U.S. SENATE COMMITTEE ON
Finance
SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley Pushes to Make Education Tax Incentives Permanent

WASHINGTON -- Sen. Chuck Grassley, chairman of the Committee on Finance, is working to make permanent a series of education tax incentives he worked to enact in 2001 and 2002. These incentives would help parents save and pay for their children's education and make it easier to earn a college degree without securing a lifetime of debt.

"Congress is willing to consider permanent tax relief for companies to buy machinery," Grassley said. "Tax relief for education is an investment in the mind. It's just as important as job-creating tax incentives for businesses. Some will say we can't afford this, but we really can't afford to lose billions of dollars of help for Americans working hard to educate their kids."

Grassley just introduced two education bills:

The first bill is the ***Lower Expenses for Students Seeking Opportunities Now (LESSON) Act***, which makes permanent the **college tuition tax deduction** that Grassley worked to enact as part of the 2001 tax relief law. Due to the lack of money for all priorities, that provision was effective only through 2005.

For parents who struggle to afford ever-increasing college tuition for their children, the tuition tax deduction is important, Grassley said. At between $2,000 and $4,000 -- depending on income -- it is a beneficial tax incentive for many middle-income Americans, he said.

Taxpayers with adjusted gross income of up to $65,000 for singles and up to $130,000 for couples receive a tuition deduction of $4,000; taxpayers with adjusted gross income of $80,000 to $160,000 receive a maximum deduction of $2,000. If Congress takes no action, this deduction expires Dec. 31, 2005.

The second bill, the ***Anticipatory Initiatives for Matriculation (AIM) Act***, makes permanent the rest of the education tax incentives in the 2001 tax relief law, and the teacher deduction for classroom materials and continuing education costs that was included in the 2002 tax relief law. The teacher deduction expired Dec. 31, 2003. The other provisions will expire Dec. 31, 2010, if Congress takes no action. Details of the tax incentives include:

Removing the limitation on the deductibility of student loan interest. Grassley led the effort to restore the deduction after Congress totally eliminated it in 1986. Congress reinstated the deduction with a 60-payment limit in 1997; in 2001, Grassley won removal of the 60-payment limit and increased the income limits, allowing more students to claim the deduction.

Improvements to education savings accounts. These incentives help parents save money for their children's higher education. Corporations, unions, charitable organizations, foundations and other entities also can contribute to a child's account. Parents can withdraw from the education savings accounts for kindergarten through 12th grade expenses.

The 2001 law increased contribution limits from $500 to $2,000; set new income phase-out ranges for adjusted gross income of $95,000 and $110,000 for singles and $190,000 to $220,000 for joint filers; allowed contributions beyond age 18 for special needs beneficiaries; and made distributions tax-free as long as the money is not used for the same educational expenses for which a tax credit is claimed with the HOPE or Lifetime Learning Credit.

Making distributions from pre-paid college savings plans and tuition plans tax-free and permitting consortia of private colleges and universities to offer pre-paid tuition plans. Before the 2001 law, states could offer tuition plans to which people contribute money for the higher education expenses of a beneficiary. The earnings were taxed at withdrawal to the beneficiary. Now the withdrawals are tax-free.

A key incentive is already permanent, via the 2001 tax relief law. That law made permanent the tax-free treatment of **employer-provided educational assistance**. Educational expenses paid by an employer for its employees were generally deductible to the employer. For employees, employer-paid educational expenses were excluded from gross income if provided under certain assistance plans. The exclusion was set to expire on Dec. 31, 2001, and didn't apply to graduate classes. Under the 2001 law, this exclusion became permanent and applied to graduate classes as well.

"Thomas Jefferson envisioned a well-educated society," Grassley said. "It'll take all of these steps, and more, to maintain his vision. Jefferson couldn't have predicted the super-charged, highly technical environment of today's workplaces. It takes a commitment at every level of society to move our children from the chalk board to the circuit board."

Last week, Grassley received the 2004 Award for Advocacy of Independent Higher Education from the National Association of Independent Colleges and Universities for his legislative work. The association said, "Because of his leadership, students and working families have more options than ever for saving and paying for college."

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