
Increasing College Access:

**HOPE Scholarships,
Lifetime Learning Credit,
Pell Grants & General
Tax Breaks for College**

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Mrs. Clinton, While 'Listening,' Manages a Jab at Pataki

By ELISABETH BUMILLER

VALHALLA, N.Y., July 13 — Hillary Rodham Clinton's "listening tour" ran into Albany's budget impasse today when the First Lady expressed seeming incomprehension about the lateness of the state budget, noting that it must cause havoc for local school boards trying to plan their fiscal years.

By extension, although not by name, Mrs. Clinton appeared to criticize Gov. George E. Pataki, the Republican blamed by Democrats for the stalemate, who last week-end called Mrs. Clinton's likely Senate campaign "cockamamie."

Mrs. Clinton made her remarks during a two-hour talk with about 50 education officials, parents and students at Westchester Community College, in the heart of what is a marginally Democratic county of swing voters who are crucial to her chance of winning a Senate race. When a parent from Yonkers complained about state education financing, Mrs. Clinton responded, in what sounded like such a faux-innocent tone that she drew laughter from the crowd: "I don't understand how you can get your budgets ready when you don't have a state budget. I really don't understand how you plan."

Mrs. Clinton traveled to the event with H. Carl McCall, the Democratic state Comptroller, who warned Monday of that suburbs may see unnecessary property tax increases if the state does not soon



Keith Meyers/The New York Times

After visiting Westchester County yesterday, Hillary Rodham Clinton went to Jones Beach, where she posed with A.J. Hepworth, a lifeguard.

pass a budget that tells school districts what aid to expect. Mrs. Clinton brought up the budget impasse in the car, Mr. McCall said.

"She said to me, 'Explain why New York has these chronically late budgets,'" Mr. McCall said. "So I did spend some time kind of walking her through the budget. I told her what I have been saying

publicly, which is that the Governor has not provided the appropriate leadership to have the budget passed. She just listened."

Listening was the stated theme of the day, which included a trip to greet astonished sunbathers at Jones Beach in Nassau County. But at the Westchester event, as at Mrs. Clinton's other "listening"

events last week, the First Lady was more of a moderator who found ample opportunity to interact with her support of programs popular to her listeners. When one Westchester Community College graduate spoke of his family's difficulties in paying his tuition, Mrs. Clinton answered that her husband had worked to make college more affordable, but added, "We haven't gone far enough."

Mrs. Clinton then said, "I think that tuition should be tax deductible, that people should be able to save in I.R.A. college accounts, tax free." Mrs. Clinton's proposals are in fact in two separate bills introduced this year by Senator Charles E. Schumer of New York.

The proposed bills go considerably farther in helping families pay college tuition than two Clinton administration initiatives that passed in 1997. First, Mr. Schumer's proposal would allow college tuition of up to \$20,000 per student a year to be tax deductible for families that make up to \$140,000 annually. And second, families earning up to \$200,000 annually would be able to contribute up to \$2,000 per child a year, tax free, in an Education I.R.A.

The Clinton initiatives allow families with less than \$80,000 in annual income to take up to \$1,500 in tax credits for the first two years of college, plus a \$5,000 tax credit for additional schooling or adult retraining.

The New York Times

WEDNESDAY, JULY 14, 1999

-copies of
Schumer Bills
-NYT

there are other needs for the money and that the plan would dig the nation back into a deep fiscal hole in the name of rewarding the wealthy.

After months of sparring, the committee members also got down to examining the details of the proposed legislation, working deep into the night in a hearing room packed with lobbyists, accountants and others with an interest in the bill's scores of provisions.

The bill, written by the committee's chairman, Representative Bill Archer of Texas, would cut personal income tax rates by 10 percent in four steps over the next decade. It would also cut the top tax rate on capital gains to 15 percent from 20 percent, repeal the tax on large inheritances, give a break to many married couples and simplify tax preparation for many people by phasing out the alternative minimum tax for individuals.

Mr. Archer's bill would gradually reduce the capital gains tax rate for corporations, to 25 percent from 35 percent, a provision valued at \$17.4 billion over 10 years.

It would respond to pleas from particular industries, like restaurants, which would benefit from its proposal to increase the deductibility of business meals gradually to 80 percent from 50 percent.

It also contains even more narrowly drawn special interest provisions, like the repeal of a 10 percent excise tax on fishing tackle boxes, at a cost to the Treasury of \$30 million over the next decade.

The committee, where all tax legislation in Congress must originate, plans to vote on the proposal on Wednesday, with approval all but certain given the Republican majority. The full House is scheduled to take up the plan later in the month.

A similar process will begin next week in the Senate, which will consid-

Representative Bill Archer of Texas, chairman of the House Ways and Means Committee, detailed his plan to cut taxes yesterday.

er a slightly smaller tax-cutting package.

President Clinton has made clear that he will veto any bill resembling the current Republican proposals, a threat repeated tonight in a letter from Treasury Secretary Lawrence H. Summers to Mr. Archer. But he has also signaled a willingness to negotiate a compromise.

With projections of the budget surplus growing almost by the month, Republicans see this as the most propitious time since the beginning of the Reagan Administration to push a broad tax cut through Congress.

The Congressional Budget Office estimated earlier this month that the surplus would total \$2.9 trillion over the next decade. Of that, \$1.9 trillion comes from excess payroll tax revenues earmarked for Social Security, and the two parties have agreed to use that money only to reduce the national debt or shore up the retirement system.

But nearly \$1 trillion is up for grabs in political terms.

Republicans say that nearly all of it should go to tax cuts and that there is plenty of other money for spending programs and to solve the looming financial problems in Medicare.

Mr. Clinton wants to use \$250 billion of the surplus for tax cuts and to divide the rest among Medicare and various spending programs including education, health and the military.

Because the projected surpluses are relatively small in the next few years but become substantially bigger in subsequent years, Mr. Archer's tax bill delays most of its tax

cuts until well into the next decade.

Of the \$864 billion in tax cuts he is proposing, only \$4.6 billion would take effect next year (the reduction in the capital gains tax would apply retroactively to profits on transactions after June 30 of this year).

The cuts would increase to \$25.5 billion in 2001, \$46.7 billion in 2002 and \$203.4 billion in 2009.

By far the biggest component of Mr. Archer's bill is the reduction in personal income tax rates, which would total \$405.2 billion over 10 years. The cuts would start in 2001, when the current 15 percent income tax bracket would be reduced to 14.7 percent, the current 28 percent bracket would be reduced to 27.3 percent and the top bracket of 39.6 percent would fall to 38.7 percent.

The New York Times

WEDNESDAY, JULY 14, 1999

Bill Summary & Status for the 106th Congress**Item 2 of 3**

**PREVIOUS BILL | NEXT BILL
PREVIOUS BILL:ALL | NEXT BILL:ALL
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S.473SPONSOR: Sen Schumer, Charles E. (introduced 02/25/99)Jump to: [Titles](#), [Status](#), [Committees](#), [Amendments](#), [Cosponsors](#), [Summary](#)**TITLE(S):**

- SHORT TITLE(S) AS INTRODUCED:
Make **College** Affordable Act of 1999
- OFFICIAL TITLE AS INTRODUCED:
A bill to amend the Internal Revenue Code of 1986 to make higher education more affordable by providing a full tax deduction for higher education expenses and interest on student loans.

STATUS: Floor Actions

NONE

STATUS: Detailed Legislative Status**Senate Actions****Feb 25, 99:**

Read twice and referred to the Committee on Finance.

STATUS: Congressional Record Page References02/25/99 Introductory remarks on Measure (CR S2022)**COMMITTEE(S):**

- COMMITTEE(S) OF REFERRAL:
Senate Finance



AMENDMENT(S):

NONE

COSPONSORS(1):Sen Moynihan, Daniel Patrick - 02/25/99**SUMMARY:**

(AS INTRODUCED)

Jump to Search Words

Make **College**   Affordable Act of 1999 - Amends the Internal Revenue Code to allow the deduction of qualified higher education expenses and interest on qualified higher education loans. Limits such deduction based on modified adjusted gross income.

S 473 IS

106th CONGRESS

1st Session

S. 473

To amend the Internal Revenue Code of 1986 to make higher education more affordable by providing a full tax deduction for higher education expenses and interest on student loans.

IN THE SENATE OF THE UNITED STATES

February 25, 1999

Mr. SCHUMER (for himself and Mr. MOYNIHAN) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to make higher education more affordable by providing a full tax deduction for higher education expenses and interest on student loans.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the 'Make College Affordable Act of 1999'.

SEC. 2. DEDUCTION FOR HIGHER EDUCATION EXPENSES.

(a) DEDUCTION ALLOWED- Section 221 of the Internal Revenue Code of 1986 is amended to read as follows:

'SEC. 221. HIGHER EDUCATION EXPENSES.

'(a) ALLOWANCE OF DEDUCTION- In the case of an individual, there shall be allowed as a deduction an amount equal to--

'(1) the qualified higher education expenses, and

'(2) interest on qualified higher education loans,

paid by the taxpayer during the taxable year.

'(b) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME-

'(1) IN GENERAL- The amount which would (but for this subsection) be taken into account under subsection (a) shall be reduced (but not below zero) by the amount determined under paragraph (2).

'(2) AMOUNT OF REDUCTION- The amount determined under this paragraph equals the

amount which bears the same ratio to the amount which would be so taken into account as--

`(A) the excess of--

`(i) the taxpayer's modified adjusted gross income for such taxable year, over

`(ii) \$100,000 (\$140,000 in the case of a joint return), bears to

`(B) \$20,000.

`(3) MODIFIED ADJUSTED GROSS INCOME- For purposes of this subsection, the term `modified adjusted gross income' means the adjusted gross income of the taxpayer for the taxable year determined--

`(A) without regard to this section and sections 911, 931, and 933, and

`(B) after the application of sections 86, 135, 219, 220, and 469.

For purposes of the sections referred to in subparagraph (B), adjusted gross income shall be determined without regard to the deduction allowed under this section.

`(4) INFLATION ADJUSTMENTS-

`(A) IN GENERAL- In the case of a taxable year beginning after 2000, the \$100,000 and \$140,000 amounts described in paragraph (2) shall each be increased by an amount equal to--

`(i) such dollar amount, multiplied by

`(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting `calendar year 1999' for `calendar year 1992' in subparagraph (B) thereof.

`(B) ROUNDING- If any amount as adjusted under subparagraph (A) is not a multiple of \$5,000, such amount shall be rounded to the next lowest multiple of \$5,000.

`(c) QUALIFIED HIGHER EDUCATION EXPENSES- For purposes of this section--

`(1) QUALIFIED HIGHER EDUCATION EXPENSES-

`(A) IN GENERAL- The term `qualified higher education expenses' means--

`(i) tuition and fees charged by an educational institution and required for the enrollment or attendance of--

`(I) the taxpayer,

`(II) the taxpayer's spouse,

`(III) any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151, or

`(IV) any grandchild of the taxpayer,

as an eligible student at an institution of higher education, and

`(ii) reasonable living expenses for such an individual while away from home and attending such institution.

`(B) ELIGIBLE COURSES- Amounts paid for qualified higher education expenses of any individual shall be taken into account under subsection (a) only to the extent such expenses--

`(i) are attributable to courses of instruction for which credit is allowed toward a baccalaureate degree by an institution of higher education or toward a certificate of required course work at a vocational school, and

`(ii) are not attributable to any graduate program of such individual.

`(C) EXCEPTION FOR NONACADEMIC FEES- Such term does not include any student activity fees, athletic fees, insurance expenses, or other expenses unrelated to a student's academic course of instruction.

`(D) ELIGIBLE STUDENT- For purposes of subparagraph (A), the term 'eligible student' means a student who--

`(i) meets the requirements of section 484(a)(1) of the Higher Education Act of 1965 (20 U.S.C. 1091(a)(1)), as in effect on the date of the enactment of this section, and

`(ii) is carrying at least one-half the normal full-time work load for the course of study the student is pursuing, as determined by the institution of higher education.

`(E) IDENTIFICATION REQUIREMENT- No deduction shall be allowed under subsection (a) to a taxpayer with respect to an eligible student unless the taxpayer includes the name, age, and taxpayer identification number of such eligible student on the return of tax for the taxable year.

`(2) INSTITUTION OF HIGHER EDUCATION- The term 'institution of higher education' means an institution which--

`(A) is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on the date of the enactment of this section, and

`(B) is eligible to participate in programs under title IV of such Act.

`(d) QUALIFIED HIGHER EDUCATION LOAN- For purposes of this section--

`(1) IN GENERAL- The term 'qualified higher education loan' means a loan which is--

`(A) made, insured, or guaranteed by the Federal Government,

`(B) made by a State or a political subdivision of a State,

`(C) made from the proceeds of a qualified student loan bond under section 144(b), or

`(D) made by an institution of higher education (as defined in section 1201(a) of the Higher Education Act of 1965 (20 U.S.C. 1141(a))).

`(2) LIMITATION- The amount of interest on a qualified higher education loan which is taken into account under subsection (a)(2) shall not exceed the amount which bears the same ratio to such amount of interest as--

`(A) the proceeds from such loan used for qualified higher education expenses, bears to

`(B) the total proceeds from such loan.

For purposes of the preceding sentence, the term `qualified higher education expenses' shall be determined without regard to subsection (c)(1)(A)(i)(IV).

`(e) SPECIAL RULES-

`(1) NO DOUBLE BENEFIT-

`(A) IN GENERAL- No deduction shall be allowed under subsection (a) for any expense for which a deduction is allowable to the taxpayer under any other provision of this chapter unless the taxpayer irrevocably waives his right to the deduction of such expense under such other provision.

`(B) DENIAL OF DEDUCTION IF CREDIT ELECTED- No deduction shall be allowed under subsection (a) for a taxable year with respect to the qualified higher education expenses of an individual if the taxpayer elects to have section 25A apply with respect to such individual for such year.

`(C) DEPENDENTS- No deduction shall be allowed under subsection (a) to any individual with respect to whom a deduction under section 151 is allowable to another taxpayer for a taxable year beginning in the calendar year in which such individual's taxable year begins.

`(D) COORDINATION WITH EXCLUSIONS- A deduction shall be allowed under subsection (a) for qualified higher education expenses only to the extent the amount of such expenses exceeds the amount excludable under section 135 or 530(d)(2) for the taxable year.

`(2) LIMITATION ON TAXABLE YEAR OF DEDUCTION-

`(A) IN GENERAL- A deduction shall be allowed under subsection (a) for qualified higher education expenses for any taxable year only to the extent such expenses are in connection with enrollment at an institution of higher education during the taxable year.

`(B) CERTAIN PREPAYMENTS ALLOWED- Subparagraph (A) shall not apply to qualified higher education expenses paid during a taxable year if such expenses are in connection with an academic term beginning during such taxable year or during the first 3 months of the next taxable year.

`(3) ADJUSTMENT FOR CERTAIN SCHOLARSHIPS AND VETERANS BENEFITS- The amount of qualified higher education expenses otherwise taken into account under subsection (a) or (d)(2) with respect to the education of an individual shall be reduced (before the application of subsection (b)) by the sum of the amounts received with respect to such individual for the taxable year as--

`(A) a qualified scholarship which under section 117 is not includable in gross income,

`(B) an educational assistance allowance under chapter 30, 31, 32, 34, or 35 of title 38, United States Code, or

`(C) a payment (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)) for educational expenses, or attributable to enrollment at an eligible educational institution, which is exempt from income taxation by any law of the United States.

`(4) NO DEDUCTION FOR MARRIED INDIVIDUALS FILING SEPARATE RETURNS- If the taxpayer is a married individual (within the meaning of section 7703), this section shall apply only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

`(5) NONRESIDENT ALIENS- If the taxpayer is a nonresident alien individual for any portion of the taxable year, this section shall apply only if such individual is treated as a resident alien of the United States for purposes of this chapter by reason of an election under subsection (g) or (h) of section 6013.

`(6) REGULATIONS- The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including regulations requiring recordkeeping and information reporting.'

(b) DEDUCTION ALLOWED IN COMPUTING ADJUSTED GROSS INCOME- Paragraph (17) of section 62(a) of such Code is amended to read as follows:

`(17) HIGHER EDUCATION EXPENSES- The deduction allowed by section 221.'

(c) CONFORMING AMENDMENTS-

(1) The table of sections for part VII of subchapter B of chapter 1 of such Code is amended by striking the item relating to section 221 and inserting the following new item:

'Sec. 221. Higher education expenses.'

(2) Section 6050S(e) of such Code is amended by striking 'section 221(e)(1)' and inserting 'section 221(d)(1)'

(d) EFFECTIVE DATE- The amendments made by this section shall apply to payments made after December 31, 1998.

END

Bill Summary & Status for the 106th Congress**Item 1 of 3**

PREVIOUS BILL | NEXT BILL
PREVIOUS BILL:ALL | NEXT BILL:ALL
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S.474SPONSOR: Sen Schumer, Charles E. (introduced 02/25/99)Jump to: [Titles](#), [Status](#), [Committees](#), [Amendments](#), [Cosponsors](#), [Summary](#)**TITLE(S):**

- SHORT TITLE(S) AS INTRODUCED:
Save for **College** Act of 1999
- OFFICIAL TITLE AS INTRODUCED:
A bill to amend the Internal Revenue Code of 1986 to provide a deduction for contributions to education individual retirement accounts, and for other purposes.

STATUS: Floor Actions

NONE

STATUS: Detailed Legislative Status**Senate Actions****Feb 25, 99:**

Read twice and referred to the Committee on Finance.

STATUS: Congressional Record Page References02/25/99 Introductory remarks on Measure (CR [S2022](#))**COMMITTEE(S):**

- COMMITTEE(S) OF REFERRAL:
Senate Finance

AMENDMENT(S):

NONE



COSPONSOR(S):

NONE

SUMMARY:

(AS INTRODUCED)

Jump to Search Words

Save for **College**   Act of 1999 - Amends the Internal Revenue Code with respect to educational individual retirement accounts to: (1) allow a deduction for contributions; (2) increase contribution amounts and income factors; and (3) provide for inflation adjustments.

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Save for College Act of 1999 (Introduced in the Senate)

S 474 IS

106th CONGRESS

1st Session

S. 474

To amend the Internal Revenue Code of 1986 to provide a deduction for contributions to education individual retirement accounts, and for other purposes.

IN THE SENATE OF THE UNITED STATES

February 25, 1999

Mr. SCHUMER introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to provide a deduction for contributions to education individual retirement accounts, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the 'Save for College Act of 1999'.

SEC. 2. DEDUCTION FOR CONTRIBUTIONS TO EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS.

(a) IN GENERAL- Part VII of subchapter B of chapter 1 of the Internal Revenue Code of 1986 (relating to additional itemized deductions for individuals) is amended by redesignating section 222 as section 223 and by inserting after section 221 the following new section:

'SEC. 222. EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS.

'In the case of an individual, there shall be allowed as a deduction the amount paid in cash during the taxable year by such individual to an education individual retirement account under section 530.'

(b) DEDUCTION ALLOWED IN ARRIVING AT ADJUSTED GROSS INCOME- Paragraph (7) of section 62(a) of such Code (relating to retirement savings) is amended--

(1) by inserting 'OR EDUCATION' after 'RETIREMENT' in the heading of such paragraph, and

(2) by inserting before the period at the end the following: 'and the deduction allowed by section 222 (relating to education individual retirement accounts)'.

(c) MODIFICATIONS TO EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS-

(1) INCREASE IN CONTRIBUTION LIMIT- Section 530(b)(1)(A)(iii) of such Code (defining education individual retirement account) is amended by striking '\$500' and inserting '\$2,000'.

(2) INCREASE IN AGI LIMITS- Section 530(c)(1) of such Code (relating to reduction in permitted contributions based on adjusted gross income) is amended--

(A) by striking '\$95,000 (\$150,000' in subparagraph (A)(ii) and inserting '\$100,000 (\$140,000', and

(B) by striking subparagraph (B) and inserting the following new subparagraph:

'(B) \$20,000.'

(3) INFLATION ADJUSTMENTS- Section 530 of such Code is amended by adding at the end the following new subsection:

'(i) INFLATION ADJUSTMENTS-

'(1) DOLLAR LIMITATION ON AMOUNT OF CONTRIBUTION-

'(A) IN GENERAL- In the case of a taxable year beginning after 1999, the \$2,000 amount under subsection (b)(1)(A)(iii) shall be increased by an amount equal to--

'(i) such dollar amount, multiplied by

'(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1998' for 'calendar year 1992' in subparagraph (B) thereof.

'(B) ROUNDING- If any amount as adjusted under subparagraph (A) is not a multiple of \$100, such amount shall be rounded to the next lowest multiple of \$100.

'(2) INCOME LIMITS-

'(A) IN GENERAL- In the case of a taxable year beginning after 1999, the \$100,000 and \$140,000 amounts under subsection (c)(1)(A)(ii) shall each be increased by an amount equal to--

'(i) such dollar amount, multiplied by

'(ii) the cost-of-living adjustment determined under section 1(f)(3) for the

calendar year in which the taxable year begins, determined by substituting 'calendar year 1998' for 'calendar year 1992' in subparagraph (B) thereof.

'(B) ROUNDING- If any amount as adjusted under subparagraph (A) is not a multiple of \$5,000, such amount shall be rounded to the next lowest multiple of \$5,000.'

(d) CLERICAL AMENDMENT- The table of sections for part VII of subchapter B of chapter 1 of such Code is amended by striking the item relating to section 222 and inserting the following new items:

'Sec. 222. Education individual retirement accounts.

'Sec. 223. Cross references.'

(e) EFFECTIVE DATE- The amendments made by this section shall apply to contributions made in taxable years beginning after December 31, 1998.

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**PRESIDENT CLINTON and VICE PRESIDENT GORE:
TAX CUT PLAN FOR WORKING FAMILIES UNIVERSAL SAVINGS
ACCOUNTS PLUS TARGETED TAX CUTS**

President Clinton has worked to deliver tax relief to America's working families. In 1993, the President delivered a tax cut to 15 million working families through an expanded ETC.. Then, in 1997, the President delivered a \$500 child tax credit and \$1,500 HOPE Scholarships to make the first two years of college universally available. The result: the lowest federal tax burden in two decades for a typical middle-income family. To build on this record of tax relief for working families, President Clinton proposes significant new tax relief for America's working families:

USA Accounts -- A \$536 Billion Tax Cut Over 15 Years

The President's plan would allocate 12 percent of the projected surpluses to create new Universal Savings Accounts (USAs) so all working Americans can build wealth to meet their retirement needs. Elements of this powerful new tax incentive -- the USA account -- could, for example, include:

- ✓ Automatic flat annual contributions for low and moderate working Americans;
- ✓ An additional tax incentive to match a portion of each dollar on a progressive basis that an individual voluntarily contributes.

Additional Tax Cuts for Working Families

The President's budget provides \$34 billion over five years in additional paid-for targeted tax relief to modernize our schools, to help working families care for elderly parents, and to better afford child care. Highlights of the President's tax relief plan include:

Make Health Care More Affordable

- **A \$1,000 Long-term Care Tax Credit** to help pay for formal and informal long-term care services for about 2 million Americans, including 1.2 million older Americans, over 500,000 non-elderly adults, and approximately 250,000 children at a cost of \$5.6 billion over five years.
- **A \$1,000 Tax Credit for Work-related Expenses for People with Disabilities** to help cover the formal and informal costs that are associated with employment, such as special transportation and technology needs. This tax credit will help 200,000 to 300,000 Americans, and costs \$700 million over 5 years.

Expand Education Tax Incentives

- **Tax Credits to Build Modern Schools for Our Children.** A centerpiece of the President's tax cut agenda is to provide Federal tax credits to pay interest on nearly \$25 billion in bonds to build and renovate public schools. Two types of bonds are being proposed: School Modernization Bonds (\$22.4 billion) and Qualified Zone Academy Bonds (\$2.4 billion). \$400 million of the school modernization bonds will go to tribes or tribal organizations for the construction and renovation of BIA funded schools. The tax credits on these bonds will cost \$3.7 billion over 5 years.

add

Other Education Tax Incentives include the elimination of the 60-month limit on student loan interest deduction at a cost of \$281 million over five years; an 18 month extension and an

expansion of the tax- favored treatment of employer provided education (Section 127); a new 10% credit for employer-provided workplace literacy and basic education programs; a 50 percent credit for corporate sponsorship payments to qualified zone academies.

Make Child Care More Affordable

- **Tax Relief for Child Care for Three Million Working Families, Plus Tax Relief to Parents Who Stay at Home.** The President's proposal increases the child and dependent care tax credit (CDCTC) for families earning up to \$59,000, providing an additional average tax cut of \$345 for these families and eliminating income tax liability for almost all families with incomes below 200% of poverty (\$35,000 for a family of four) that claim the maximum allowable child care expenses. The President also proposes to enable parents who have children under one year old to take advantage of the CDCTC by allowing them to claim assumed child care expenses of \$500. The President's budget proposal will provide an average tax credit of \$178 and will benefit 1.7 million families. Overall, this combined proposal costs \$6.3 billion over five years.

Provide Incentives to Revitalize Communities

- **Better America Bonds.** The President is proposing Federal tax credits to pay the interest on \$9.5 billion in bonds over five years for investments by state, local and tribal governments. The bonds can be used to preserve green space, create or restore urban parks, protect water quality, and clean up brownfields (abandoned industrial sites). The cost is \$673 million over five years.
- **New Markets Tax Credit.** To help spur \$6 billion in new equity capital for investment in America's New Markets, President Clinton is proposing a tax credit worth up to 25 percent for investments in a wide range of vehicles targeted to underserved communities, including community development banks, community development corporations and venture capital funds, and new targeted investment vehicles proposed by President Clinton known as America's Private Investment Companies (APICs) and New Market Venture Capital Firms. A wide range of businesses could be financed by these investment funds, including small technology firms, inner-city shopping centers, manufacturers with hundreds of employees, and retail stores. The proposal costs roughly \$980 million over five years.
- **Increase the Low-Income Housing Tax Credit.** To expand and improve the supply of available low income housing, the budget raises the allocation of low-income housing tax credits to States. The President proposes to raise the State per capita cap from \$1.25 to \$1.75 beginning in 2000 at a cost of \$1.7 billion over five years. This increase will lead to an additional 150,000 to 180,000 units of affordable housing over five years.

Increasing Energy Efficiency and Improve the Environment

- **Tax Credits For More Fuel Efficient Vehicles and Homes.** The budget contains \$3.6 billion over the next 5 years in tax cuts for energy-efficient purchases and renewable energy, including: tax credits of between \$1,000 and \$4,000 for consumers who purchase advanced-technology, highly fuel-efficient vehicles; a 15 percent credit (up to \$2,000) for purchases of rooftop solar equipment -- to provide incentives for meeting the Million Solar Roofs goal; and a tax credit of up to \$2,000 for purchasing energy-efficient new homes.

Extend Expiring Provisions

- **One-year extenders package including the Work Opportunity Tax Credit, the Welfare-to-Work Tax Credit, and the R & E Tax Credit.**
- **Personal Credits and the Alternative Minimum Tax (AMT).** The deductibility of personal credits,

such as the \$500 child tax credit, the HOPE Scholarship, the CDCTC, and Lifetime Learning tax credit against the AMT would be extended for two years -- tax years 1999 and 2000 -- at a cost of \$1.4 billion over five years. Extending this provision will greatly simplify tax preparation for millions of families.

Curb Corporate Tax Shelters and Reduce Unwarranted Tax Subsidies

The \$34 billion over five years in targeted tax cuts are paid for with proposals to curb corporate tax shelters and reductions in unwarranted tax subsidies. Addressing tax shelters is important to stem perceptions of unfairness and disrespect for the system. The budget increases disincentives for entering into abusive transactions and attacks specific tax shelter transactions. The Treasury will continue to study additional remedies for corporate tax shelters and will work with Congress to address this issue.

IMPROVING ACCESS TO HIGHER EDUCATION

I. Administration Position

-Accomplishments Document

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Administration Position

**CLINTON/GORE ACCOMPLISHMENTS IN EDUCATION
IMPROVING ACCESS TO HIGHER EDUCATION**

PAST ACCOMPLISHMENTS/Budget Wins as updated 5/99

***Opportunity through Tax Credits-** college is now more universally available due to the HOPE Scholarship program which allows a \$1,500 tax credit for the first two years of college. Through the Lifetime Learning Credit a 20% tax credit is available to offset tuition costs for the later years of learning. This credit helps offset tuition costs for college juniors, seniors, graduate and professional degree students, and adults who go back to school, change careers, or take courses to upgrade skills.

***Opportunity through Education IRAs-** for each child under the age of 18, families may now deposit \$500 a year into an Education IRA in a child's name. Interest on these accounts is exempt from taxation if used for higher education. As of January 1998, taxpayers are also allowed to withdraw funds from regular IRAs, without penalty, for higher education expenses of their own, their spouses, their children or their grandchildren.

***Opportunity through Work Study and Increased Pell Grants-** Nearly one million students will be able to work their way through college due to the expansion of the Work Study Program. Nearly four million students will receive a Pell Grant in 1999 of up to \$3,125, the largest maximum award ever [up from \$2,300 in 1993].

***Affordability through Student Loans-** through the Administration's efforts, student fees and interest rates on all loans have been cut, options for repayment have been expanded to include an income contingent plan, and service through the Direct Loan Program has been improved.

***Preparing Youth for College through GEAR-UP/TRIO-** the Gear-Up program is a new program established by the Administration to help 100,000 low income middle school children prepare for and apply for college. In FY99 \$600 million was also appropriated to the TRIO college preparation program.

***Paying for College through Community Service-** through AmeriCorps, more than 100,000 young people have served their communities while earning money for college and building applicable workforce skills.

***Increased Funding for HBCU's -** Funding for Historically Black Colleges and University was increased over \$250 million between FY92-98—an increase of nearly 25 percent.

***Increased Funding for HIS's-** the Administration has gradually increased support for Hispanic Serving Institutions by 11%. HIS's are colleges or universities with at least 25% Hispanic enrollment.

***Accrediting Tribal Colleges and Universities-** the President has signed an executive order to ensure full accreditation to Tribal Colleges and Universities while giving them the tools and resources to do so.

CURRENT INITIATIVES

FY2000 Budget Initiatives

***Increased Pell Grants-** the Budget provides over \$7 billion to raise the Pell maximum award to \$3,250, a \$125 increase.

***More Work Study-** the Budget proposes \$934 million for the Work Study program, a \$64 million increase over 1999. This level provides enough funding to meet the President's goal of providing one million students the opportunity to work their way through college by 2000.

***Doubling Gear Up-** the budget doubles funding for the GEAR-UP program from \$120mill in FY99 to \$240million in FY2000. In 2,000, GEAR-UP will help 381,000 middle school students prepare for college.

***Preparing Disadvantaged Youth for College-** the budget includes a \$30million increase in the federal TRIO program which funds outreach, counseling and educational support to disadvantaged students preparing for academic success in college. The budget also includes \$35 million for a new initiative to help disadvantaged students stay in college and earn their diplomas.

**PRESIDENT CLINTON:
EXPANDING COLLEGE OPPORTUNITIES FOR ALL**

October 7, 1998

"I can think of no more worthy aim for a piece of legislation than to bring the riches of higher learning to the next generation of Americans. I know the Congressmen assembled here share the pride and awe I feel as I make this noble legislation the law of the land."

President Bill Clinton
October 7, 1998

Today, President Clinton is joined at the White House by Education Secretary Richard Riley and a bi-partisan group of Congressional members as he signs legislation extending the Higher Education Act and enacts five important new initiatives to improve educational opportunities, teacher preparation, and recruitment.

EXTENDING EDUCATIONAL OPPORTUNITIES, STRENGTHENING HIGHER EDUCATION. The Higher Education Act, originally enacted in 1965, authorizes many of the federal government's programs to increase access to college, including federal Pell grants, student loans, work-study, as well as programs to improve teacher training, strengthen developing institutions, and promote innovation. Today, President Clinton is signing legislation reauthorizing the Higher Education Act for five years, and including proposals requested by the President that:

- **Slash The Student Loan Interest Rate** by extending the the student loan rate for college of 7.46 % for an additional five years, down from 8.25 %, saving students \$11 billion over the next five years;
- **Help Disadvantaged Children Prepare For College.** The legislation launches a new national effort based on the President's High Hopes for College Initiative to help disadvantaged students prepare for college. This program, called GEAR UP, that provides competitive grants to colleges that partner with high-poverty middle schools and families to inform them *as early as possible* about financial aid available for college, and to provide long-term mentoring and tutoring;
- **Improve Teacher Preparation And Recruitment.** This legislation includes the President's proposals and more, it: (1) provides grants between teacher education institutions and school districts to produce teachers who have strong teaching and technology skills; (2) recruits additional teachers for high-need areas through grants to partnerships between high-quality teacher education programs and locals schools; (3) supports state-level efforts to improve teacher quality through grants to strengthen teacher certification, create alternative ways into teaching, hold higher education institutions responsible for the quality of teacher they prepare, and recruit high-quality teachers; (4) strengthens accountability in teacher education by requiring that states and teacher education institutions report on teacher preparation, including their students' performance on teacher licensing exams;
- **Promote High Quality Distance Education.** This legislation authorizes the Learning Anytime Anywhere Partnership (LAAP) program, that will provide grants to partnerships between schools and other entities to create new distance learning models, explore the efficacy of cost reduction through institutional partnerships, and develop innovative measures of student achievement in distance education. This legislation also expands student aid eligibility for distance learners -- nontraditional students, such as full-time workers, parents, and people in rural areas who are in higher education programs;
- **Is An Historic Step Toward A New Model Of Government.** This bill creates a Performance-Based Organization (PBO) to deliver financial aid -- loans, grants, work-study and other assistance -- that will be led by an executive with expertise in information technology and experience with financial systems, who reports directly to the Secretary of Educations and has new administrative flexibility in exchange for increased accountability for results.

**PRESIDENT CLINTON AND VICE PRESIDENT GORE:
COLLEGE OPPORTUNITY FOR EVERYONE**

February 25, 1998

"Student loans are already less expensive and easier to repay, and now you get to deduct the interest... Because of what we have done, we can make college as universal in the 21st Century as high school is today. And, that will change the face and future of America."

President Bill Clinton
January 27, 1998

Today, Vice President Gore announces an Administration proposal to move forward with a scheduled 10% reduction in the interest rate on student loans, while improving the program to help ensure lenders an adequate profit.

STUDENTS WILL BENEFIT SUBSTANTIALLY FROM THE INTEREST RATE CUT. Under reforms enacted in the 1993 budget deal, the interest rate on student loans will drop by an estimated 10% on July 1, reducing the rate students are projected to pay on loans from an average 7.8% over the next five years to 7.0%. This drop will save borrowers hundreds of dollars in interest.

LOWER RATES CAN BE PROFITABLE FOR LENDERS. To eliminate unnecessary costs to lenders, the Administration is proposing that the formula for setting the interest rate be adjusted so that it more closely tracks lenders' own financing practices, eliminating inefficiencies, and making a lower rate possible for student borrowers.

THE LARGEST INVESTMENT IN HIGHER EDUCATION IN 50 YEARS. This announcement is part of the Administration's efforts to identify fiscally responsible policies that help strengthen education and expand college opportunity. To expand college opportunity the President and Vice President are:

- **Improving Access and Opportunity for Student Loans.** More than 5 million students and parents will take out \$30 billion in Federally-backed student loans this year. Under this Administration, the up-front fees on those loans have been cut by as much as half, interest costs are lower, and students have more repayment options than ever before, including the pay-as-you-earn (income contingent) repayment plan.
- **Increasing Investment for Pell Grants.** For two years, President Clinton has proposed record increases in the maximum Pell Grant award. Nearly 4 million low-and moderate-income students will receive a Pell Grant of up to \$3,000, 30% more than when President Clinton came into office.
- **Promoting the Hope Scholarship Credit.** Families are eligible for tax credits of up to \$1500 per-student for tuition in a student's first year and another \$1500 in the second year. 5.8 million students are estimated to benefit annually.
- **Proposing Education IRAs.** For each child under age 18, families may now deposit \$500 per year into an Education IRA in the child's name. Interest on these accounts is exempt from taxation if used for higher education.
- **Initiating a Life Time Learning Credit.** This tax credit helps offset tuition costs for college juniors, seniors, graduate and professional degree students, and adults who go back to school, change careers, or take courses to upgrade their skills.

**PRESIDENT CLINTON:
PREPARING FOR COLLEGE: MENTORING AMERICA'S YOUTH**

February 4, 1998

"I also ask this Congress to support our efforts to enlist colleges and universities to reach out to disadvantaged children starting in the sixth grade so that they can get the guidance and hope they need so they can know that they, too, will be able to go on to college."

President Bill Clinton
January 27, 1998

Today, President Clinton announces a new initiative to inspire more young people to have high expectations, to stay in school and study hard, and to go to college. The High Hopes initiative is a long-term investment -- starting with \$140 million in the FY 99 Budget -- that promotes partnerships between colleges and middle or junior high schools in low-income communities, to help teach students how they should go to college by informing them about college options, academic requirements, costs, and financial aid, and by providing support services -- including tutoring, counseling, and mentoring.

EDUCATING FAMILIES EARLY ON: COLLEGE IS WITHIN REACH. Families need to know that college is affordable regardless of their income. The President's High Hopes initiative provides children and their families at middle and junior high schools in low-income communities with a 21st Century Scholar certificate, an official, early notification of the amount of their eligibility for Federal college aid.

PROVIDING CHILDREN WITH THE SUPPORT THEY NEED. To make the hope of a college education a reality, the High Hopes initiative encourages degree-granting colleges to establish partnerships with middle and junior high schools with large concentrations of low-income children. Working with parents, community and religious groups, and businesses, these partnerships provide information about what it means and what it takes to go to college, as well as support services -- such as mentoring, tutoring, college visits, summer programs, after-school activities, and counseling -- to help the children stay on track. The partnerships will help ensure that children have access to the rigorous core courses that prepare them for college and let parents know how they can help their children prepare for college.

STAYING WITH CHILDREN THROUGH HIGH SCHOOL GRADUATION. This new initiative is flexible, allowing partnerships to design their own efforts based on local needs and resources. But, to ensure effectiveness, the programs must:

- begin reaching out to children by the 7th grade;
- continue to help each student through graduation from high school; and,
- help all students in a class, not just the ones who get the best grades.

REACHING MORE THAN 1 MILLION STUDENTS. The President's Budget calls for a \$140 million investment in new High Hopes partnerships in 1999, and an additional \$70 million for new partnerships in each of the years 2000 and 2001 (as well as continuation funds for the original partnerships). If each project begins with one sixth or seventh grade class, this would fund partnerships with 2,500 middle and junior high schools. If each project adds an incoming class each year, more than 1 million students would be served over five years.

WIDESPREAD SUPPORT. Everyone agrees, the High Hopes initiative is the way to go. More than 300 college presidents, 60 organizations (including Big Brothers/Big Sisters, NAACP, and a variety of other education and religious groups), and 68 members of the House -- Democrats and Republicans -- have endorsed the initiative.

COLLEGE OPPORTUNITY FOR EVERYONE:
PREPARING AMERICANS FOR THE 21st CENTURY

January 9, 1998

"Thanks to brand-new HOPE scholarships and other initiatives, money will no longer be an obstacle to a college education. For the first time in the nation's history, the only prerequisites to college are preparation and desire. We have delivered on our promise to make 13th and 14th grades as accessible as high school is today. Now you need to seize this opportunity to help us build the promise of America."

President Bill Clinton
January 9, 1998

Today, the President reaffirmed his commitment to further expand educational opportunity for all Americans and he fulfilled another of his educational opportunity commitments by announcing that his balanced budget proposal will include a \$70 million increase in funding for the Federal Work-Study Program.

THE LARGEST INVESTMENT IN HIGHER EDUCATION IN 50 YEARS. President Clinton continues to identify fiscally responsible policies that help strengthen education and expand college opportunity. To expand college opportunity the President is:

- **Expanding Work Study Opportunities.** The Federal-Work Study Program offers undergraduate and graduate students part-time work to help meet their financial needs and to give them work experience helping the campus and surrounding communities. The funding in the President's budget proposal will bring the total number of projected work-study participants to just over one million in the 1999-2000 school year -- a full year earlier than promised.
- **Promoting the Hope Scholarship Credit.** This helps make the first two years of college (or post-high school vocational training) universally available. Families are eligible for tax credits of up to \$1500 per-student for tuition in a student's first year and another \$1500 in the second year. 5.8 million students are estimated to benefit annually.
- **Proposing Education IRAs.** For each child under age 18, families may now deposit \$500 per year into an Education IRA in the child's name. Interest on these accounts is exempt from taxation if used for higher education. Taxpayers can withdraw funds from a regular IRA, without penalty, for their own higher education expenses or their spouse, child, or grandchild.
- **Initiating a Life Time Learning Credit.** This tax credit helps offset tuition costs for college juniors, seniors, graduate and professional degree students, and adults who go back to school, change careers, or take courses to upgrade their skills. Families receive a 20% tax credit for the first \$5,000 of tuition and required fees paid each year through 2002, and for the first \$10,000 thereafter. 7.1 million students are expected to benefit annually.
- **Increasing Investment for Pell Grants.** For two years, President Clinton has proposed, and Congress has adopted, record increases in the maximum Pell Grant award. Next year, nearly 4 million low-and moderate-income students will receive a Pell Grant of up to \$3,000, 30% more than when President Clinton came into office.
- **Improving Access and Opportunity for Student Loans.** More than 5 million students and parents will take out \$30 billion in Federally-backed student loans this year. Under student loan reforms enacted in the Administration's first year, the up-front fees on those loans have been cut by as much as half, interest costs are lower, and students have more repayment options than ever before, including the pay-as-you-earn (income contingent) repayment plan. The program simplification pioneered by the Direct Loan Program has also spurred improvements to the government-guarantee system, improving all students' access to loans.
- **Instituting AmeriCorps -- a Responsible Way to Pay for College by Doing Community Service.** This year, nearly 50,000 young people will take advantage of the opportunity to perform community service, either on a full-time or part-time basis, allowing them to earn an award to pay for college or repay student loans. Participants in the AmeriCorps program earn education awards of up to \$4,725 for each year of service.

Department of Education
Programs and Policies



SFA Home Page

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Reauthorization 1998: Changes to the law governing the Student Financial Assistance Programs



Every six years, Congress reauthorizes the Higher Education Act of 1965, the law that establishes the Student Financial Assistance (SFA) Programs. On October 7, 1998, President Clinton signed into law the most recent reauthorization of these programs. This fact sheet describes some of the changes made by the new law.

Loan Interest Rates Drop ... The interest rates for **Stafford Loans** have been reduced. Rates remain variable, but the formula used to determine the rate each year has changed, producing lower rates. For this year (July 1, 1998 through June 30, 1999), the rate is 7.46% during repayment and 6.86% while students are in-school, or in a deferment or grace period. ▲ **Direct Consolidation Loans** made after January 31, 1999 will have fixed interest rates set by the weighted average of the loans being consolidated, rounded up to the next highest one-eighth of one percent (not to exceed 8.25%). For more information on the advantages of loan consolidation and how to apply, see the [Direct Consolidation Loans](#) site. ▲ **Federal Consolidation Loans** (made by private lenders) will have the same fixed rate, effective October 1, 1998.

Aid Amounts Increase ... The annual maximum for **Federal Perkins Loans** has been increased to \$4,000 for undergraduates and to \$6,000 for graduate students. ▲ The law authorizes **maximum annual Pell Grant awards** ranging from \$4,500 in the 1999-2000 academic year to as much as \$5,800 in the 2003-2004 academic year. Note that the actual maximum for each of these academic years will be determined by the amount Congress appropriates for the program. Historically, the amount appropriated has resulted in maximum awards that are greater than the awards in previous years, but less than the authorized award.

Canceling or Deferring Student Loans ... If a Stafford Loan borrower who is seeking an **unemployment deferment** can provide documentation that he or she is eligible for unemployment benefits, the borrower does not need to provide any additional documentation to get the deferment. ▲ The law establishes a loan forgiveness program, starting October 1, 1998 for new Stafford Loan borrowers (with no outstanding balance on a loan from the SFA Programs) who serve as **teachers in designated low-income schools**. The borrower must teach in a low-income school for five consecutive, complete school years to qualify for cancellation. This program repays loans up to \$5,000. ▲ A similar loan forgiveness program is authorized for Federal Stafford Loan borrowers who are **child care providers**. This is a demonstration program and will not be available until Congress appropriates funds for that purpose. ▲ Stafford, PLUS, and Federal Supplemental Loans for Students may now be cancelled in cases where a **school fails to make a required refund** to the lender. The amount cancelled may not exceed the amount of the refund that the

school should have made.

Loan Default Timeframe Extended ... Under the new law, a Stafford, PLUS, or Consolidation loan that is repayable in monthly installments must be **delinquent for 270 days** before it can be declared to be in default. (Previously, a loan defaulted when the borrower did not make payments for 180 days.)

More about eligibility ... The law suspends student aid eligibility for students convicted of certain **drug-related offenses**. A student who is convicted under federal or state law of drug possession be ineligible for one year after the first offense, and two years for a second offense. ▲ If the student is convicted for selling drugs, he or she will be ineligible for two years for a first offense, and indefinitely for a second offense. Federal Pell Grants **will no longer be available** at schools that have lost their eligibility to make Stafford and PLUS Loans because the school has a **high number of borrowers in default**. (If a school's default rate is 25% or greater for three consecutive years, it is subject to loss of eligibility for the Stafford and PLUS Loan Programs.)

Applying for Student Aid ... The law now allows a school to include a reasonable allowance in the student's **cost of attendance** for the documented rental or purchase of a **personal computer**. ▲ Previously, the law set minimum amounts schools could use in the room and board allowance for students not living in school housing. These **minimums for off-campus housing** are now eliminated; the school determines the amounts. ▲ The Expected Family Contribution (EFC) formula has been modified by **increasing the income protection allowances** for both dependent and independent students. The increase in the protection allowance means that students will be expected to contribute less of their income towards college expenses. ▲ The EFC is no longer automatically reduced if one of the student's parents is attending college. ▲ However, a school may, on a case-by-case basis, make adjustments to take into account the costs of a parent going to college. The law now gives **examples of some of the circumstances under which a financial aid administrator may adjust EFC data elements** -- for instance, the EFC may be adjusted to consider the family's elementary and secondary tuition expenses, their medical and dental expenses not paid for by insurance, unusually high child care expenses, a family member's recent unemployment, a parent's own education expenses, or other changes in a family's income, a family's assets, or a student's status. ▲ The Department will verify the **immigration status and Social Security Number for parents** who are applying for PLUS Loans. This verification will take place through the same tape matches with the Social Security Administration and the Immigration and Naturalization Service that are used to verify student application information.

State Program Name Change ... The State Student Incentive Grant (SSIG) Program -- which is a federal and state partnership -- will now be called **Leveraging Educational Assistance Partnership (LEAP) Program**.

This page last updated March 5, 1999 (lmh).

Student Financial Assistance Programs
U.S. Department of Education
Federal Pell Grants • Federal Supplemental Educational
Opportunity Grants • Federal Work Study
• Federal Perkins Loans
• Federal Stafford Loans • Federal PLUS Loans

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**OFFICE OF
POSTSECONDARY
EDUCATION**

U.S. Department of Education The HOPE Scholarship and Lifetime Learning Credits

- Letter from Secretary Riley to College Presidents
- Families' Guide to the 1997 Tax Cuts for Education
- IRS Notice 97-60: Questions and Answers
 - IRS Notice 97-73: Returns Relating to Higher Education and Related Expenses
- IRS Notice 98-7: Returns Relating to Interest on Education Loans
 - Applicability of the Family Educational Rights and Privacy Act (FERPA)
 - IRS Publication 970: Tax Benefits for Higher Education (in portable document format (147K) - requires Adobe Acrobat Reader)
 - Balanced Budget Act of 1997
 - Taxpayer Relief Act of 1997

*"A balanced budget that honors our values,
invests in our people, and cuts taxes for middle class families."
~~Bill Clinton*

Background:

On August 5, 1997 the President signed both the Balanced Budget Act of 1997 and the Taxpayer Relief Act of 1997. The Taxpayer Relief Act of 1997 provides for the HOPE Scholarship and Lifetime Learning Credits and opens the doors of college to a new generation, with the largest investment in higher education since the G.I. Bill 50 years ago. The IRS has published Notice 97-60: Questions and Answers to provide guidance on the higher education tax incentives enacted by the Taxpayer Relief Act of 1997 (Pub. L. No. 105-34, 111 Stat. 788) (TRA '97). The Families' Guide to the 1997 Tax Cuts for Education provides additional information to students and parents on these new tax cuts as well.

The centerpiece of President Clinton's budget and middle class tax cut proposal has been promoting expanded educational opportunity. The President has long understood that our changing economy demands that people have opportunities 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 benefit for lifetime learning. The Taxpayer Relief Act of 1997 enacts the President's proposals. When fully phased in, 13.1 million students--5.9 million claiming the HOPE Scholarship, and 7.2 million claiming the Lifetime Learning Credit--are expected to benefit each year.

Overview:

\$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% of the first \$1,000 of tuition and fees and 50% of 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 and 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.

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. 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 phased out for joint filers with incomes between \$60,000 and \$75,000, and to single filers with incomes 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 post-secondary expenses for tuition, fees, books, equipment, room, and board.

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.

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 up to \$5,250 of employer-provided education benefits from their taxable income.

Community Service Loan Forgiveness. Excludes from taxable income loan amounts forgiven by non-profit, tax-exempt charitable or educational institutions for borrowers who take community-service jobs addressing unmet needs.

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.

To learn more about other Federal financial aid programs, check out the [Student Guide on the Office of Postsecondary Education web site.](#)



Department of Education
Office of Postsecondary Education
Regional Office Building 3 (ROB-3)
7th and D Streets, SW
Washington, DC 20202
Comments



This page last updated April 12, 1999 [[saw](#)]



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UNITED STATES DEPARTMENT OF EDUCATION
THE SECRETARY

December 3, 1998

Dear President:

I am writing to seek your assistance to ensure that your students and their families fully achieve the benefits of the Hope Scholarship and Lifetime Learning tax credits.

On August 5, 1997, President Clinton signed both the Balanced Budget Act of 1997 and the Taxpayer Relief Act of 1997. These historic legislative accomplishments put the Nation's financial house in order while providing needed, targeted tax relief for America's working families struggling to pay for college.

The President's Hope Scholarship and Lifetime Learning tax credits, which are worth up to \$1,500 for each student and \$1,000 per family, respectively, will help taxpayers pay college expenses for themselves and their children.

In developing these tax credits, we wanted to ensure that they would provide additional help for families to pay for college and not simply substitute for existing sources of financial assistance. At the Federal level, we did not want to force any student to lose a Pell Grant, for example, as a result of benefiting from a tax credit. Consequently we proposed, and the Congress enacted last year, a change to the eligibility formulas to ensure that receipt of a Hope Scholarship or Lifetime Learning tax credit would not reduce any student's eligibility for Federal student financial assistance. Similarly, we hope that these tax benefits will not be shifted from families to colleges and universities through increased tuition charges.

Therefore, I urge colleges, universities, and State legislatures to follow our lead in ensuring that the new tax credits truly reduce families' college expenses, and I see encouraging signs that this will happen.

First, a number of institutions have announced that they will not reduce institutional financial aid awards to students whose families benefit from the tax credits, while others have plans to increase aggregate institutional aid for low-income as well as middle-income students. Second, the recent College Board report indicates that this year's tuition increases will average about four percent, continuing the recent trend of smaller annual tuition increases even though the new tax credits are now in place. Third, a number of States are developing, as Massachusetts already has, a comprehensive plan of reduced tuition charges, increased grant aid, and Federal tax credits to make community college free, or nearly free, for most students.

I am optimistic that more colleges, universities, and State legislatures will take similar steps, and I am counting on you to help ensure that America's families receive the benefits intended for them from the Hope Scholarship and Lifetime Learning tax credits.

Yours sincerely,
Richard W. Riley

-###-



[Return to HOPE Scholarship page](#)

This page last updated -- December 3, 1998, (gkp)

Families' Guide

to the 1997 Tax Cuts for Education

| Hope Scholarship tax credit for students starting college (first two years/vocational study) |
 | Lifetime learning tax credit (juniors, seniors, graduate/professional, and adult learners) |
 | Education IRAs and withdrawals from other IRAs (parents and grandparents) |
 | Greater flexibility for families saving in State tuition plans |
 | Paying back student loans at a lower cost |
 | Going to school while you work | Community service loan forgiveness |

Many new tax benefits for adults who want to return to school and for parents who are sending or planning to send their children to college will be available due to the balanced budget signed into law in August, 1997. These tax cuts effectively make the first two years of college universally available, and they will give many more working Americans the financial means to go back to school if they want to choose a new career or upgrade their skills. When fully phased in, 12.9 million students are expected to benefit -- 5.8 million under the "HOPE Scholarship" tax credit, and 7.1 million under the Lifetime Learning tax credit.

Up to a \$1,500 "HOPE Scholarship" tax credit for students starting college

The "HOPE Scholarship" tax credit helps make the first two years of college or vocational school universally available. Students will receive a 100% tax credit for the first \$1,000 of tuition and required fees and a 50% credit on the second \$1,000. This credit is available for tuition and required fees less grants, scholarships, and other tax-free educational assistance and will be available for payments made after December 31, 1997 for college enrollment after that date. A high school senior going into his or her freshman year of college in September, 1998, for example, could be eligible for as much as a \$1,500 HOPE tax credit.

This credit is phased out for joint filers who have between \$80,000 and \$100,000 of adjusted gross income, and for single filers who have between \$40,000 and \$50,000 of adjusted gross income. The credit can be claimed in two years for students who are in their first two years of college or vocational school and who are enrolled on at least a half-time basis in a degree or certificate program for any portion of the year. The taxpayer can claim a credit for his own tuition expense or for the expenses of his or her spouse or dependent children.

A married couple with an adjusted gross income of \$60,000 has two children in college at least half-time, one at a community college with a tuition of \$2,000 and the other a sophomore at a private college with tuition of \$11,000. Using the HOPE Scholarship tax credit, this couple would have their taxes cut by as much as \$3,000.

The Lifetime Learning tax credit

This tax credit is targeted to adults who want to go back to school, change careers, or take a course or two to upgrade their skills and to college juniors, seniors, graduate and professional degree students. A family will receive a 20% tax credit for the first \$5,000 of tuition and required fees paid each year through 2002, and for the first \$10,000 thereafter. Just like the "HOPE Scholarship" tax credit, the Lifetime Learning tax credit is available for tuition and required fees less grants, scholarships, and other tax-free educational assistance; families may claim the credit for amounts paid on or after July 1, 1998 for college or vocational school enrollment beginning on or after July 1, 1998. The maximum credit is determined on a per-taxpayer (family) basis, regardless of the number of post-secondary students in the family,

and is phased out at the same income levels as the "HOPE Scholarship" tax credit. Families will be able to claim the Lifetime Learning tax credit for some members of their family and the "HOPE Scholarship" tax credit for others who qualify in the same year.

A homemaker, whose family has an adjusted gross income of \$70,000, wants to attend a graduate teacher training program at a public university (\$3,500 tuition) after being out of college for 20 years. Using the Lifetime Learning credit, her family's income taxes would be cut by as much as \$700.

*A married couple has an adjusted gross income of \$32,000. The husband who is working as an **automobile mechanic** decides to go back to a local technical college to take some computer classes in the hope of getting a better job. He will pay a tuition of \$1,200. Using the Lifetime Learning credit, this family would have their taxes cut by as much as \$240.*

Parents and grandparents can create education IRAs and make penalty-free withdrawals from other IRAs

Beginning January 1, 1998, taxpayers may withdraw funds from an IRA, without penalty, for their own higher education expenses or those of their spouse, child, or even grandchild. In addition, for each child under age 18, families may deposit \$500 per year into an Education IRA in the child's name. Earnings in the Education IRA will accumulate tax-free and no taxes will be due upon withdrawal if the money is used to pay for post-secondary tuition and required fees (less grants, scholarships, and other tax-free educational assistance), books, equipment, and eligible room and board expenses. Once the child reaches age 30, his or her Education IRA must be closed or transferred to a younger member of the family.

A taxpayer's ability to contribute to an Education IRA is phased out when the taxpayer is a joint filer with an adjusted gross income between \$150,000 and \$160,000, or a single filer with an adjusted gross income between \$95,000 and \$110,000. There are a few restrictions. A student, for example, who receives the tax-free distributions from an Education IRA may not, in the same year, benefit from the "HOPE Scholarship" or Lifetime Learning tax credits.

Greater flexibility for families saving in qualified State tuition plans

When a family uses a qualified State-sponsored tuition plan to save for college, no tax is due in connection with the plan until the time of withdrawal as a result of a law passed last year. This year's change in law allows families to use these plans to save not only for tuition but also for certain room and board expenses for students who attend on at least a half-time basis. Tuition and required fees paid with withdrawals from a qualified State tuition plan are eligible for the "HOPE Scholarship" tax credit and Lifetime Learning tax credit. These benefits are available on January 1, 1998.

Paying back student loans at a lower cost

For many college graduates, one of their first financial obligations is to repay their student loans, which average about \$13,500 per student. The new student loan interest deduction will reduce the burden of the repayment obligation by allowing students or their families to take a tax deduction for interest paid in the first 60 months of repayment on student loans. The deduction is available even if an individual does not itemize other deductions.

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 phased out for joint filers with adjusted gross income between \$60,000 and \$75,000, and single filers with adjusted gross income between \$40,000 and \$55,000. The deduction is available for all educational loans, including loans made to students, parents, guaranteed student loans, and loans from private lenders, made before August of 1997 when

the new student loan interest deduction became law but only to the extent that the loan is within the first 60 months of repayment.

A senior graduates from college and finds a job paying \$25,000 a year (and has no other income). The student has a total student debt of \$12,000 and is in the 15% federal income tax bracket. The monthly payment for this student's loans is \$148. The total amounts of payments for the first year is \$1,776, over half of which is interest (\$960) which can be deducted under the new law. The student's maximum tax benefit can be calculated by multiplying \$960 by 15%: for a tax savings of \$144.

Going to school while you work

The new tax law extends Section 127 of the tax code for three years. Section 127 allows workers to exclude up to \$5,250 of employer-provided education benefits from their income. The assistance must be for undergraduate courses beginning prior to June 1, 2000. This provision will enable many Americans to pursue their goals of lifelong learning.

Community service loan forgiveness

This provision excludes from income student loan amounts forgiven by non-profit, tax-exempt charitable or educational institutions for borrowers who take community-service jobs that address unmet community needs. For example, a recent graduate who takes a low-paying job in a rural school will not owe any additional income tax if in recognition of this service her college or another charity forgives a loan it made to her to help pay her college costs. This provision applies to loans forgiven after August 5, 1997.

The balanced budget bills signed by President Clinton include many other provisions that will help all of the young people in America grow and learn and help families navigate through these changing times. The new tax law includes a provision to encourage computer donations to schools. The balanced budget agreement protects and advances President Clinton's top domestic priorities, such as expansion of Head Start, and an increase in the maximum Pell grant for college to \$3,000. All of these benefits and tax cuts have one goal: to give parents the support they need to give their children a first class education and hope for the future.

For information on additional student aid programs that will help meet the costs of college and lifelong learning for you, your children and grandchildren, please call 1-800-4FED-AID. For information on the importance of getting ready for college early, especially middle school students, call 1-800-USA-LEARN.

***(This is an informational guide produced by the Department of Education;
for detailed tax information and instruction please consult your
IRS tax forms and publications to see if you qualify.)***

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Part III - Administrative, Procedural, and Miscellaneous

Education Tax Incentives

Notice 97-60

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Notice 97-60: Questions and Answers About the Taxpayer Relief Act of 1997

Discussion

Section 1. The HOPE Scholarship Credit

Beginning January 1, 1998, taxpayers may be eligible to claim a nonrefundable Hope Scholarship Credit against their federal income taxes. The Hope Scholarship Credit may be claimed for the qualified tuition and related expenses of each student in the taxpayer's family (i.e., the taxpayer, the taxpayer's spouse, or an eligible dependent) who is enrolled at least half-time in one of the first two years of postsecondary education and who is enrolled in a program leading to a degree, certificate, or other recognized educational credential. The amount that may be claimed as a credit is generally equal to: (1) 100 percent of the first \$1,000 of the taxpayer's out-of-pocket expenses for each student's qualified tuition and related expenses, plus (2) 50 percent of the next \$1,000 of the taxpayer's out-of-pocket expenses for each student's qualified tuition and related expenses. Thus, the maximum credit a taxpayer may claim for a taxable year is \$1,500 multiplied by the number of students in the family who meet the enrollment criteria described above.

The amount a taxpayer may claim as a Hope Scholarship Credit is gradually reduced for taxpayers who have modified adjusted gross income between \$40,000 (\$80,000 for married taxpayers filing jointly) and \$50,000 (\$100,000 for married taxpayers filing jointly). Taxpayers with modified adjusted gross income over \$50,000 (\$100,000 for married taxpayers filing jointly) may not claim the Hope Scholarship Credit. Both the dollar limitation on the expenses for which the credit may be claimed and the modified adjusted gross income limitation will be indexed for inflation in 2002 and years thereafter. The Hope Scholarship Credit may be claimed for payments of qualified tuition and related expenses made on or after January 1, 1998, for academic periods beginning on or after January 1, 1998. Therefore, the first time taxpayers will be able to claim the credit is when they file their 1998 tax returns in 1999. The Hope Scholarship Credit is not available for any amount paid in 1997.

Q1: Who may claim the Hope Scholarship Credit?

A1: An individual paying qualified tuition and related expenses at a postsecondary educational institution may claim the credit, provided the student whose expenses are being paid and the institution meet certain eligibility requirements.

Q2: May an individual claim a Hope Scholarship Credit for paying qualified tuition and related expenses for other family members?

A2: Yes. An individual may claim the credit for his/her own qualified tuition and related expenses and the qualified tuition and related expenses of his/her spouse and other eligible dependents (including children) for whom the dependency exemption is claimed. Generally, a parent may claim the dependency exemption for his/her unmarried child if: (1) the parent supplies more than half the child's support for the taxable year, and (2) the child is under age 19 or is a full-time student under age 24.

Q3: What are the eligibility requirements for the student?

A3: A student is eligible for the Hope Scholarship Credit if: (1) for at least one academic period (e.g., semester, trimester, quarter) beginning during the calendar year, the student is enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential and is enrolled in one of the first two years of postsecondary education, and (2) the student is free of any conviction for a Federal or State felony offense consisting of the possession or distribution of a controlled substance. For purposes of the Hope Scholarship Credit, a student will be considered to be enrolled at least half-time if the student is enrolled for at least half the full-time academic workload for the course of study the student is pursuing as determined under the standards of the institution where the student is enrolled. The institution's standard for a full-time workload must equal or exceed the standards established by the

Department of Education under the Higher Education Act and set forth in 34 C.F.R. § 674.2(b).

Q4: What are the eligibility requirements for the institution?

A4: The college, university, vocational school, or other postsecondary educational institution where the student is enrolled must be an institution that is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088) and, therefore, eligible to participate in the student aid programs administered by the Department of Education. This category includes virtually all accredited public, nonprofit, and proprietary postsecondary institutions. (The same eligibility requirements for institutions apply for the Lifetime Learning Credit, described in the next section.)

Q5: The Hope Scholarship Credit may be claimed only for amounts spent on "qualified tuition and related expenses." Which expenses are included in qualified tuition and related expenses?

A5: The term "qualified tuition and related expenses" means the tuition and fees an individual is required to pay in order to be enrolled at or attend an eligible institution. Amounts paid for any course or other education involving sports, games, or hobbies are not eligible for the credit, unless the course or other education is part of the student's degree program. Charges and fees associated with room, board, student activities, athletics, insurance, books, equipment, transportation, and similar personal, living, or family expenses are not qualified tuition or related expenses. (The same definition of "qualified tuition and related expenses" applies for the Lifetime Learning Credit, described in the next section.)

Q6: The Hope Scholarship Credit is available only if a taxpayer's "modified adjusted gross income" is below a specified amount. How does a taxpayer know what his/her modified adjusted gross income is?

A6: For most taxpayers, modified adjusted gross income is the same as adjusted gross income. Taxpayers compute adjusted gross income as part of completing a Federal income tax return. For those few taxpayers who earn income abroad or receive income from certain American territories or possessions, modified adjusted gross income will be greater than adjusted gross income. In those cases, the individual's adjusted gross income will be increased by: (1) certain amounts that the individual earns abroad, (2) amounts effectively connected with the individual's conduct of a trade or business or derived from sources in Guam, American Samoa, or the Northern Mariana Islands (if the individual is a resident of the possession where the source of the income is located), and (3) amounts derived from sources in Puerto Rico (if the individual is a Puerto Rican resident). (The same rules apply for the Lifetime Learning Credit, described in the next section.)

Q7: May a nonresident alien claim the Hope Scholarship Credit?

A7: Generally no. There is an exception for certain nonresident aliens who are married to U.S. citizens or resident aliens. Nonresident aliens should consult a U.S. tax advisor to determine whether the exception applies to them. (The same rules apply to the Lifetime Learning Credit, described in the next section.)

Q8: Are qualified tuition and related expenses for graduate-level degree work eligible for the Hope Scholarship Credit?

A8: No. However, the Lifetime Learning Credit is available for these expenses (See Sec. 2, Q&A5.)

Q9: May an individual claim a Hope Scholarship Credit for more than one family member?

A9: Yes. Furthermore, the credit is calculated on a per student, rather than a per family, basis. For example, if an individual whose modified adjusted gross income is \$35,000 pays over \$2,000 in qualified tuition and related expenses for himself and over \$2,000 in qualified tuition and related expenses for his dependent child, and both he and his dependent child meet the eligibility requirements, the individual may claim a Hope Scholarship Credit of \$3,000 (i.e., a credit of \$1,500 for his expenses plus a credit of \$1,500 for his child's expenses).

Q10: May both the parent and a dependent child claim the Hope Scholarship Credit for the child's qualified tuition and related expenses in the same year?

A10: No. Either the parent or the child, but not both, may claim the credit for the child's expenses in a particular year. If an individual claims the child as a dependent on his/her Federal income tax return for the year, only the individual may claim the Hope Scholarship Credit for the child's qualified tuition and related expenses. If no one claims the child as a dependent on a Federal income tax return for the year, only the child may claim the Hope Scholarship Credit for the child's expenses. (The same rules relating to individuals and dependents apply for the Lifetime Learning Credit, described in the next section.)

Q11: If a married taxpayer files a separate return, may the taxpayer claim a Hope Scholarship Credit on his/her income tax return?

A11: No. Married taxpayers may claim the credit only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year. (The same rules apply for the Lifetime Learning Credit, described in the next section.)

Q12: How does a parent claim a Hope Scholarship Credit for the qualified tuition and related expenses of a dependent child?

A12: The parent may claim the credit on his/her tax return even if the child files his/her own tax return. When a child is claimed as a dependent on a parent's return, any qualified tuition or related expenses paid by the child during the year are treated as if the parent had paid them. Therefore, these expenses are included in calculating the parent's Hope Scholarship Credit. A child may not claim a Hope Scholarship Credit on his/her tax return for a particular year if the child's parent claims the child as a dependent in that same year. (The same rules apply for the Lifetime Learning Credit, described in the next section.)

Q13: What is the maximum Hope Scholarship Credit a taxpayer may claim for an eligible student?

A13: Until 2002 (when the dollar limitations are indexed for inflation), for each student who meets the eligibility requirements, the credit amount is 100 percent of the first \$1,000 of the taxpayer's out-of-pocket expenses for qualified tuition and related expenses, plus 50 percent of the next \$1,000 of the taxpayer's out-of-pocket expenses for qualified tuition and related expenses. Therefore, the maximum credit amount for the expenses of an eligible student is \$1,500. If the taxpayer is claiming a credit for more than one person, the credit amount for each student in the taxpayer's family is added together to determine the maximum total credit the taxpayer may claim.

Q14: The amount a taxpayer may claim as a Hope Scholarship Credit is gradually reduced for taxpayers with modified adjusted gross income between \$40,000 and \$50,000 (between \$80,000 and \$100,000 for married taxpayers filing jointly). How does this reduction work?

A14: The reduction works on a sliding scale that reflects where the taxpayer's modified adjusted gross income is in the phase-out range. For example, until 2002 (when the dollar limitations on the credit and the income ranges are indexed for inflation), if an eligible student (who is not anyone's dependent for tax purposes) pays \$2,000 or more in qualified tuition and related expenses in a particular year, and the student's modified adjusted gross income for the year is \$45,000 (half way along the \$10,000 phase-out range), the credit amount for the student is limited to \$750. By contrast, if the same student's modified adjusted gross income was \$35,000, the credit amount for the student would be the maximum \$1,500.

Q15: How does a taxpayer claim the Hope Scholarship Credit?

A15: The first year that the credit will be available is 1998. Thus, taxpayers will not be able to claim the credit until they file their 1998 tax returns in 1999. Instructions accompanying the 1998 tax forms (for returns required to be filed in 1999) will explain how to calculate the credit and how to claim it on the tax return.

Q16: Is there a limit to the number of times a taxpayer may claim the Hope Scholarship Credit for each student?

A16: Yes. The credit may be claimed in no more than two years for each student. Thus, for example, a couple with a child who starts as a freshman in the fall of 1998, continues as a sophomore in 1999, and meets the eligibility requirements may claim the credit for their child's expenses in 1998 and again in 1999. After 1999, neither the parents, the student, nor anyone else may claim any additional Hope Scholarship Credits for this student's qualified tuition and related expenses. However, in 2000 and thereafter, the Lifetime Learning Credit may be available for this child's expenses. Furthermore, if the couple has another child who starts as a freshman in the fall of 1999, the couple may claim the Hope Scholarship Credit for that child's expenses in 1999 and one additional year.

Q17: May an individual claim both the Hope Scholarship Credit and the Lifetime Learning Credit for a student's expenses in a single taxable year?

A17: No. For each year in which a student meets the eligibility requirements for the Hope Scholarship Credit, the student's expenses may be used as the basis for a Hope Scholarship Credit or a Lifetime Learning Credit, but not both. If, for example, an eligible student pays more than \$2,000 in qualified tuition and related expenses during the calendar year, the student (or the individual claiming the student as a dependent) may not claim the Hope Scholarship Credit for the first \$2,000 of expenses and the Lifetime Learning Credit for the rest.

Q18: If a couple has two children, one who is a freshman and one who is a junior, may the couple claim a Hope Scholarship Credit for the freshman's expenses and a Lifetime Learning Credit for the junior's expenses?

A18: Yes. Assuming the applicable eligibility requirements have been met for each credit, a taxpayer may claim the Hope Scholarship Credit for one student's expenses and the Lifetime Learning Credit for another student's expenses in the same year.

Q19: May a parent or student claim a Hope Scholarship Credit for tuition paid in advance of when the academic period begins?

A19: Generally, the credit is available only for payments of qualified tuition and related expenses that cover an academic period beginning in the same calendar year as the payment is made. (An academic period begins on the first day of classes, and does not include periods of orientation, counseling, or vacation.) An exception, however, allows a parent or student to claim a Hope Scholarship Credit for payments of qualified tuition and related expenses made during the calendar year to cover an academic period that begins in January, February, or March of the following taxable year. *Because the Hope Scholarship Credit does not apply to expenses paid before January 1, 1998, this exception does not apply to tuition paid in 1997 to cover academic periods beginning in 1998.*

Q20: If a student (who is not claimed as a dependent on anyone's Federal income tax return) pays qualified tuition and related expenses using a combination of a Pell Grant, a loan, a gift from a family member, and some personal savings, what expenses may be taken into account in calculating the Hope Scholarship Credit the student may claim?

A20: The student may take into account only "out-of-pocket" expenses in calculating the credit. Qualified tuition and related expenses paid with the student's earnings, a loan, a gift, an inheritance, or personal savings (including savings from a qualified state tuition program) are taken into account in calculating the credit amount. However, qualified tuition and related expenses paid with a Pell Grant or other tax-free scholarship, a tax-free distribution from an Education IRA, or tax-free employer-provided educational assistance are not taken into account in calculating the credit amount. (The same rules apply for the Lifetime Learning Credit, described in the next section.)

Q21: May a student's parents claim the Hope Scholarship Credit for the student's expenses for a

taxable year in which the student takes money out of an Education IRA on a tax-free basis?

A21: No. If a student is receiving a tax-free distribution from an Education IRA in a particular taxable year, none of that student's expenses may be claimed as the basis for a Hope Scholarship Credit for that taxable year. However, the student may waive the tax-free treatment of the Education IRA distribution and elect to pay any tax that would otherwise be owed on the Education IRA distributions received in any taxable year so that the student or the student's parents may claim a Hope Scholarship Credit for expenses paid in the same year the Education IRA distributions are received.

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*Notice 97-60: Questions and Answers About the Taxpayer Relief Act of 1997***Section 2. Lifetime Learning Credit**

Beginning on July 1, 1998, taxpayers may be eligible to claim a nonrefundable Lifetime Learning Credit against their federal income taxes. The Lifetime Learning Credit may be claimed for the qualified tuition and related expenses of the students in the taxpayer's family (i.e., the taxpayer, the taxpayer's spouse, or an eligible dependent) who are enrolled in eligible educational institutions. Through 2002, the amount that may be claimed as a credit is equal to 20 percent of the taxpayer's first \$5,000 of out-of-pocket qualified tuition and related expenses for all the students in the family. After 2002, the credit amount is equal to 20 percent of the taxpayer's first \$10,000 of out-of-pocket qualified tuition and related expenses. Thus, the maximum credit a taxpayer may claim for a taxable year is \$1,000 through 2002 and \$2,000 thereafter. These amounts are not indexed for inflation.

If the taxpayer is claiming a Hope Scholarship Credit for a particular student, none of that student's expenses for that year may be applied toward the Lifetime Learning Credit. The amount a taxpayer may claim as a Lifetime Learning Credit is gradually reduced for taxpayers who have modified adjusted gross income between \$40,000 (\$80,000 for married taxpayers filing jointly) and \$50,000 (\$100,000 for married taxpayers filing jointly). Taxpayers with modified adjusted gross income over \$50,000 (\$100,000 for married taxpayers filing jointly) may not claim a Lifetime Learning Credit. The modified adjusted gross income limitation will be indexed for inflation in 2002 and years thereafter. The definition of modified adjusted gross income is the same as it is for purposes of the Hope Scholarship Credit. (See Sec. 1, Q&A6.)

The Lifetime Learning Credit may be claimed for payments of qualified tuition and related expenses made on or after July 1, 1998, for academic periods beginning on or after July 1, 1998. Therefore, the first time taxpayers will be able to claim the credit will be when they file their 1998 tax returns in 1999. The Lifetime Learning Credit is not available for any amount paid in 1997.

Q1: Who may claim the Lifetime Learning Credit?

A1: An individual paying qualified tuition and related expenses at a postsecondary educational institution may claim the credit, provided the institution is an eligible educational institution. Unlike the Hope Scholarship Credit, students are not required to be enrolled at least half-time in one of the first two years of postsecondary education. Nonresident aliens generally are not eligible to claim the Lifetime Learning Credit. (See Sec. 1, Q&A7.)

Q2: May an individual claim a Lifetime Learning Credit for paying qualified tuition and related expenses for other family members?

A2: Yes. An individual may claim the credit for his/her own qualified tuition and related expenses and the qualified tuition and related expenses of his/her spouse and other eligible dependents (including children) for whom the dependency exemption is allowed. Generally, a parent may claim the dependency exemption for his/her unmarried child if: (1) the parent supplies more than half the child's support for the taxable year, and (2) the child is under age 19 or is a full-time student under age 24.

Q3: What are the eligibility requirements for the institution?

A3: They are the same requirements that apply for the Hope Scholarship Credit. (See Sec. 1, Q&A4.)

Q4: Is the Lifetime Learning Credit available for a student taking only one course?

A4: Yes. For example, a student who has just graduated from high school and is taking a single course at a community college may claim the Lifetime Learning Credit if the student comes within the income limits and is not claimed as a dependent by someone else.

Q5: Are qualified tuition and related expenses for graduate-level education eligible for the Lifetime Learning Credit?

A5: Yes.

Q6: May an individual claim a Lifetime Learning Credit for more than one family member?

A6: Yes. However, unlike the Hope Scholarship Credit, the Lifetime Learning Credit is calculated on a per family, rather than a per student, basis. Therefore, the maximum available credit does not vary with the number of students in the family. For example, if in 1999 a married individual whose modified adjusted gross income is \$35,000 pays \$5,000 of qualified tuition and related expenses to attend an eligible educational institution, the individual may claim a \$1,000 Lifetime Learning Credit. If in the same year the individual also pays another \$2,000 in qualified tuition and related expenses for his spouse to attend an eligible educational institution, the individual's Lifetime Learning Credit is still \$1,000.

Q7: May both the parent and a dependent child claim the Lifetime Learning Credit for the child's qualified tuition and related expenses in the same year?

A7: No. Either the parent or the child, but not both, may claim the credit for the child's expenses in a particular year. If an individual claims the child as a dependent on his/her Federal income tax return for the year, only the individual may claim the Lifetime Learning Credit for the child's qualified tuition and related expenses. If no one claims the child as a dependent on a Federal income tax return for the year, only the child may claim the Lifetime Learning Credit for the child's expenses.

Q8: How does a parent claim a Lifetime Learning Credit for the qualified tuition and related expenses of a dependent child?

A8: The parent may claim the credit on his/her Federal income tax return even if the child files his/her own tax return. When a child is claimed as a dependent on the parent's return, any qualified tuition and related expenses paid by the child during the year are treated as if the parent had paid them and, therefore, are included in calculating the parent's Lifetime Learning Credit. A child may not claim a Lifetime Learning Credit on his/her tax return for any year if the child's parent claims the child as a dependent in that same year. Also, a married taxpayer who does not file a joint return is not eligible to claim the Lifetime Learning Credit. (See Sec. 1, Q&A11.)

Q9: What is the maximum Lifetime Learning Credit a taxpayer may claim?

A9: The credit is equal to 20 percent of the taxpayer's out-of-pocket expenses for qualified tuition and related expenses of all eligible family members, up to a maximum of \$5,000 in expenses annually through 2002. Thus, the maximum Lifetime Learning Credit a taxpayer may claim through 2002 is \$1,000. After 2002, the credit is equal to 20 percent of the taxpayer's out-of-pocket expenses up to a maximum of \$10,000 in expenses. Thus, the maximum Lifetime Learning Credit a taxpayer may claim after 2002 is \$2,000. The maximum credit does not change even if the taxpayer is claiming a credit for the expenses of more than one student in the family.

Q10: What does the term "qualified tuition and related expenses" mean for purposes of the Lifetime Learning Credit?

A10: The term "qualified tuition and related expenses" for purposes of the Lifetime Learning Credit has the same meaning as it does for purposes of the Hope Scholarship Credit. (See Sec. 1, Q&A5.)

Q11: If a student (who is not claimed as a dependent on anyone's Federal income tax return) pays qualified tuition and related expenses using a combination of a Pell Grant, a loan, a gift from a family member, and some personal savings, what expenses may be taken into account in calculating the Lifetime Learning Credit the student may claim?

A11: The student may take into account only "out-of-pocket" expenses in calculating the Lifetime

Learning Credit. Qualified tuition and related expenses paid with the student's earnings, a loan, a gift, an inheritance, or personal savings (including savings from a qualified state tuition program) are taken into account in calculating the credit amount. However, qualified tuition and related expenses paid with a Pell Grant or other tax-free scholarship, a tax-free distribution from an Education IRA, or tax-free employer-provided educational assistance are not taken into account in calculating the credit amount.

Q12: How does a taxpayer claim the Lifetime Learning Credit?

A12: The first year that the credit will be available is 1998. Taxpayers will not be able to claim the credit until they file their 1998 returns in 1999. Instructions accompanying the 1998 tax forms (for returns required to be filed in 1999) will explain how to calculate the credit and how to claim it on the tax return.

Q13: Is there a limit on the number of years in which a Lifetime Learning Credit may be claimed, as there is for the Hope Scholarship Credit?

A13: Unlike the Hope Scholarship Credit, there is no limit to the number of years in which a Lifetime Learning Credit may be claimed for each student. Thus, for example, an individual who enrolls in one college-level class every year would be able to claim the Lifetime Learning Credit for an unlimited number of years, provided the individual meets the income limits and is taking the classes at institutions that meet the eligibility requirements. (See Q&A3 in this section.)

Q14: May a parent or student claim a Lifetime Learning Credit for tuition paid in advance of when the academic period begins?

A14: Generally, the credit is available only for payments of qualified tuition and related expenses that cover an academic period beginning in the same calendar year as the year in which payment is made. (An academic period begins on the first day of classes, and does not include periods of orientation, counseling, or vacation.) An exception, however, allows a parent or student to claim a Lifetime Learning Credit for payments of qualified tuition and related expenses made during the calendar year to cover an academic period that begins in January, February, or March of the following taxable year. *Because the Lifetime Learning Credit does not apply to expenses paid before July 1, 1998, this exception does not apply to tuition paid before that date to cover academic periods beginning before or after that date.*

Q15: May a student or a student's parents take the Lifetime Learning Credit for the student's expenses in a taxable year in which the student takes money out of an Education IRA on a tax-free basis?

A15: No. If a student is receiving a tax-free distribution from an Education IRA in a particular taxable year, none of that student's expenses may be claimed as the basis for a Lifetime Learning Credit for that year. However, the student may waive the tax-free treatment of the Education IRA distribution and elect to pay any tax that would otherwise be owed on the Education IRA distributions so that the student or the student's parents may claim a Lifetime Learning Credit for expenses paid in the same year the Education IRA distributions are received.

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Notice 97-60 Questions and Answers About the Taxpayer Relief Act of 1997

Section 3. Education IRAs

Beginning January 1, 1998, taxpayers may deposit up to \$500 per year into an Education IRA for a child under age 18. Parents, grandparents, other family members, friends, and a child him/herself may contribute to the child's Education IRA, provided that the total contributions for the child during the taxable year do not exceed the \$500 limit. Amounts deposited in the account grow tax-free until distributed, and the child will not owe tax on any withdrawal from the account if the child's qualified higher education expenses at an eligible educational institution for the year equal or exceed the amount of the withdrawal. If the child does not need the money for postsecondary education, the account balance can be rolled over to the Education IRA of certain family members who can use it for their higher education. Amounts withdrawn from an Education IRA that exceed the child's qualified higher education expenses in a taxable year are generally subject to income tax and to an additional tax of 10 percent. The Hope Scholarship Credit and Lifetime Learning Credit may not be claimed for a student's expenses in a taxable year in which the student takes a tax-free withdrawal from an Education IRA.

Q1: What is an Education IRA?

A1: An Education IRA is a trust or custodial account that is created or organized in the United States exclusively for the purpose of paying the qualified higher education expenses of the designated beneficiary of the account. The account must be designated as an Education IRA when it is created in order to be treated as an Education IRA for tax purposes.

Q2: For whom may an Education IRA be established?

A2: An Education IRA may be established for the benefit of any child under age 18. Contributions to the Education IRA will not be accepted after the designated beneficiary reaches his/her 18th birthday.

Q3: Where may an individual open an Education IRA?

A3: An individual may open an Education IRA with any bank, or other entity that has been approved to serve as a nonbank trustee or custodian of an individual retirement account (IRA), and the bank or entity is offering Education IRAs. Other entities that wish to offer Education IRAs but are not approved to serve as IRA trustees or custodians may seek approval by following the same IRS procedures used for approval of other IRA nonbank trustees. See Notice 97-57, 1997-43 I.R.B. (October 27, 1997).

Q4: When may a taxpayer start contributing to an Education IRA for a child?

A4: A taxpayer may start making contributions on January 1, 1998, or at any time thereafter.

Q5: How much may be contributed to a child's Education IRA?

A5: Up to \$500 per year in aggregate contributions may be made for the benefit of any child. The contributions may be placed in a single Education IRA or in multiple Education IRAs.

Q6: What happens if more than \$500 is contributed to an Education IRA on behalf of a child in a calendar year?

A6: Aggregate contributions for the benefit of a particular child in excess of \$500 for a calendar year are treated as excess contributions. If the excess contributions (and any earnings attributable to them) are not withdrawn from the child's account (or accounts) before the tax return for the year is due, the excess contributions are subject to a 6 percent excise tax for each year the excess amount remains in the account.

Q7: May contributions other than cash be made to a child's Education IRA?

A7: No. Education IRAs are permitted to accept contributions made in cash only.

Q8: May contributors take a deduction for contributions made to an Education IRA?

A8: No.

Q9: Are there any restrictions on who can contribute to an Education IRA?

A9: Any individual may contribute up to \$500 to a child's Education IRA if the individual's modified adjusted gross income for the taxable year is no more than \$95,000 (\$150,000 for married taxpayers filing jointly). (See Sec. 1, Q&A6 for a description of modified adjusted gross income.) The \$500 maximum contribution per child is gradually reduced for individuals with modified adjusted gross income between \$95,000 and \$110,000 (between \$150,000 and \$160,000 for married taxpayers filing jointly). For example, an unmarried taxpayer with modified adjusted gross income of \$96,500 in a taxable year could make a maximum contribution per child of \$450 for that year. Taxpayers with modified adjusted gross income above \$110,000 (\$160,000 for married taxpayers filing jointly) cannot make contributions to anyone's Education IRA.

Q10: May a child contribute to his/her own Education IRA?

A10: Yes.

Q11: Does a taxpayer have to be related to the designated beneficiary in order to contribute to the designated beneficiary's Education IRA?

A11: No.

Q12: How many Education IRAs may a child have?

A12: There is no limit on the number of Education IRAs that may be established designating a particular child as beneficiary. However, in any given taxable year the total aggregate contributions to all the accounts designating a particular child as beneficiary may not exceed \$500.

Q13: May a designated beneficiary take a tax-free withdrawal from an Education IRA to pay qualified higher education expenses if the designated beneficiary is enrolled less than full-time at an eligible educational institution?

A13: Yes. Whether the designated beneficiary is enrolled full-time, half-time, or less than half-time, he/she may take a tax-free withdrawal to pay qualified higher education expenses.

Q14: What happens when a designated beneficiary withdraws assets from an Education IRA to pay for college?

A14: Generally, the withdrawal is tax-free to the designated beneficiary to the extent the amount of the withdrawal does not exceed the designated beneficiary's qualified higher education expenses.

Q15: What are "qualified higher education expenses"?

A15: "Qualified higher education expenses" mean expenses for tuition, fees, books, supplies, and equipment required for the enrollment or attendance of the designated beneficiary at an eligible educational institution. Qualified higher education expenses also include amounts contributed to a qualified state tuition program. Qualified higher education expenses also include room and board (generally the school's posted room and board charge, or \$2,500 per year for students living off-campus and not at home) if the designated beneficiary is at least a half-time student at an eligible educational institution. The standards for determining whether a student is enrolled at least half-time are the same as those used for the Hope Scholarship Credit. (See Sec. 1, Q&A3.)

Q16: What is an eligible educational institution?

A16: An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution that is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088) and, therefore, eligible to participate in the student aid programs administered by the Department of Education. This category includes virtually all accredited public, nonprofit, and proprietary postsecondary institutions. (The same eligibility requirements for institutions apply for the Hope Scholarship Credit, the Lifetime Learning Credit, and early withdrawals from IRAs for qualified higher education expenses.) (See Sec. 1, Q&A4, Sec. 2, Q&A3, and Sec. 4, Q&A2.)

Q17: What happens if a designated beneficiary withdraws an amount from an Education IRA but does not have any qualified higher education expenses to pay in the taxable year he/she makes the withdrawal?

A17: Generally, if a designated beneficiary withdraws an amount from an Education IRA and does not have any qualified higher education expenses during the taxable year, a portion of the distribution is taxable. The taxable portion is the portion that represents earnings that have accumulated tax-free in the account. The taxable portion of the distribution is also subject to a 10 percent additional tax unless an exception applies.

Q18: Is a distribution from an Education IRA taxable if the distribution is contributed to another Education IRA?

A18: Any amount distributed from an Education IRA and rolled over to another Education IRA for the benefit of the same designated beneficiary or certain members of the designated beneficiary's family is not taxable. An amount is rolled over if it is paid to another Education IRA on a date within 60 days after the date of the distribution. Members of the designated beneficiary's family include the designated beneficiary's children and their descendants, stepchildren and their descendants, siblings and their children, parents and grandparents, stepparents, and spouses of all the foregoing. The \$500 annual contribution limit to Education IRAs does not apply to these rollover contributions. For example, an older brother who has \$2,000 left in his Education IRA after he graduates from college can roll over the full \$2,000 balance to an Education IRA for his younger sister who is still in high school without paying any tax on the transfer.

Q19: What happens to the assets remaining in an Education IRA after the designated beneficiary finishes his/her postsecondary education?

A19: There are two options. The amount remaining in the account may be withdrawn for the designated beneficiary. The designated beneficiary will be subject to both income tax and the additional 10 percent tax on the portion of the amount withdrawn that represents earnings if the designated beneficiary does not have any qualified higher education expenses in the same taxable year he/she makes the withdrawal. Alternatively, if the amount in the designated beneficiary's Education IRA is withdrawn and rolled over (as described in Q&A18 of this section) to another Education IRA for the benefit of a member of the designated beneficiary's family, the amount rolled over will not be taxable.

Q20: Rather than rolling over money from one Education IRA to another, may the designated beneficiary of the account be changed from one child to another without triggering a tax?

A20: Yes, provided: (1) the terms of the particular trust or custodial account permit a change in designated beneficiaries (each trustee or custodian will control whether options like this one are available in the accounts they offer), and (2) the new designated beneficiary is a member of the previous designated beneficiary's family. (See Q&A18 in this section).

Q21: May a student or the student's parents claim the Hope Scholarship Credit or Lifetime Learning Credit for the student's expenses in a taxable year in which the student receives money from an Education IRA on a tax-free basis?

A21: No. If a student is receiving a tax-free distribution from an Education IRA in a particular taxable year, none of that student's expenses may be claimed as the basis for a Hope Scholarship Credit or Lifetime Learning Credit for that year. However, the student may waive the tax-free treatment of the Education IRA distribution and elect to pay any tax that would otherwise be owed on an Education IRA distribution so that the student or the student's parents may claim a Hope Scholarship Credit or Lifetime Learning Credit for expenses paid in the same year the Education IRA distributions are received.

Q22: May contributions be made to both a qualified state tuition program and an Education IRA on behalf of the same designated beneficiary in the same taxable year?

A22: No. Any amount contributed to an Education IRA on behalf of a designated beneficiary during any taxable year in which an amount is also contributed to a qualified state tuition program on behalf of the same beneficiary will be treated as an excess contribution to the Education IRA. (See Q&A6 in this section for the treatment of excess contributions.)

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Notice 97-60: Questions and Answers About the Taxpayer Relief Act of 1997

Section 4. Using IRA Withdrawals to Pay Higher Education Expenses

Beginning January 1, 1998, a taxpayer may make withdrawals from an individual retirement account (IRA) to pay the qualified higher education expenses for the taxpayer, the taxpayer's spouse, or the child or grandchild of the taxpayer or taxpayer's spouse at an eligible educational institution. The taxpayer will owe federal income tax on the amount withdrawn, but will not be subject to the 10 percent early withdrawal tax that applies when amounts are withdrawn from an individual retirement account before the account holder reaches age 59 1/2.

Q1: When can an individual first make a withdrawal from an IRA to pay for qualified higher education expenses without paying the 10 percent early withdrawal tax?

A1: On or after January 1, 1998, an individual can make withdrawals from his/her IRA to pay for qualified higher education expenses for academic periods beginning on or after January 1, 1998, without paying the 10 percent early withdrawal tax. See Notice 97-53, 1997-40 IRB. The 10 percent early withdrawal tax does not apply to a distribution from an IRA to the extent that the amount of the distribution does not exceed the qualified higher education expenses for the taxpayer, the taxpayer's spouse, and the child or grandchild of the taxpayer or the taxpayer's spouse at an eligible educational institution. For purposes of this rule, the term "qualified higher education expenses" means tuition, fees, books, supplies and equipment required for the enrollment or attendance of the student at an eligible educational institution. Qualified higher education expenses also include room and board if the student is enrolled at least half-time. Qualified higher education expenses paid with an individual's earnings, a loan, a gift, an inheritance given to the student or the individual claiming the credit, or personal savings (including savings from a qualified state tuition program) are included in determining the amount of the IRA withdrawal which is not subject to the 10 percent early withdrawal tax. Qualified higher education expenses paid with a Pell Grant or other tax-free scholarship, a tax-free distribution from an Education IRA, or tax-free employer-provided educational assistance are excluded.

Q2: What are the requirements for an "eligible educational institution"?

A2: An "eligible educational institution" is any college, university, vocational school, or other postsecondary educational institution that is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088) and, therefore, eligible to participate in the student aid programs administered by the Department of Education. This category includes virtually all accredited public, nonprofit, and proprietary postsecondary institutions. (The same eligibility requirements for institutions apply for the Hope Scholarship Credit, the Lifetime Learning Credit, and Education IRAs.) (See Sec. 1, Q&A4, Sec. 2, Q&A3, and Sec. 3, Q&A16.)

Q3: When are IRA withdrawals usually subject to the 10 percent early withdrawal tax?

A3: Generally, if a taxpayer makes a withdrawal from his/her IRA before reaching age 59 1/2, the taxpayer must pay the 10 percent early withdrawal tax on all or part of the amount withdrawn.

Q4: In addition to the Education IRA, TRA '97 also created the Roth IRA. May a taxpayer make a withdrawal from a Roth IRA to pay for his/her child's qualified higher education expenses?

A4: Yes. A taxpayer may make a withdrawal from a Roth IRA, as they can from other IRAs, to pay qualified higher education expenses without paying the 10 percent early withdrawal tax.

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*Notice 97-60: Questions and Answers About the Taxpayer Relief Act of 1997***Section 5. Student Loan Interest Deduction**

Beginning January 1, 1998, taxpayers who have taken loans to pay the cost of attending an eligible educational institution for themselves, their spouse, or their dependent generally may deduct interest they pay on these student loans. The maximum deduction each taxpayer is permitted to take increases from \$1,000 in 1998 to \$2,500 in 2001 and thereafter. The following table summarizes the yearly increases.

<u>Year</u>	<u>Maximum Deduction</u>
1998	\$1,000
1999	\$1,500
2000	\$2,000
2001 and thereafter	\$2,500

The deduction is available only for interest payments made during the first 60 months in which interest payments are required on the loan. The student loan interest deduction is available for interest payments due and made on or after January 1, 1998. Thus, the first time taxpayers will be able to claim the deduction is when they file their 1998 tax returns in 1999. No student loan interest deduction will be allowed for interest due or paid before 1998.

Q1: Are there any limits on what qualifies as a student loan?

A1: Yes. The loan must have been used to pay the costs of attendance at an eligible educational institution for a student enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential. An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution that is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088) and, therefore, eligible to participate in the student aid programs administered by the Department of Education. This category includes virtually all accredited public, nonprofit, and proprietary postsecondary institutions. For purposes of the student loan interest deduction, eligible educational institutions also include institutions that conduct an internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility that offers postgraduate training.

Q2: Is a student loan interest deduction available if the student loan is not federally guaranteed or otherwise subsidized?

A2: Yes. As long as the loan was used to pay the costs of attendance at an eligible educational institution and the other eligibility requirements are met, the deduction is available for the interest on the loan. The deduction does not depend on whether the loan is federally guaranteed or subsidized.

Q3: What costs are included in the costs of attendance?

A3: Costs of attendance include all items that are included in costs of attendance for purposes of calculating a student's financial need in accordance with the Higher Education Act. Thus, they include tuition, fees, room, board, books, equipment, and other necessary expenses, such as transportation. Costs of attendance include more items than are included in qualified tuition and related expenses for purposes of the Hope Scholarship and Lifetime Learning Credits. (See Sec. 1, Q&A5 and Sec. 2, Q&A10.)

Q4: Is the deduction available for interest paid on loans used to pay for graduate school?

A4: Yes.

Q5: Are there any limits on who may take the student loan interest deduction?

A5: Yes, there are income restrictions. To claim the maximum deduction, a taxpayer must have modified adjusted gross income of \$40,000 or less (\$60,000 for married taxpayers filing jointly). The amount of the taxpayer's deduction is gradually reduced for taxpayers with modified adjusted gross income between \$40,000 and \$55,000 (between \$60,000 and \$75,000 for married taxpayers filing jointly). For example, for 1998, the maximum deduction a single taxpayer with modified adjusted gross income of \$47,500 could take would be \$500. Taxpayers with modified adjusted gross income above \$55,000 (\$75,000 for married taxpayers filing jointly) may not claim the student loan interest deduction. The modified adjusted gross income limitations are indexed for inflation after 2002.

Q6: May a former student whose loans are already in repayment deduct the interest they pay on a student loan on or after January 1, 1998?

A6: Yes, but they may deduct only those payments made during the first 60 months that interest payments are required on a loan. If interest payments on a student loan were first required before January 1, 1998, the months in which those payments were required count against the 60-month time limit for that loan. The 60-month period may run out at different times for different loans.

Q7: May a parent claim the student loan interest deduction if the parent borrows to pay his/her child's costs of attending college?

A7: Yes. An individual may claim the student loan interest deduction if the individual borrows money to pay the costs of attending college for certain members of the individual's family or household (including his/her children) and incurs the debt in a year in which the individual supplies more than half of the student's support.

Q8: If an individual has paid more than \$1,000 in interest on student loans in 1998 and is otherwise eligible to take the maximum student loan interest deduction, how large a deduction may the individual claim?

A8: The individual's student loan interest deduction for 1998 is \$1,000, provided the individual's modified adjusted gross income falls below the point where the deduction is reduced or eliminated.

Q9: Does an individual have to itemize his/her income tax deductions to claim the student loan interest deduction?

A9: No. The student loan interest deduction is available regardless of whether an individual elects to take the standard deduction or to itemize deductions. Instructions accompanying the 1998 tax forms (for returns required to be filed in 1999) will explain how to compute and claim the deduction.

Q10: If a student is claimed as a dependent by his/her parent in a particular taxable year, may the student take the student loan interest deduction for student loan interest that he/she pays in that year?

A10: No. The student may not claim the student loan interest deduction in any taxable year in which he/she is claimed as a dependent on another taxpayer's return. However, if the student continues to pay interest on a student loan and meets the other eligibility requirements, the student may claim the student loan interest deduction for payments made in a later year when the student is no longer a dependent on his/her parent's Federal income tax return.

Q11: Are there any tax benefits available if the student repays his/her loan by performing community service rather than making cash payments?

A11: There may be. Loan forgiveness provided in return for community service is tax-free when it is part of certain lending programs run by the Federal, state, or local government, educational institutions, or charitable organizations. Students should consult a tax advisor to determine whether they qualify.

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Notice 97-60: Questions and Answers About the Taxpayers Relief Act of 1997

Section 6. Qualified State Tuition Programs

Under current law, a qualified state tuition program (QSTP) means a program established and maintained by a state under which a person may: (1) prepay tuition benefits on behalf of a beneficiary so that the beneficiary is entitled to a waiver or a payment of qualified higher education expenses, or (2) contribute to an account that is established for paying qualified higher education expenses of the beneficiary. The tax on earnings attributable to prepayments or contributions is deferred until the earnings are distributed from the QSTP. The beneficiary pays tax on the earnings at the time of distribution. If amounts saved through a QSTP are used to pay for college, the student or the student's parents still may be eligible to claim either the Hope Scholarship Credit or the Lifetime Learning Credit.

Q1: How have the prior rules for QSTPs been changed by TRA '97?**A1:**

- (1) QSTPs may now be used to save for room and board expenses, up to a specified level (generally the school's posted room and board charge, or \$2,500 per year for students living off-campus and not at home);
- (2) QSTPs may now be used to pay expenses not only at public and nonprofit institutions but also at proprietary schools (i.e., any school that is an eligible educational institution for purposes of the Hope Scholarship or Lifetime Learning Credits, see [Sec. 1, Q&A](#));
- (3) Accounts in QSTPs may now be transferred tax-free from the beneficiary to a broader range of family members. (Step-siblings and spouses of family members have been added.)

Q2: May a student using a QSTP to pay for college also benefit from the Hope Scholarship Credit or Lifetime Learning Credit?

A2: Yes. The student or the student's parent may claim a Hope Scholarship Credit or Lifetime Learning Credit for qualified tuition and related expenses covered by a qualified state tuition program, provided the other eligibility requirements for the credits are met.

Q3: When are the changes to the QSTP rules made by TRA '97 effective?

A3: Generally, the new rules go into effect on January 1, 1998. However, the new provision permitting QSTPs to be used to save for room and board expenses is effective back to August 20, 1996.

Q4: May contributions be made to both a qualified state tuition program and an Education IRA on behalf of the same designated beneficiary in the same taxable year?

A4: No. Any amount contributed to an Education IRA on behalf of a designated beneficiary during any taxable year in which an amount is also contributed to a qualified state tuition program on behalf of the same beneficiary will be treated as an excess contribution to the Education IRA. (See [Sec. 3, Q&A6](#) for the treatment of excess contributions to an Education IRA.)

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Notice 97-60: Questions and Answers About the Taxpayer Relief Act of 1997

Section 7. Exclusion for Employer-Provided Educational Assistance

TRA '97 extends tax-free treatment to employer-provided educational assistance for undergraduate courses that begin before June 1, 2000. Employers may continue to provide up to \$5,250 per year in educational assistance to each employee on a tax-free basis for courses beginning before that date, regardless of whether the education is job-related. This benefit expires for assistance in paying for courses that begin on or after June 1, 2000.

Q1: How does an employee learn whether tax-free educational assistance is available to him/her?

A1: Employers have this information. Employers offering tax-free educational assistance are required to have a written plan describing the benefit and the terms under which it is available.

Q2: Does the employee have to do anything special to avoid being taxed on employer-provided educational assistance, up to the \$5,250 limit?

A2: No. The employer will automatically treat the educational assistance as a tax-free benefit and will not include it as wages on the employee's W-2 form.

Q3: May an employee receive tax-free educational assistance from the employer to attend graduate school?

A3: In general, no. However, employers can provide job-related educational assistance for graduate-level education as a tax-free fringe benefit under certain circumstances. Educational assistance would generally qualify as job-related if it maintains or improves skills required for the employee's current job or satisfies certain express employer-imposed conditions for continued employment. Individuals should consult a tax advisor for help in determining the tax treatment of any assistance the individual may be receiving from an employer for graduate-level education.

Q4: If a student is enrolled in undergraduate courses in a particular year and owes \$3,000 in qualified tuition and related expenses, and the student's employer pays all of the student's qualified tuition and related expenses, may a Hope Scholarship Credit or a Lifetime Learning Credit be claimed for that student for that year?

A4: No. Neither the Hope Scholarship Credit nor the Lifetime Learning Credit may be claimed for that student for that year.

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Notice 97-60: Questions and Answers About the Taxpayer Relief Act of 1997

Further Information

For further information contact: Donna J. Welch, (202) 622-4910 regarding the Hope Scholarship and Lifetime Learning Credits; Monice L. Rosenbaum, (202) 622-6070 regarding employer-provided educational assistance and qualified state tuition programs; Pamela R. Kinard, (202) 622-6030 regarding Education IRAs and using IRA withdrawals to pay for higher education expenses; and John Moriarty, (202) 622-4950 regarding student loan interest deduction (not toll-free numbers).

The IRS will publish additional guidance on the provisions discussed in this notice as well as other provisions included in TRA '97. You may visit the IRS worldwide web site at (<http://www.irs.ustreas.gov/hot/>) for information on additional guidance as it becomes available.

The Department of Education has a worldwide web site (http://www.ed.gov/prog_info/SFA/StudentGuide) you can visit and telephone numbers (1-800-4FED-AID and 1-800-USA-LEARN) you can call to get more information on affording college and obtaining student aid, such as Pell grants and student loans.

Drafting Information

The principal authors of this notice are Donna J. Welch, Office of Assistant Chief Counsel (Income Tax and Accounting) and Monice L. Rosenbaum and Pamela R. Kinard, Office of Associate Chief Counsel (Employee Benefits and Exempt Organizations). However, other personnel from the IRS and Treasury Department participated in its development.

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Part III - Administrative, Procedural, and Miscellaneous

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Notice 98-7: Returns Relating to Interest on Education Loans

Section A. The Student Loan Interest Deduction

Section 202(a) of the Act added § 221 to the Code. Section 221 allows certain taxpayers who pay interest on qualified education loans to claim a federal income tax deduction for their interest payments, regardless of whether they itemize other deductions.

A qualified education loan is a loan used to pay the costs of attendance at an eligible educational institution for a student enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential. The student must be the taxpayer, the taxpayer's spouse, or the taxpayer's dependent at the time the loan was taken. A loan made by an individual who is related to the borrower, within the meaning of § 267(b) or § 707(b)(1), is not a qualified education loan.

An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution that is described in § 481 of the Higher Education Act of 1965 (20 U.S.C. 1088) and, therefore, is eligible to participate in the student aid programs administered by the Department of Education. This category includes virtually all accredited public, nonprofit, and proprietary postsecondary institutions. For purposes of the student loan interest deduction, eligible educational institutions also include institutions that conduct an internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility that offers postgraduate training.

Costs of attendance are generally the same as those described in § 472 of the Higher Education Act for purposes of calculating a student's financial need (e.g., tuition, fees, room, board, books, equipment, and other necessary expenses, such as transportation). However, for purposes of the student loan interest deduction, costs of attendance are reduced by educational assistance that the student receives and excludes from gross income under § 127, § 135, § 530, or as a scholarship. The student loan interest deduction is available only for interest payments made during the first 60 months, whether or not consecutive, in which interest payments are required on the loan. Notice 97-60, 1997-46 I.R.B. 8, provides additional information about the student loan interest deduction.

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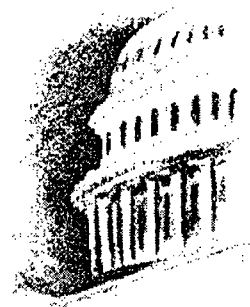


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Federal Pell Grants

What is a Federal Pell Grant?

A Federal Pell Grant, unlike a loan, does not have to be repaid. Pell Grants are awarded only to undergraduate students who have not earned a bachelor's or professional degree. (A professional degree would include a degree in a field such as pharmacy or dentistry.) For many students, Pell Grants provide a foundation of financial aid to which other aid may be added.



How do I qualify?

To determine if you're eligible financially, the U.S. Department of Education uses a standard formula, established by Congress, to evaluate the information you report when you apply. (See "[Financial Need](#)".) The formula produces an Expected Family Contribution (EFC) number. Your Student Aid Report (SAR) contains this number and will tell you if you're eligible.

How much money can I get?

Awards for the 1998-99 award year (July 1, 1998 to June 30, 1999) will depend on program funding. The maximum award for the 1997-98 award year was \$2,700. You can receive only one Pell Grant in an award year. How much you get will depend not only on your EFC but on your cost of attendance, whether you're a full-time or part-time student, and whether you attend school for a full academic year or less. You may not receive Pell Grant funds from more than one school at a time.

How will I be paid?

Your school can either credit the Pell Grant funds to your school account, pay you directly (usually by check), or combine these methods. The school must tell you in writing how and when you'll be paid and how much your award will be. Schools must pay you at least once per term (semester, trimester, or quarter). Schools that do not use formally defined, traditional terms must pay you at least twice per academic year.

Can I receive a Federal Pell Grant if I am enrolled less than half time?

Yes, if you're otherwise eligible. You won't receive as much as if you were enrolled full time, but your school must disburse your Pell Grant funds in accordance with your enrollment status and cannot refuse you an award simply because you're enrolled less than half time.

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[Information Sources]    [Direct and FFEL Stafford Loans]

HOPE Scholarship and Other Tax Benefits: Making the 13th and 14th years of education—at least two years of college—as universal in America as high school is today.

The President's plan includes five tax benefits for middle-class students and families that accept the responsibility to pursue additional education for their children and themselves. We believe that not only will these students and families reap substantial personal and financial benefits from these education incentives, but these investments will also pay a huge long-term dividend to the country. For much of the 20th century, tax policies included incentives to invest in capital and equipment. At the beginning of the 21st century—the education and information age—we must create incentives to invest long term in education and human capacity.

HOPE Scholarships. A centerpiece of President Clinton's HOPE and Opportunity Agenda for higher education is the proposed **HOPE Scholarship tax credit**, which offers two years of tuition at the typical community college for any student enrolled at least half-time. It provides students with a maximum \$1,500 tax credit for tuition and required fees in their first year, and another \$1,500 in their second year if they work hard, stay off drugs, and earn at least a B minus average in their first year. This \$1,500 tax credit will pay the full cost of tuition at a typical community college—essentially making community college free or nearly so for every student. In 1998, this credit is expected to help 4.2 million middle-income students pay for college.

Although the HOPE Scholarship tax credit is priced to pay the full cost of two years of tuition at a typical community college, the credit can be applied to tuition at any college, including four-year public and private colleges. The credit would be a substantial down payment for parents sending their children to four-year colleges with higher tuition. Students receiving tax credits would still be eligible for other federal student aid, including student loans, Pell Grants, and Work Study. However, the maximum tax credit would be \$1,500 minus any federal grants awarded to the student.

The proposal builds on the enormously successful HOPE Scholarship program in Georgia, which guarantees any student in the state of Georgia free college as long as they have earned a B average and stay off drugs. This year the scholarships are helping 80,000 students—including 70 percent of the freshman class at the University of Georgia.

The HOPE scholarship tax credit will help open the doors of college opportunity to every American who works hard and makes the grade, regardless of that student's ability to pay, since education at the typical community college will now essentially be free. The program also makes it clear that with opportunity comes the responsibility to work hard and achieve at a high level. This benefit will initially be available without restrictions tied to previous academic performance but the continued benefit will be reserved for those people who, by definition, are willing to work for it. It's America's most basic bargain: we as a nation will help create opportunity if you'll take responsibility.

\$10,000 Tax Deduction for Education and Training. We have also proposed a tax deduction

An important aspect of the new Direct Loan program is that it provides students the ability to repay their loans as a percentage of their income -- **income-contingent repayment** -- to encourage community service, and to make debt more manageable and to reduce defaults. As of November 1996, nearly 100,000 borrowers with loans totaling \$1.5 billion have consolidated into direct lending. About three-quarters of these borrowers are selecting non-standard repayment options with 52 percent selecting income-contingent repayment.

Through the legislation that created the Direct Student Loan program we were able in 1993 to **reduce by 50 percent (from 8 percent to 4 percent) the student loan fees** that lenders and guarantee agencies were allowed to levy on student borrowers. But we need to do more. We propose to further reduce these fees in both the new Direct Student Loan and the older Federal Family Education Loan programs, cutting loan fees from 4 percent to just 2 percent on need-based Stafford loans, and to 3 percent on other loans for students and parents. Furthermore, because the Congressional Budget Office and other analysts have noted that lender costs are very low during the in-school period, when students are not required to make payments on their loans, we propose to reduce the interest rate paid to lenders during that period by one percentage point.

Increasing Grant Aid Available to Students -- Pell Grants

The Administration has worked hard to increase funding for student financial aid programs. Aid available to students increased by \$12 billion between 1993 and 1997—an increase of 48 percent. This year, aid available to students will increase by an additional \$3.4 billion for a record total of \$36 billion (excluding consolidation loans) benefiting an estimated 8.1 million students in 1998.

Pell Grants are the most important form of student financial aid for the nation's neediest students. In the decade preceding 1992, funding for this critical program did not keep pace with inflation, which seriously eroded the Pell Grants' purchasing power. The Clinton Administration began immediately in 1993 to restore fiscal integrity to this program at a time when it had been allowed to accumulate a projected internal program deficit of over \$2 billion. After eliminating that program deficit, the President secured bipartisan support for the largest Pell Grant increase in recent history, a \$230 increase (9 percent) in the maximum grant to \$2,700 by FY97. This represents a full \$400 increase, more than 17 percent, in the maximum grant since 1993.

We now are proposing to increase the maximum award from \$2,700 to \$3,000, as well as greatly expand eligibility to older independent students. Increasing the maximum award to \$3,000 provides more aid to currently eligible students, and makes an additional 130,000 students eligible for the grants. The President's budget also expands the eligibility of low income students age 24 and older. This change will make an additional 218,000 students eligible for Pell Grants, and expand aid for over 890,000 students by an average of \$800. These changes, contained in the President's balanced budget, will increase Pell Grant funding by \$1.7 billion in fiscal year 1998, a more than 25 percent increase over current funding levels.

Helping More Students Prepare for College through "GEAR UP"

"I also ask this Congress to support our efforts to enlist colleges and universities to reach out to disadvantaged children starting in the sixth grade so that they can get the guidance and hope they need so they can know that they, too, will be able to go on to college."

--President Clinton, State of the Union address, January 27, 1998

GEAR UP is a new national initiative to encourage more young people to have high expectations, stay in school, study hard and take the right courses to go to college.

- High-achieving students from low-income families are five times as likely not to attend college than high-achieving students from high-income families [NELS 1998].
- In a recent survey, almost 70% of parents indicate that they have little information or want more information about which courses their child should take to prepare for college, and 89% of parents want more information about how to pay for college, including the use of tax credits [Gallup, Sept. 1998].

GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs). GEAR UP is modeled in part after President Clinton's *High Hopes for College* proposal to create a national goal that every college should partner with at least one middle school in a low-income community to help raise expectations and ensure that students are well-prepared for college. GEAR UP also builds on an existing State early college awareness program. This new competitive grant program administered by the U.S. Department of Education supports early college preparation and awareness activities at both the local and the State level. The President's FY2000 budget request doubles the funding for GEAR UP from \$120 million in FY99 to \$240 million in FY2000, and it would enable GEAR UP to reach almost 400,000 students in the year 2000.

GEAR UP Partnership grants. As outlined in the President's High Hopes for College proposal, this initiative will award multi-year grants to locally-designed partnerships between colleges and low-income middle schools, plus at least two other partners -- such as community organizations, businesses, religious groups, State education agencies, parent groups, or non-profits -- to increase college-going rates among low-income youth. To be most effective, partnerships will be based on the following proven strategies:

- **Informing students and parents about college options and financial aid**, including providing students with a 21st Century Scholar Certificate -- an early notification of their eligibility for financial aid;
- **Promoting rigorous academic coursework** based on college entrance requirements;
- **Working with a whole grade-level of students** in order to raise expectations for all students; and
- **Starting with 6th or 7th grade students and continuing through high school graduation** with comprehensive services including mentoring, tutoring, counseling, and other activities such as after-school programs, summer academic and enrichment programs, and college visits.

GEAR UP State Grants. These grants will build on the experience of the former State grant program replaced by the GEAR UP program in the new HEA law. GEAR UP State grants will be awarded to States to provide early college awareness activities, improved academic support, information on paying for college, and scholarships. The proposed programs must treat low-income students as a priority and should be coordinated with the efforts of schools, local community organizations, and colleges and

universities.

Applications Due April 30, 1999. The final GEAR UP application is on the web at <http://www.ed.gov/gearup/apply.html> and through 1-800-USA-LEARN. The fastest way to get an application is by downloading or printing it from the web.

Technical Assistance Workshops in March. Regional workshops to assist prospective GEAR UP applicants in developing their projects and applications will be offered in March 1-15, thanks to the sponsorship of the Ford Foundation. Visit the web site or call Johnson Niba for more information at 202-708-8596. Broadcast from Columbus, Ohio, on March 30th at 2 p.m. to 3 p.m., the GEAR UP Satellite Teleconference will enable people from across the country to engage in an interactive program designed to provide helpful and practical information about GEAR UP. Participants are strongly encouraged to register before March 19th.

Questions or comments about GEAR UP? Email gearup@ed.gov, call 1-800-USA-LEARN, or check <http://www.ed.gov/gearup> on the Web.



[Gear Up Home Page](#)

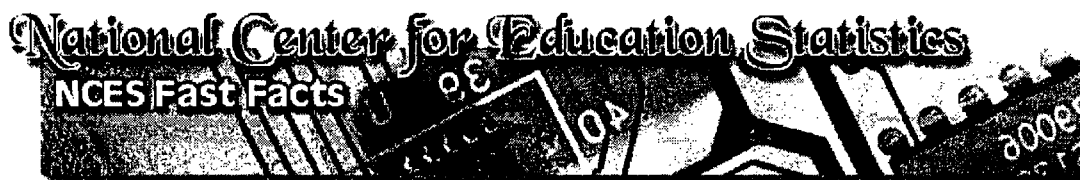


This page last updated March 2, 1999 (saw)

ESEA

NEA/AFT

Studies



Higher education enrollment levels

Question:

What are the higher education enrollment levels?

Response:

Between 1985 and 1995, higher education enrollment increased by 16 percent, from 12.2 million to 14.3 million. Much of this growth was in part-time and female enrollment. During the years of 1985 through 1995, the number of men enrolled in institutions of higher education rose by 9 percent and the number of women enrolled increased by 23 percent.

- Since 1979, the number of women in higher education has exceeded the number of men. In 1995, 6.3 million men and 7.9 million women were enrolled in institutions of higher education, compared to 5.0 million men and 3.5 million women in 1970.
- Between 1985 and 1995, the number of male full-time graduate students increased by 23 percent, compared to a 64 percent increase for full-time women. Among part-time graduate students, the number of men increased by 6 percent while the number of women rose by 26 percent.
- The enrollment levels for minorities have been increasing slowly over time. For example, in 1980, nine percent of blacks, four percent of Hispanics, two percent of Asians or Pacific Islanders and less than one percent of American Indian/Alaskan Natives were enrolled in institutions of higher education. In 1995, eleven percent of blacks, eight percent of Hispanics, six percent of Asians or Pacific Islanders, and one percent of American Indians/Alaskan Natives attended college.

Related Tables and Figures:

- [Enrollment Rates of 18- to 24-year-olds in Institutions of Higher Education, by Race/Ethnicity: 1967 to 1996](#)
- [The Condition of Education 1998, Indicator 10: Enrollment Patterns of First-Time Beginning Postsecondary Students](#)
- [Total Fall Enrollment in Institutions of Higher Education, by Attendance Status, Sex of Student and Control of Institution: 1947 to 1995](#)
- [Total Fall Enrollment in Institutions of Higher Education, by Level of Study, Sex, and Race/Ethnicity of Student: 1976 to 1995](#)
- [Total Fall Enrollment in Institutions of Higher Education, by Level of Enrollment, Sex, Attendance Status, Type and Control of Institution: 1994 and 1995](#)
- [Total Graduate Fall Enrollment in Institutions of Higher Education, by Attendance Status, Sex of Student, and Control of Institution: 1969 to 1995](#)



Financial aid for postsecondary students

Question:

Do you have any statistics on financial aid for postsecondary undergraduates?

Response:

In 1995-96, nearly 50 percent of undergraduates received financial aid, most commonly in the form of grants and loans and least commonly in the form of work-study. Female students were more likely to receive financial assistance than their male counterparts. Among students enrolled full-time for the full year, 68 percent received financial aid.

<i>Percent of Undergraduates Receiving Aid in 1995-96</i>				
Characteristics	Enrollment of Undergraduates¹ (in thousands)	Total Aid ²	Federal	Non-Federal
All undergraduates	16,677	49.7	36.6	32.0
<u>By Sex</u>				
Men	7,197	46.7	33.1	31.4
Women	9,481	51.9	39.2	32.5
<u>By Race</u>				
White, non-Hispanic	11,681	47.1	33.2	31.1
Black, non-Hispanic	2,030	62.9	50.0	38.3
Hispanic	1,723	54.2	44.6	30.6
Asian American/Pacific Islander	967	42.9	33.1	30.8
American Indian/Alaskan Native	163	59.4	47.8	37.1
<u>By Attendance Status</u>				
Full-time, full-year	6,306	68.4	55.6	45.7
Part-time and	10,157	44.1	29.4	28.1

Part-time and other part-year	10,157	44.1	29.4	28.1
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¹ Numbers of undergraduates may not equal figures reported in other tables, since these data are based on a sample survey. Includes all postsecondary institutions.

² Includes students who reported they were awarded aid, but did not specify the source or type of aid.

Source: National Center for Education Statistics, U.S. Department of Education, *Digest of Education Statistics*, 1997, Table 315, page 330.

For the complete version of the table, please click [here](#).

<i>Percent of Undergraduates Receiving Aid in 1989-90</i>				
Characteristics	Enrollment of Undergraduates¹ (in thousands)	Total Aid²	Federal	Non-Federal
All undergraduates	12,600	44.0	30.0	32.3
<u>By Sex</u>				
Men	5,530	42.2	27.4	31.4
Women	6,936	44.6	31.2	32.7
<u>By Race</u>				
White, non-Hispanic	9,410	41.2	26.3	31.2
Black, non-Hispanic	1,142	61.2	50.0	40.5
Hispanic	840	44.2	34.4	31.6
Asian American	575	35.5	25.5	28.2
American Indian	83	51.6	31.8	44.1
<u>By Attendance Status</u>				
Full-time, full-year	7,418	56.4	41.9	40.9
Part-time and other part-year	4,683	25.9	12.5	19.7

¹ Numbers of undergraduates may not equal figures reported in other tables, since these data are based on a sample survey.

² Includes students who reported they were awarded aid, but did not specify the source

or type of aid.

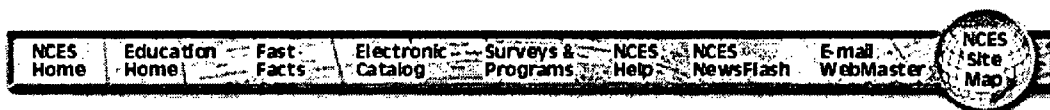
Source: National Center for Education Statistics, U.S. Department of Education, *Digest of Education Statistics*, 1993, Table 308, page 311.

Related Tables and Figures:

- [Percent of Undergraduates Receiving Aid, by Type and Source of Aid Received, and by Control and Level of Institution: 1992-93 and 1995-96](#)
- [Postbaccalaureate Students Enrolled Full-Time and Part-Time, by Aid Status, Source of Aid, and by Level of Study and Control and Level of Institution: 1992-93 and 1995-96](#)
- [The Condition of Education 1997, Indicator 12: College Costs and Family Income](#)

Other Resources:

- [National Postsecondary Student Aid Study: Student Financial Aid Estimates for 1995-96](#)





U.S expenditures on higher education

Question:

How much does the United States spend on higher education?

Response:

In 1994-95, the total public and private institution current fund expenditures per student were \$17,681. Overall spending per full-time equivalent student increased at all higher education institutions from the mid-1980s until 1994-95. Private institutions invested more money per student than public institutions, especially at private, four-year institutions.

<i>Total Public and Private Institutions Current Fund Expenditures Per Full-Time Equivalent Student in Institutions of Higher Education, in 1994-95 Constant Dollars</i>				
School Year	Total Current Fund Expenditures	All Institutions	4-Year Institutions	2-Year Institutions
1970-71	-	\$13,861	\$16,344	\$5,837
1980-81	64,052,938	14,238	17,767	6,058
1985-86	97,535,742	15,773	19,659	6,538
1990-91	146,087,936	16,608	20,945	6,584
1994-95¹	182,968,610	17,681	22,542	6,876

1 Preliminary data.

<i>Public Institutions Current Fund Expenditures Per Full-Time Equivalent Student in Institutions of Higher Education, in 1994-95 Constant Dollars</i>			
School Year	All Institutions	4-Year Institutions	2-Year Institutions
1970-71	\$12,096	\$14,858	\$5,644
1980-81	12,478	16,348	6,000
1985-86	13,707	17,802	6,558
1990-91	13,960	18,370	6,540
1994-95¹	14,833	19,980	6,778

¹ Preliminary data.

<i>Private Institutions Expenditures Per Full-Time Student in Institutions of Higher Education, Current Fund Expenditures in 1994-95 Constant Dollars</i>			
School Year	All Institutions	4-Year Institutions	2-Year Institutions
1970-71	\$18,758	\$19,417	\$8,505
1980-81	19,609	20,712	6,889
1985-86	21,826	23,492	6,323
1990-91	24,860	26,424	7,210
1994-95 ¹	26,331	27,639	8,573

¹ Preliminary data.

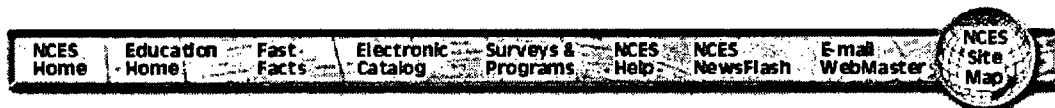
Source: National Center for Education Statistics, U.S. Department of Education, *Digest of Education Statistics*, 1997, Table 336, page 354.

Related Tables and Figures:

- [Current Fund Expenditures of Institutions of Higher Education, 1980-81 to 1994-95](#)
- [Current Fund Expenditures of Public Institutions of Higher Education, 1980-81 to 1994-95](#)
- [Current Fund Expenditures of Private Institutions of Higher Education, 1980-81 to 1994-95](#)
- [The Condition of Education 1998, Indicator 56: International Comparisons of Expenditures for Education](#)

Other Resources:

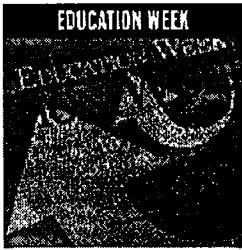
- [Current Funds Revenues and Expenditures of Institutions of Higher Education: Fiscal Years 1987 through 1995](#)



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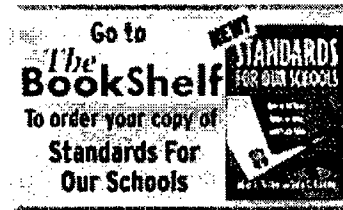

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Study: Inequalities Persist In Access to Higher Education

By Julie Blair

Washington

A recent report highlighting stagnant graduation rates for black college students has brought renewed attention to the need for greater cooperation between K-12 schools and higher education.



The report by the Southern Education Foundation cites inadequate K-12 schooling as one of several factors limiting African-Americans' access to and success in college. For example, low-income students--who are disproportionately likely to be black--are far less likely than middle-income students to enroll in rigorous classes during high school or take Advanced Placement exams than those in families with higher incomes, the study released here last month concludes.

Read our story, "Minority College Enrollment Up 5 Percent in 1994," June 19, 1996.

For More Information

Copies of "Miles To Go" are available for \$20 each from the SEF at 135 Auburn Ave. N.E., 2nd Floor, Atlanta, GA 30303-2503; or by calling (404) 523-0001.

"Four-year universities need to engage themselves in a systematic way with ... elementary and secondary programs," said C. Peter Magrath, the president of the National Association of State Universities and Land-Grant Colleges.

Universities and public schools "must set up programs that get young boys and girls into science and math and let them know they have an opportunity to go to college," said Mr. Magrath, a member of the advisory board that oversaw the report.

The study by the Atlanta-based foundation also warns of shortcomings in financial-aid allocations and the need for greater mentoring and other forms of help for minority college students.

Money Problems

"Miles to Go: A Report on Black Students in Postsecondary Education" examined public higher education in 16 Southern states and in Pennsylvania, Ohio, and Missouri--all states that once segregated their colleges. Nearly three-fourths of all black freshmen in the United States attend school in the states studied.

The percentage of African-Americans aged 18-24 who received bachelor's degrees from public colleges and universities has barely increased over 20 years, the report says.

Black students earned 10.3 percent of all bachelor's degrees given in 1995, up only slightly from 8.5 percent in 1976. African-Americans make up 13 percent of the U.S. population, according to the U.S. Census Bureau.

In several states, the proportion of blacks who are first-time, full-time freshmen lags substantially behind the percent of African-Americans in the 18- to 24-year-old population overall.

South Carolina has the largest disparity; Georgia, Alabama, Missouri, Delaware and Louisiana showed substantial disparities, the study states. In Texas, Oklahoma, Kentucky, and West Virginia, the percentage of black freshman exceeded the population of black college-age students. The states, however, have the lowest population of African-American students. Maryland was the only state noted for "reasonable progress."

All too often, the report says, the problem for African-American students is money.

"Many financial-aid programs ... do not reach students who need them most," said Norman C. Francis, a member of the advisory committee and the president of Xavier University of Louisiana in New Orleans, the nation's only predominantly black Roman Catholic college or university. Money "is a major barrier to black students."

According to the report, more than one-third of financial aid in Southern states is given without consideration of need--bad news for black families in the region, who earn almost 50 percent less than the average middle-income white family. Moreover, the current trend in aid is toward student loans rather than outright grants.

But the issue is more complicated, said Theodore M. Shaw, an associate director and counsel for the NAACP Legal Defense and Educational Fund Inc. in New York City.

The report's findings illustrate "a national trend in which many people have just given up or turned a blind eye to the issues of race," Mr. Shaw said. "If this report is accurate, then it has implications for not only African-Americans but for the entire region. No one is going to be well served by a population which lags behind the rest of the population."

Lack of Mentors

Tighter admissions policies and the loss of remedial programs also hinder minority students, the report says. Often, those who are admitted remain at risk of failure because of a lack of mentors and other forms of assistance.

Among the report's other findings:

About one-third of blacks who enroll in four-year schools in the states studied do not earn degrees within six years. In Mississippi, for example, 40 percent of incoming freshmen in 1988 were African-American. By graduation, that percentage had dropped to 23 percent.

Only five of the 19 states have a faculty that is more than 10 percent black.

Black students in 13 states overwhelmingly attend community colleges or historically black colleges and universities. Only 8.6 percent of first-year black students enrolled in predominantly white, prestigious public colleges and universities in those states.

After graduation, only a handful of African-Americans pursue advanced degrees. In 1976-77, blacks made up 3.8 percent of those who earned doctoral degrees. In 1994-95, that figure had risen only to 4.3 percent.

Responsibility, the report concludes, lies with just about everyone. States must improve their K-12 education systems. Colleges and universities must recommit to integrating their campuses and provide monetary and emotional support for black students. And business leaders, nonprofit organizations, and citizens' groups must also help out.

"There is much, much more that needs to be done to close the gap," said Elridge W. McMillan, the president of the SEF. "There are dire implications."

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