount allocated to such academy under paragraph (2) for such calendar year.

"(4) Carryover of unused limitation.--If for any calendar year--

"(A) the limitation amount for any State, exceeds

"(B) the amount of bonds issued during such year which are designated under subsection (d)(1)

with
respect to qualified zone academies within such State,

the limitation amount for such State for the following calendar year shall be increased by the amount
of such excess.

"(f) Other Definitions.--For purposes of this section--

"(1) Credit allowance date.--The term `credit allowance date' means, with respect to any issue, the last day of the 1-year period beginning on the date of issuance of such issue and the last day of each
successive 1-year period thereafter.

"(2) Bond.--The term `bond' includes any obligation.

"(3) State.--The term `State' includes the District of Columbia and any possession of the United States.

"(g) Credit Included in Gross Income.--Gross income includes the amount of the credit allowed to the taxpayer under this section."

(b) Conforming Amendments.--

(1) The table of parts for subchapter U of chapter 1 is amended by striking the last item and inserting the following:

"Part IV. Incentives for education zones.

"Part V. Regulations."

(2) The table of sections for part V, as so redesignated, is amended to read as follows:

"Sec. 1397F. Regulations."

(c) Effective Date.--The amendments made by this section shall apply to obligations issued after December 31, 1997.

Message Sent To:_______________________________

Tanya E. Martin/OPD/EOP
Michael Cohen/OPD/EOP
William R. Kincaid/OPD/EOP
Charles R. Marr/OPD/EOP
Jonathan A. Kaplan/OPD/EOP
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Jonathan H. Schnur/OVP @ OVP
Peter R. Orszag/OPD/EOP
Thomas A. Kalil/OPD/EOP

FY98 Reconciliation Bill
→ Tax letter /
Tax Package

FAX COVER

Education Branch
Executive Office of the President
Office of Management and Budget
Washington, D.C. 20503

TO: Mike Cohen

FAX NUMBER: 655 81

FROM: Kathy Stack

DATE: ______________ **TIME:** ______________

NUMBER OF PAGES: Cover + 11

Notes: Not for distribution outside EOP. (But please discuss with Mike S.)

Education Branch Fax Number: 202/395-4875

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

BW/BC's

Larry:
5-1596

TO: JACK LEW
JOE MINARIK
JOSH GOTBAUM
LISA KOUNTOUPES
LARRY HAAS
T.J. GLAUTHIER
GORDON ADAMS
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MARTHA FOLEY
GENE SPERLING
CHUCK MARR
ELLEN SEIDMAN
EMIL PARKER
JANET YELLEN
VICTORIA RADD
SYLVIA MATHEWS
JOHN PODESTA

DATE: July 3, 1997
FROM: Alice Shuffield

RE: Treasury Tax Letter for clearance

Attached is the final draft of Treasury's tax letter to the conferees. Please contact Alice Shuffield at 5-4790 by 11:30 this morning if you have any concerns.

Thank you.

DRAFT

Dear [conferee]:

We are pleased that substantial progress has been made toward implementing the terms of the historic bipartisan budget agreement between the President and the Congress. We look forward to continuing bipartisan cooperation as we work together to produce a tax-cut package that fulfills that agreement. To that end, I would like to share with you the Administration's views on major issues in conference on the tax portions of revenue reconciliation.

In general, as we have previously indicated, the Administration strongly believes that any tax-cut package must meet four basic tests to reflect sound policy. First, the tax cuts must be fiscally responsible by avoiding an explosion in revenue costs in later years. Second, the tax cuts must provide a fair balance of benefits for working Americans. Third, the tax cuts must encourage economic growth. Fourth, the tax package must reflect the terms of the bipartisan budget agreement, including a significant expansion of educational opportunities for Americans of all ages. Neither bill meets these tests.

While the Senate bill is an improvement over the House bill, both bills provide too little tax relief to middle-income families. In both the House and Senate bills, the middle sixty-percent of families receive just one-third of the tax cut; these families would receive twice as large a share under the President's proposal.

__Education Tax Incentives__

We are pleased that each bill contains a version of the President's HOPE scholarship proposal. Nonetheless, both the House and Senate bills are inconsistent with the bipartisan budget agreement because they fall far short of meeting the specific agreement of providing roughly $35 billion over five years of education incentives along the lines of the President's HOPE scholarship credit and tuition deduction proposals.[1]

While the HOPE Scholarship credit as modified in the Senate bill is an improvement over the version in the House bill, each bill significantly reduces the value of education benefits for millions of students attending low-cost institutions by cutting the percentage of expenses covered by the credit (50% in the House bill, 50% to 75% in the Senate bill).

Neither bill includes a widely available tuition deduction or credit to help beyond the first two years of higher education consistent with the tuition deduction in the President's budget proposal. We are particularly concerned that neither bill significantly promotes life-long learning, which we believe is a critical component of education for our changing economy. In addition, neither bill offers low-income students and students who work to pay tuition meaningful help beyond the first two years of higher education. Instead, the bills require taxpayers to have the funds available to put into savings in order to be entitled to any assistance other than for the first two years.

Moreover, the education IRAs and prepaid tuition account provisions of both bills fail to place sufficient limits on the income of contributors, the amounts contributed, and the uses of funds to ensure that the tax benefits go to those who need real relief from the costs of higher education. Under both bills, the tax-free saving offered by the education IRAs and prepaid tuition plans are overly generous to upper-income families relative to those of moderate means. We also have a major objection to the provision in the Senate bill that allows tax-free withdrawals from these accounts for primary and secondary school tuition, because it provides Federal subsidies to parents who send their children to private schools. Overall, as compared to the President's proposals, both packages direct more benefits toward upper-income families while reducing the benefits to lower-income families, particularly those who rely on their earnings to finance higher education.

Coverdell *

Administration Position:

HOPE Scholarship and 20 percent Tuition Credit: The Administration remains strongly committed to the principle that the education tax incentives must be fair, must genuinely expand educational opportunities for Americans, and must promote life-long learning. To accomplish these objectives, the Administration urges the conferees to adopt the HOPE Scholarship, which gives a credit of 100 percent of the first $1000 of tuition and fees, and 50 percent of the next $1000 in 1998 through 2002. Students must attend at least half time in the first two years of a post-secondary degree or certificate program. If a student is not eligible for the HOPE scholarship but is pursuing a postsecondary degree or certificate or is enrolled in classes to improve job skills, a 20-percent credit for tuition and fees up to $5,000 through 2000 and $10,000 thereafter should be granted.

This proposal furthers the Administration's education objectives in two ways: it lessens concerns about tuition inflation by limiting the marginal subsidy of the HOPE scholarship to 50 cents on the dollar (rather than dollar for dollar) for students with tuition between $1,000 and $2,000. It also increases the progressivity of the tuition deduction by converting it into a 20-percent credit.

Administration Position on Other Features in the Education Packages

In addition to providing $35 billion for the HOPE Scholarship and 20 percent tuition credit, the Administration believes that the tax package should do the following:

- Adopt proposals to aid K-12 public school construction (and other activities) in poor neighborhoods.

- Make permanent the exclusion of employer-provided educational assistance from taxable income and extend the exclusion to graduate education (Section 127).

- Adopt a student-loan interest deduction and a loan forgiveness exemption similar to that contained in the Senate bill.

- Provide tax incentives to help public elementary and secondary schools obtain up-to-date computer technology.
- Include a proposal to repeal the $150 million bond cap for new capital expenditures by private colleges and universities.

Child Credit

We are pleased that both the Senate and House bills include credits for families with children. We are deeply concerned, however, that relative to the President's proposals, the Senate bill denies the child credit to four million low-income, working families who earn less than $30,000, and the House bill denies the credit to five million of these families. These families pay significant payroll and other federal taxes, and deserve a child credit to help raise their children just as much as other families. Accordingly, we have a major objection to stacking any portion of the child credit after the earned income tax credit unless the child credit is refundable. We note that both the 1995 Balanced Budget Act passed by Congress and the legislation introduced by Majority Leader Lott (S.2) this year stacked the child credit before the EITC. In addition, we have a major objection to the provision in the House bill that would reduce tax benefits for many working families who, under current law, are entitled to a tax credit for their child-care expenses.

> **Administration Position**: Stack the child credit before the EITC. Allow the $500 child credit ($400 in 1998) for kids under 17 through 2002 and under 19 thereafter. Make the child credit refundable to the extent that the family's payroll taxes exceed their earned income tax credit. Adopt an optional Kidsave Account that allows parents to contribute up to the amount of the credit plus $500 per child to a nondeductible, backloaded IRA-type savings vehicle. Earnings could be distributed tax-free for a child's post-secondary education or purchase of a first home, or for the parent's retirement. The income limits would be the same as in the President's proposal (phased out between $60,000-$75,000 through 2000, and $80,000-$100,000 thereafter). The child credit and its income thresholds should be indexed for inflation.
>
> We note Senator Kohl's amendment to provide new incentives to expand the availability of licensed, accredited day-care facilities for working parents. Improving the quality and availability of child care for working families is an objective we share; the structure and cost-effectiveness of the proposal in the Senate bill requires further study.

Capital Gains Relief

We are pleased that both the Senate and House bills contain the President's proposal to exclude up to $500,000 of capital gains from home sales. The Administration has recently announced its intention to expand the scope of existing provisions for targeted small-business capital gains relief. We are pleased that the Senate bill incorporates a provision that is, in many respects, consistent with our proposal, although we have serious concerns about certain aspects of the Senate provision. We have a major objection to the additional across-the-board capital gains relief in both bills, which is too generous and would disproportionately benefit the wealthy over lower- and middle-income wage earners. Moreover, the President has indicated he cannot sign a bill that contains an indexing provision similar to the one contained in the House bill: it would contribute to an explosive revenue cost after 2007, possibly jeopardizing all our important work on deficit reduction. In addition, indexing is enormously complex and would be difficult to administer. We also have a major objection to the provision in the House bill for corporate capital gains relief, which is unwarranted and unlikely to create any significant economic growth.

> Administration Position: Provide a 30 percent exclusion for long-term capital gains. This reduces the top rate on capital gains to 27.72 percent for taxpayers in the 39.6-percent bracket, and also gives rate cuts to all taxpayers in the 36-percent and lower brackets. The proposal would include the President's home sale provision and targeted small-business capital gains relief.

Alternative Minimum Tax Relief

We are pleased that the House bill incorporates a version of the President's proposal to exempt small corporations from the AMT. We also acknowledge the importance of provisions in each bill designed to compensate for the failure in previous years to index the individual AMT exclusion for inflation. We have a major objection, however, to the House provision that over five years would provide $22 billion in unwarranted AMT relief for large corporations.

> Administration Position: Do not adopt the House provision for AMT relief for large corporations.

IRAs and Other Savings Incentives

The Administration continues to believe strongly in the importance of encouraging savings, particularly for retirement and education. The President's proposal includes a new savings vehicle targeted to moderate- and lower-income families, allowing parents to contribute to Kidsave accounts for their children's education, first-time home purchase, or the parents' retirement. The Administration's proposal would also encourage increased savings by moderate- and lower-income families by making existing IRAs more flexible.

We believe it is important that new savings incentives be sufficiently targeted in order to generate new savings and to provide savings for those who need them most. The back-loaded IRAs in both the Senate and House bills are not sufficiently targeted to lower- and middle-income families. The lack of income limits for contributors to these back-loaded IRAs adds to the problem of out-year explosion of revenue costs and is therefore inconsistent with the bipartisan budget agreement. Moreover, this approach would not significantly increase new savings relative to more targeted approaches such as the Administration's optional Kidsave proposal. The back-loaded IRA provisions contained in the Senate and House bills also add significantly to the problem of distributional inequity.

> Administration Position: Continue the current structure of IRAs with the following

modifications. Allow penalty-free withdrawals from existing IRAs to finance higher education expenses, for first-time home purchases, and for certain other limited purposes. Provide optional Kidsave accounts for taxpayers who are entitled to a child credit, with contributions limited to the amount of the child credit plus $500 per child.

Estate Tax Relief

We are pleased that both the Senate and House bills have included versions of the Administration's proposal to provide liquidity relief for estates containing small businesses and farms. We have a major objection, however, to the sweeping estate tax relief in both bills because it is too expensive and will be of no benefit to the average American. In addition, the Senate bill would allow inappropriate tax-planning opportunities by providing special estate and gift tax treatment for pre-paid tuition plans and an estate tax exclusion for conservation easements. Further, the unlimited repeal of the so-called "throw-back" rules in the House bill would allow certain trusts that are already tax-advantaged to reap additional, unwarranted tax benefits. We believe that estate and gift tax relief is most productively targeted to owners of small businesses and farms, along the lines of the small-business provision in the Senate bill.

Administration Position: Give special exemption for $900,000 of value in a qualified farm or small business in addition to the $600,000 value of the unified credit; increase the value of estates eligible for liquidity relief as proposed in the Administration's FY 98 budget. Repeal the throw-back rules, but retain the status quo under the throw-back rules for the pre-1984 trusts that are already entitled to a special exemption from the multiple trust rules.

Distressed Areas and Urban Tax Initiatives

The May 15, 1997 letter to the President from Speaker Gingrich and Majority Leader Lott pledged to seek inclusion of the President's proposals intended to revitalize distressed urban and rural areas throughout the country. We have a major objection to the inclusion in the Senate and House bills of only very limited aspects of some of these initiatives, and omission of other important initiatives altogether. The failure to include these proposals is shortsighted. For example, the President's brownfields proposal, which provides a tax incentive for environmental cleanup and encourages economic development in formerly contaminated areas, has been strongly supported in urban and rural communities and by the Nation's mayors. In addition, while we are pleased the House included a modified version of the President's welfare-to-work tax credit proposal, we are disappointed the Work Opportunity Tax Credit (WOTC) contained in both the House and Senate bills allows employers to claim the WOTC for hiring workers for a very short period of time and does not expand the Food Stamp target group in the WOTC to cover childless, able-bodied adults ages 18-50 who are subject to the Food Stamp time limit and work requirements.

We are also pleased both the Senate and House bills include tax incentives for the District of Columbia, but we have significant concerns with specific proposals in both bills. We look forward to working with you to pass a package of D.C. incentives that will benefit low-income

District residents.

Administration Position: Include the President's D.C. incentives and in addition:

- provide tax incentives to clean up brownfields in distressed communities across the United States,
- expand Empowerment Zones and Enterprise Communities, and
- stimulate investments in Community Development Financial Institutions.

While we would support the House provision on the enhanced welfare-to-work tax credit for long-term welfare recipients, the credit should be changed to 50 percent for both years. In addition, we would make no change in the current structure of the WOTC regarding number of hours or credit structure, and would expand the Food Stamp target group to cover the 18-50 year olds. The package should also include a provision to facilitate restructuring our Nation's affordable housing portfolio, and provide tax incentives for new economic activity in Puerto Rico.

Independent Contractors

We have a major objection to provisions such as those in the House bill that would provide a new safe harbor for independent contractor status. These provisions would permit employers to avoid essential worker protections and could lead to widespread shifting of employees to independent contractor status, resulting in loss of worker protections such as pension and health coverage, and consequently wage and hour protections, unemployment insurance benefits and compensation for work-related injuries. We believe the current tax bills are not the right vehicle for broad changes in the status of America's workers; an issue of this significance requires much deeper and fuller study than the current process would allow.

Administration Position: Do not include provisions on independent contractor status.

Extension of Airport and Airways Trust Fund Tax

We have a major objection to the changes in the structure of the airport and airways taxes made in the House and Senate bills. Just last year Congress directed the creation of the National Civil Aviation Review Commission to perform a thorough analysis of the costs of providing FAA services to ensure that any new fee structures would reflect the use of those services. Both the House and the Senate bills would set new fee structures without the benefit of the Commission study. These proposed fee structures could have enormous unintended consequences for the U.S. airline industry.

Administration Position: Extend the current airport and airways trust fund taxes so the National Civil Aviation Review Commission has sufficient time to study the issue. When it has completed its work, its findings should be taken into account in modifying or amending these taxes.

Tobacco Tax

The Senate bill contains a provision to raise tobacco taxes by 20 cents a pack, using part of the tax to fund children's health care. We have a significant concern about the use of the revenues from this tax. All of these revenues should be committed to benefit children and health care, and not to pay for tax cuts.

> **Administration Position**: Increase the tobacco tax by 20 cents, and separate all the revenues into a trust fund to expand health coverage for children, address children's development issues, and improve the overall public health.

Explosion of Costs in Out Years

As discussed in the May 15, 1997 letter from Speaker Gingrich and Majority Leader Lott, tax provisions of the budget reconciliation bill "shall not cause costs to explode in the outyears." This statement notwithstanding, the net tax cuts called for in the House bill increase to $40.9 billion from $29.7 billion between 2004 and 2007. The net cuts in the Senate bill increase to $41.1 billion from $29.0 billion in the same period. This trajectory of revenue loss is not the inevitable consequence of the tax cuts specified in the bipartisan budget agreement. The net cuts in the President's proposal, for example, only increase to $34.1 billion in 2007 from $30.5 billion in 2004.

The tax items causing out-year costs to increase sharply are those that disproportionately benefit high-income taxpayers. In contrast, provisions that benefit middle income families, such as the President's education proposals and the child credit, over time become much less significant in the overall revenue loss under the House and Senate bills. Over the first five years, education and child credit provisions account for 84.5 percent of the total tax cut in the President's proposal, 72.1 percent in the House bill, and 70.4 percent in the Senate bill. By 2007, these provisions account for 83.3 percent of the total tax cut in the President's package, but only 38.1 percent in the House bill and 43.2 percent in the Senate bill. While the significance of provisions targeted toward middle-income families diminishes over time in the Congressional packages, the cost of provisions disproportionately benefiting high-income individuals explode. The capital gains, AMT, and estate tax provisions increase from 5 and 6 percent of the tax cuts in the House and Senate bills over the first five years to 39.4 and 36 percent of the total tax cuts in 2007.

Simplification

The Administration is strongly committed to simplifying the tax laws and enhancing taxpayers' rights. In April, we released a revenue-neutral package of some 60 measures designed to further these objectives. We are pleased that 48 of these proposals are reflected in measures included in the House or Senate bills. We urge the conferees to give careful consideration to the remaining simplification measures in the Administration's package, such as the equitable tolling proposal that would protect the rights of disabled taxpayers, the proposal to simplify the child dependency exemption rules, and the proposal to modify the rules that apply to financial hedging transactions.

In addition, we urge that all proposals being considered for inclusion in the conference agreement be carefully analyzed from the standpoint of avoiding needless complexity. Treasury and IRS staff would be pleased to work with Congressional staff on a technical level to simplify and improve the administrability of provisions under consideration.

Other Issues of Concern

The Administration is pleased that the House and Senate bills include a provision for foreign sales corporation treatment for software licensed abroad. We are also pleased that both the House and Senate bills recognize the importance of the continued assurance of tax benefits for ethanol to encourage the use of alternative fuels. Earlier this year, the Administration proposed extension of the excise tax exemption for ethanol in our ISTEA reauthorization proposal. We would support the Senate bill extending the incentives through 2007, but without phasing down the rates of the benefits.

The House and Senate bills contain other provisions, however, that raise significant concerns. For instance, the Administration has serious concerns about the provision in the Senate bill transferring the 4.3 cents per gallon in fuel taxes currently dedicated to deficit reduction from the General Fund to transportation trust funds. While the transfer provision in itself has no revenue or spending effect, transferring the revenue feeds efforts to move the trust funds off-budget and creates pressure to increase ground transportation spending to levels significantly higher than contemplated by the bipartisan budget agreement.

The Administration also has technical and/or policy concerns about a number of other provisions in the House and Senate bills, including, for example: the provision in the House bill that extends reporting and proxy tax requirements for political and lobbying expenditures; the treatment of corporate spin-offs within a consolidated group under the House bill's provision relating to so-called "Morris Trust" transactions; and the provision that removes controlled foreign corporations from the application of the passive foreign investment company rules contained in the House bill. We will be communicating with you further about such issues in the future. We believe by working together, our staffs should be able to address many of these problems, and we strongly urge the conferees to authorize the staffs to begin working on such issues as soon as possible.

Both the Senate and House bills are heavily laden with special-interest provisions, such as a special exemption from U.S. income tax for foreign seafarers, special tax benefits for vacation timeshare associations, new tax benefits for friends and family riding corporate jets, and special treatment of travel and meals expenses for targeted groups of taxpayers, such as Alaska seafood processors. We believe that it is inappropriate to use this reconciliation bill as a vehicle for new tax breaks for special interests. We urge the conferees to keep the revenue reconciliation bill clean of all special-interest provisions.

As the revenue reconciliation bill proceeds to conference, we remain eager to work with the Congress to fashion, and ultimately sign, tax-cut legislation that is faithful to the bipartisan budget agreement, and that is fair to all Americans.

Sincerely,

POTUS tax
package

President Clinton Unveils Tax Cut Proposal

June 30, 1997

President Clinton's tax cut proposal provides needed tax relief to working families who play by the rules, pay taxes, and are trying to do the best for their kids. It includes a major investment in the President's top priority -- education -- by making the first two years of college universally available and doing something the other plans do not: helping those Americans who are working and want to improve their education and upgrade their skills. Lastly, President Clinton's proposal incorporates Republican priorities in a good faith effort to honor the budget accord and to reach final agreement for a tax cut the American people deserve.

THE PRESIDENT'S PROPOSAL IS FAIR. The bulk of the President's tax cut goes to middle-class families -- two-thirds of the President's tax cut goes to the middle sixty percent of families, twice the share the alternative congressional plans provide these middle class families.

THE PRESIDENT PLACES A HIGHER PRIORITY ON EDUCATION TAX CUTS. Education must be America's highest priority and the core of our tax cut plan must help families pay for education. To offer opportunity in the new and rapidly changing economy, we must make the 13th and 14th years of education -- the first two years of college -- as universal as a high school diploma is today. We must also do what we can to help people throughout their lives improve their education and upgrade their skills throughout their lives. The President's plan:

- ✓ **ADVANCES THE GOAL OF MAKING THE FIRST TWO YEARS OF COLLEGE UNIVERSAL.** The plan includes a modified two-year $1,500 HOPE Scholarship that does more to help community college students than the congressional alternatives. First and second year students would receive a $1,000 credit for the first $1,000 of tuition and fees plus 50% of as much as another $1,000 in tuition and fees. Therefore, a student going to a typical community college with tuition of $1,200 would receive a $1,100 credit under the President's proposal, compared to just $600 and $900 under the House and Senate plans respectively.

- ✓ **HELPS THIRD AND FOURTH YEAR STUDENTS AND PROMOTES LIFELONG LEARNING.** The congressional plans give virtually no support to families who are struggling to pay college costs out of pocket. Students beyond the second year would benefit only if they had substantial savings or when they paid interest on student loans. Students over 30 -- one-fourth of all undergraduate students -- could not even make use of the education savings accounts that Congress is proposing. 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 accomplishes this goal: It provides a 20 percent tuition credit on expenses up to $5,000 initially and $10,000 beginning in 2001.

- ✓ **INCORPORATES OTHER GOOD EDUCATION IDEAS INCLUDED IN VARIOUS PROPOSALS,** such as a permanent extension of the tax preference for employer-provided undergraduate and graduate education, tax incentives for school construction, a student loan interest deduction, and tax exclusion for community service and income-contingent loan forgiveness.

THE PRESIDENT BELIEVES THAT FAMILIES WHO WORK HARD, PAY TAXES, AND TRY TO DO THE BEST FOR THEIR KIDS DESERVE A TAX CUT. HIS PLAN CUTS THE TAXES OF THE 4 MILLION FAMILIES SHORTCHANGED BY CONGRESS. The President's proposal includes a $500 child tax credit for children under 17 through 2002 and under 19 thereafter. The President has a basic disagreement with some members of Congress. Consider *a family of four with two small children: the father is a rookie police officer making $23,000, and the mother is taking a few years off from teaching. They pay out of pocket over $1,000 a year in federal taxes.* The President believes that this family needs and deserves a tax cut just as much as family who makes twice as much. The Congressional plans would deny this family a tax cut. Under the President's plan, this family would receive a $767 child tax credit.

TAX INCENTIVES TO CLEAN-UP AND REVITALIZE DISTRESSED NEIGHBORHOODS BELONG IN THE FINAL TAX PACKAGE. In the balanced budget agreement, President Clinton and Congress agreed to make all efforts to include three programs critical to our urban areas in the final budget package: a Brownfields tax incentive; new Empowerment Zones and Enterprise Communities (EZ/EC); and expansion of the Community Development Financial Institutions (CDFI) fund. Unfortunately, neither the House tax bill nor the Senate tax bill includes the President's Brownfields and EZ/EC initiatives. *Today, the President includes these two vital provisions, plus a new tax credit to encourage investment in CDFIs and an enhanced welfare-to-work tax credit, in his tax cut proposal.*

THE PRESIDENT'S TAX CUT PROPOSAL DELIVERS BIG FOR CITIES

June 30, 1997

In the balanced budget agreement, President Clinton and Congress agreed to make all efforts to include three programs critical to our urban areas in the final budget package: a Brownfields tax incentive; new Empowerment Zones and Enterprise Communities (EZ/EC); and expansion of the Community Development Financial Institutions (CDFI) fund. Unfortunately, neither the House tax bill nor the Senate tax bill includes the President's Brownfields and EZ/EC initiatives. *Today, the President includes these two vital provisions, plus a new tax credit to encourage investment in CDFIs and an enhanced welfare-to-work tax credit, in his tax cut proposal.*

PRESIDENT CLINTON'S TAX PLAN HELPS TO CLEAN UP AND REDEVELOP BROWNFIELDS. The Brownfields tax incentive included in the President's tax cut proposal would reduce the cost of cleaning up thousands of contaminated, abandoned sites in economically distressed areas by permitting clean-up costs to be immediately deducted for tax purposes, rather than requiring this spending to be written off over time. This would, in turn, encourage redevelopment of these areas. *The Treasury Department estimates this $2 billion tax incentive will, over seven years, leverage more than $10 billion for private sector cleanups nationwide, allowing redevelopment of 30,000 brownfields.*

- Chicago Mayor Richard Daley, writing on behalf of the U.S. Conference of Mayors, urged Ways and Means Chairman Archer to include the President's Brownfields proposal in the tax bill: "This is a high priority for communities across this nation and we stand united in urging you and other members of the House Ways and Means Committee to modify the tax bill to include the $2 billion brownfields tax incentive."

THE PRESIDENT'S TAX PLAN CREATES NEW EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES. Under the President's 1993 Empowerment Zones and Enterprise Community initiative, communities develop a strategic plan to spur economic development, and they receive Federal tax benefits, social service grants and flexibility in use of Federal funds in order to put this plan in effect. The EZs and ECs are urban or rural areas with high poverty and unemployment rates.

- *Many communities that were not designated as EZs or ECs in that first round lack the seed capital to begin revitalization efforts. In response, the President proposes a second-round of EZs and ECs--15 urban and 5 rural EZs and 50 urban and 30 rural ECs.* The new EZs and ECs will benefit from a slightly different blend of tax credits than the first-round communities.

THE PRESIDENT'S TAX PLAN ALSO PROVIDES FOR A NEW COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS TAX CREDIT. The President's CDFI Fund is helping to build a national network of community development financial institutions -- including banks, thrifts, and credit unions -- by providing financial and technical assistance to these entities. CDFI dollars are being used to create jobs, rebuild neighborhoods and restore hope in communities from San Francisco to Boston, Louisville to Chicago. The Fund represents a promising model for Federal government action -- investing in local private sector institutions, leveraging private sector resources (to the tune of ten times the initial investment) and generating economic growth in distressed areas. *The President's tax cut proposal creates a new tax credit to encourage investment in CDFIs. This new credit is not included in either the House or Senate versions of the tax legislation.*

THE PRESIDENT'S PLAN INCLUDES A SPECIAL WELFARE-TO-WORK TAX CREDIT. This credit gives employers added incentive to hire welfare recipients. Although the congressional leadership pledged to seek a credit along these lines, the House bill includes only a scaled-back version, and the Senate bill omits it entirely.

PRESIDENT CLINTON'S TAX CUT PROPOSAL

SUMMARY DOCUMENTS

June 30, 1997

TABLE OF CONTENTS

President Clinton's Tax Cut Proposal

June 30, 1997

Today, President Clinton unveils 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. Families could put the credit plus $500 in a Kidsave Account.***
- ✔ ***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-income families.***
- ✔ ***To honor the agreement, the President's plan allows taxpayers to exclude 30% of their long-term capital gains from taxation and provides estate tax relief to small businesses and farmers.***
- ✔ ***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	6.0
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	0.7
Repeal of bond cap for universities	0.3	1.0
Child Tax Credit	70.2	176.1
Brownfields, EZ/EC Expansion, CDFIs	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	134.8	341.1

Revenue Raisers	(49.8)	(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 for enrollment in a post-secondary degree or certificate program 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 earning between $80,000 and $100,000. Eligible students could receive both a full 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 fees.

- *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 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 for joint filers earning between $80,000 and $100,000.

- *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.

- *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 schools 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. Both undergraduate and graduate education would be eligible. 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 and Forgiveness.* Allows a deduction of up to $2,500 per year of interest on 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 deduction would be available 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, and to loans forgiven under the Direct Loan Program's income-contingent repayment program. 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.* 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.

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 who pay out 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) 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 be provided tax favorable treatment, allowing them to be fully deducted 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, the proposal 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 for equity investors in community development financial institutions to leverage private investment in distressed areas and to stimulate economic revitalization.

- *Washington, D.C.* Provides tax incentives for firms to hire District residents, and a new credit that will be allocated to debt and equity by a new economic development corporation, and to allow the issuance of additional tax-exempt debt to help finance new business activity in the District.

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

Increases the existing exclusion for equity investments in small businesses held at least five years to a 75% exclusion for up to $20 million in gains and doubles 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 for more than 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 a 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

- ***Puerto Rico Tax Credit*** - would be extended indefinitely and modified to provide an incentive for new investments and increase the economic-activity credit.
- ***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

Tables assumes fully phased-in (2007) law and behavior, in 1998 dollars. It 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.

How the President's Tax Cut Proposals Benefit Typical American Families

Example #1

Consider a family of four who makes $40,000 a year. The father is a carpenter and makes $25,000 and the mother makes $15,000 working at a local department store. They have two kids, a son who is 14 and a freshman in high school and a daughter enrolled full-time in her first year at the local community college. Her tuition is $1,200 a year.

The President's tax cut proposal will benefit this family in at least two ways. They will receive a child tax credit of $500 for their son plus a HOPE Scholarship of $1,100 for their daughter. In total, they will receive a $1,600 tax cut in the President's proposal.

	Tax Cut under Clinton Proposal
Family of four with two children aged 14 and 18 and $40,000 income:	
Child Tax Credit for 14 year old	$500
HOPE Scholarship for 18 year old	$1,100
Total tax cut:	$1,600

Example #2

Consider a family of three making $55,000 a year. The father has a degree in accounting and works for a local business in the accounting department. The mother works part-time at the local library. They have one daughter aged 14. The father would like to return to school to prepare for his CPA examination. He is going to attend the local liberal arts college. He has signed up for two courses with total tuition of $4,000.

This family will receive a $500 tax child tax credit for their daughter and a $800 tuition tax credit to help pay for the father's course work.

	Tax Cut under Clinton Proposal
Family of three with one child aged 14 and $55,000 income:	
Child Tax Credit for 14 year old	$500
Tuition tax credit	$800
Total tax cut:	$1,300

Example #3:

A single mother lives with her six year old daughter in California. She's been working as a bank teller for several years and her pay is now $20,000 a year. When she tallies up her taxes, she owes $1,200 in federal income taxes. A $1,150 Earned Income Tax Credit offsets much of this income tax. However, she pays $1,530 a year in payroll taxes, not to mention the additional $1,530 the bank pays on her behalf.

Under the President's plan this single mom would receive a $500 child tax credit for her daughter. (Note: This woman and her daughter would receive no tax cut under either the House or Senate plans).

	Tax Cut under Clinton Proposal
Family of two with one child aged 6 and $20,000 income:	
Child Tax Credit for 6 year old	$500
Total tax cut:	$500

Example #4

A teacher with six years experience, earning $40,000 a year, would like to get her masters degree before she marries and has children. Her principal has agreed to adjust her schedule so that she can attend classes in the afternoon and evening. The tuition and fees charged for the program total $6,500.

She will receive a 20 percent tax credit on the first $5,000 of the tuition she pays.

	Tax Cut under Clinton Proposal
Single teacher making $40,000, attending graduate school:	
Tuition Tax Credit:	$1,000
Total Tax Cut:	$1,000

(Note: All examples are for tax year 1999)

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

Compared to the President's proposal, four million working families will largely 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 approximately $18,000 or $28,000, 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 amount of 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.

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 Two Children
(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 Before Tax 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

Department of the Treasury
Office of Tax Analysis

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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 two-year 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 less than half-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	$1,000
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

DETAILS ON THE EDUCATION ITEMS IN THE TAX BILL

THE HOPE SCHOLARSHIP AND LIFETIME LEARNING CREDIT

From the beginning, promoting expanded educational opportunity has been the centerpiece of President Clinton's budget and his middle class tax cut proposal. The President has long understood that the economy is changing and that people must have the opportunity to enhance their skills throughout their working lives. This is why the President insisted that, in addition to the HOPE Scholarship for the first two years of college, the tax bill must include a tax cut for lifetime learning. The final tax cut bill enacts the President's proposals:. When fully phased in, 12.9 million students are expected to benefit -- 5.8 million people claiming the HOPE Scholarship, and 7.1 million claiming the Lifetime Learning Credit.

✔ **$1,500 HOPE Scholarship to make the first two years of college universally available.** For students in the first two years of college (or other eligible post-secondary training), taxpayers will be eligible for a tax credit equal to 100% on the first $1,000 of tuition and fees and 50% on the second $1,000 (the amounts are indexed for inflation after 2001). The credit will be available on a per-student basis for net tuition and fees (less grant aid) paid for college enrollment after December 31, 1997. The credit is phased out for joint filers between $80,000 and $100,000 of income, and for single filers between $40,000 and $50,000 (indexed after 2001). The credit can be claimed in two taxable years (but not beyond the year when the student completes the first two years of college) with respect to any individual enrolled on at least a half-time basis for any portion of the year.

✔ **Lifetime Learning Credit for College Juniors, Seniors, Graduate Students <u>and</u> working Americans pursuing lifelong learning to upgrade their skills.** For those beyond the first two years of college, or taking classes part-time to improve or upgrade their job skills, the family will receive a 20% tax credit for first $5,000 of tuition and fees through 2002, and for the first $10,000 thereafter. The credit is available for net tuition and fees (less grant aid) paid for post-secondary enrollment after June 30, 1998. The credit is available on a per-taxpayer (family) basis, and is phased out at the same income levels as the HOPE Scholarship.

OTHER TAX CUTS FOR HIGHER EDUCATION

- ***Education Savings Accounts.*** For each child under age 18, families may deposit $500 per year into an Education IRA. Earnings would accumulate tax-free and no taxes will be due upon withdrawal for net post-secondary expenses for tuition, fees, books, equipment, and room and board (generally limited to the posted room and board charges of the institution). The Education IRA is phased out for families with incomes between $150,000 and $160,000, and for single filers between $95,000 and $110,000. A taxpayer who uses tax-free distributions from an Education IRA may not, in the same year, benefit from the HOPE Scholarship or Lifetime Learning Credit.

- ***Student Loan Interest Deduction.*** Allows an above-the-line deduction (the taxpayer does not need to itemize in order to benefit) for interest paid in the first 60 months of repayment on private or government-backed loans post-secondary education and training expenses. The maximum deduction is $1,000 in 1998, $1,500 in 1999, $2,000 in 2000, and $2,500 in 2001 and beyond. It is available to joint filers with income between $60,000 and $75,000, and to single filers with income between $40,000 and $55,000 (indexed after 2002). The deduction is available for loans made before or after enactment of this provision, but only to the extent that the loan is within the first 60 months of repayment. The loan amount eligible for the deduction is limited to net post-secondary expenses for tuition, fees, books, equipment, room, and board (limited to the "cost of attendance" currently used for Federal student aid programs).

- ***IRA Withdrawals***. Taxpayers may withdraw funds from an IRA, without penalty, for the higher education expenses of the taxpayer, spouse, child, or grandchild. The amount that can be withdrawn without penalty is limited to net post-secondary expenses for tuition, fees, books, equipment, and room and board (generally limited to the posted room and board charges of the institution).

- ***Employer-Provided Education Benefits.*** Extends Section 127 of the tax code for undergraduates for three years (for courses beginning prior to June 1, 2000). This provision allows workers to exclude $5,250 of employer-provided education benefits from their taxable income.

- ***Community Service Loan Forgiveness.*** Excludes from taxable income loan amounts forgiven for borrowers who take community-service jobs addressing unmet needs. (Community service loan forgiveness programs run by government agencies are already exempt; this provision would extend that to nonprofit tax-exempt charitable or educational institutions.)

- ***Expand benefits for pre-paid tuition plans.*** Allows State-sponsored pre-paid tuition plans -- the earnings from which not taxed until the time of withdrawal as a result of last year's tax bill -- to include room and board expenses for students who attend on at least a half-time basis. Withdrawals *are* eligible for the HOPE Scholarship and Lifetime Learning tax credits.

- ***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 applies to tax-exempt bonds issued by these institutions to finance new capital expenditures.

TAX PROVISIONS BENEFITING ELEMENTARY AND SECONDARY EDUCATION

- ***Encourage Computer Donations to Schools.*** Allows corporations an enhanced charitable contribution deduction for the donation of up-to-date computer hardware or software to public and private K-12 schools. The equipment or programs cannot be more than two years old. The deduction is allowed in tax years 1998 and 1999.

- ***Bonds for Public School-Business Partnerships.*** Allows states to use Federal tax credits as payments in lieu of interest on bonds for certain expenses -- including facilities renovation -- for school "academies" expected to serve low-income students in empowerment zones and empowerment communities. The academies must have a high-skills curriculum developed in consultation with businesses that have committed assistance (in cash or in kind, on a present value basis) equal to at least 10% of the bond proceeds. The bonds are limited to $400 million in 1998 and $400 million in 1999. They are allocated to States on the basis of population in poverty.

- ***Reduce Costs of School Construction Bonds.*** School districts invest the proceeds from school construction bonds until the funds are needed to pay construction and renovation expenses. When tax-exempt bonds are used, there are strict limits on the amount of interest that the district can earn, requiring them to pay back certain amounts to the IRS. The tax bill would relax those restrictions, allowing school districts to keep more of the interest income and thereby reducing their cost of borrowing.