U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley Pledges Renewed Push to Make Education Tax Incentives Permanent

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today said he will continue working to refine and make permanent education tax incentives enacted under his chairmanship, citing the popularity and usefulness of those tax breaks.

"Our economy demands well-educated workers," Grassley said. "Tax incentives are only part of the solution, but they're an important part. The popularity of education tax incentives is good news and strong encouragement for Congress to keep them going."

Grassley convened a hearing this week to examine whether the tax incentives he helped to enact in 2001 and 2002 are working as intended. The 2001 incentives included removing the limitation on the deductibility of student loan interest, a longtime Grassley priority; raising the amount that can be contributed to an education saving account from $500 to $2,000; making distributions from pre-paid college savings plans and tuition plans tax-free; and making permanent the tax-free treatment of employer-provided educational assistance.

Dr. Robert Paxton, president of Iowa Central Community College, testified that "many of the students we have currently enrolled and in the past, could not have afforded, nor their families been able to afford, to attend our community college" without these "targeted and very effective" tax incentives.

For example, Paxton said of the approximately 5,100 students Iowa Central students, 3,479 were notified by the IRS that they or their parents were eligible to receive the HOPE and Lifetime Learning Credits. These credits offset the costs of higher education by reducing the amount of income tax. The estimated average benefit of these credits for each Iowa Central Community College student is approximately $841 annually. If each of those students/parents took advantage of those credits, Iowa Central and those families would have received an in-direct benefit of over $2.9 million.

Statewide, in 2001, more than 95,000 students were able to take advantage of these credits with a value of over $72 million.

Section 529 plans also are very helpful, according to Oregon State Treasurer Randall

Edwards. These state-sponsored plans give families a flexible vehicle to save for college. In 2001, Congress made withdrawals from these plans exempt from federal taxes, a move that experts say increased the plans' popularity.

More than 400,000 students nationwide already have used their 529 resources to pay for college, and another six million are waiting to use their accounts when they go to college.

In February, Grassley introduced legislation to make permanent the education tax incentives enacted in 2001 and 2002. Most of the incentives expire in 2010. Grassley said that even though the expiration dates are not imminent, parents prefer to have security in their planning for educational expenses. Also, it's important not to have any lapse in these important programs.

"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's 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.

For more information, taxpayers can look at http://www.irs.gov/pub/irs-pdf/p970.pdf.

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