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Education - Hope Scholarships

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Education - Hope Scholarships

2009-1006-F
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RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
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b(1) National security classified information [(b)(1) of the FOIA]
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Education -- Hope Schol + Tax Credits

A FAMILIES' GUIDE TO THE 1997 EDUCATION TAX CUTS

Many new tax benefits for adults who want to return to school, for parents who are planning to send their children to college or who are already saving to send their children to college will be available due to the balanced budget agreement signed into law in August 1997. This guide highlights some of the significant features of the tax cut including the $500 per child tax credit for 45 million children and the largest investment in higher education since the passage of the G.I. Bill in 1945.

These tax cuts essentially 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 claiming the Lifetime Learning tax credit.

- **Up to a $1,500 tax credit for students starting college**

The Hope Scholarship tax credit helps makes the first two years of college universally available. Students will receive a tax credit of 100% on the first $1,000 of tuition and fees and 50% on the second $1,000. This tax credit will be available for college enrollment after January 1,1998. This credit is available for net tuition and fees (less grant aid). A high school senior going into his or her freshman year of college in September of 1998, for example, will be eligible for the $1,500 tax credit.

A married couple with a joint income of $60,000 and two children in college, one at a community college with a tuition of $2,000 and the other a sophomore at a private college with $11,000 tuition, would have their taxes cut by $3,000.

This 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. The credit can be claimed in two taxable years for college freshman and sophomores who are enrolled on at least a half-time basis for any portion of the year.

• Learning for a lifetime: a tax credit

This tax provision is targeted for adults who want to go back to school to upgrade their skills and for college juniors, seniors, graduate and professional students, mid-career changers and those who want to take a course or two. A family will receive a 20% tax credit for the first $5,000 of tuition and fees through the year 2002, and for the first $10,000 thereafter. The credit is available for net tuition and fees, just like the HOPE tax credit, to pay for post-secondary enrollment beginning July 1, 1998. The credit is available on a per-taxpayer (family) basis, and is phased out at the same income levels as the HOPE scholarship tax credit throughout their lifetime.

Returning to school full-time to become a teacher: Homemaker, family income of $70,000, who wants to attend a graduate teacher training program at a public university after being out of college for 20 years ($3,500 tuition). This family would have their taxes cut by $700.

Automobile Mechanic: Married, wife works part-time, with two grown children, joint income of $32,000 and is going back to a local technical college to take some computer classes with a tuition of $1,200. This family would have their taxes cut by $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 the higher education expenses of the taxpayer, a spouse, a child, and even a grandchild. For each child under age 18, families may also deposit $500 per year into an Education IRA. Earnings will accumulate tax-free and no taxes will be due upon withdrawal for net post-secondary expenses for tuition, fees, books, equipment, and eligible room and board if used before the age of 30.

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. There are a few restrictions. A taxpayer, for example, who uses the tax-free distributions from an Education IRA may not, in the same year, benefit from the HOPE Scholarship or Lifetime Learning Credit.

• Expanded benefits for pre-paid tuition plans

This provision allows State-sponsored pre-paid tuition plans -- the earnings from which are not taxed until the time of withdrawal as a result of a law passed last year -- to include certain room and board expenses for students who attend on at least a half-time basis. Withdrawals are eligible for the HOPE Scholarship tax credit and Lifetime Learning tax credits.

• Paying back student loans at less cost

For many college graduates, one of their first financial obligations is to pay off their student loan, on average about $13,500. This provision will essentially allow a borrower to get one "free" monthly payment by allowing students to take a tax deduction for interest paid in the first 60 months of repayment on student loans.

A college senior graduates from college and finds a job paying $25,000 a year. The student has a total student debt of $13,500. The new job holder because of his or her income is in the 15% federal income tax bracket. The monthly payment for this student loan is $166. The total payments for the year is $1,992 and over half of the total payment is interest --$1,080 --which can now be deducted. The student's tax benefit is calculated at 15% x $1,080 for a savings of $162. In subsequent years the interest portion of the total student debt declines, but using this tax provision still remains a money saver.

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 income between $60,000 and $75,000, and single filers with incomes between $40,000 and $55,000. The deduction is also available for all loans, such as student, parent, federal and nonfederal, made before August of 1997 when the tax cuts became law but only to the extent that the loan is within the first 60 months of repayment.

• Going to school while you work

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

• Community service loan forgiveness

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

Education -- Hope Schol + tax credits

Tax Cuts to Make College and Lifelong Learning More Affordable; Helping Students and Families Get Ready for College Early
DRAFT -- August 16, 1997

We must make the thirteenth and fourteenth years of education -- at least two years of college -- just as universal in America by the 21st Century as a high school education is today, and we must open the doors to all Americans.
-- President Bill Clinton
State of the Union Address, February 4, 1997

Today, as students prepare to head back to school, President Clinton encouraged families to take advantage of the new higher education opportunities contained in the historic balanced budget legislation. He also urged students and their parents to accept responsibility for preparing for college early, by choosing tough courses and working hard in school, beginning in students' middle school and junior high school years. To help families map out a bright future, the President released a new handbook on getting ready for college early, and a parents' guide to the new education tax cuts.

WHILE MORE STUDENTS ARE GOING TO COLLEGE, TOO MANY OTHERS MISS THE BENEFITS OF A POSTSECONDARY EDUCATION. In 1996, sixty-five percent of high school graduates were attending college by the following fall, an all-time high. Yet far too many of our young people still lack a college education or advanced training, limiting their ability to prosper in the 21st Century knowledge economy. College graduates are half as likely to be unemployed as high school graduates. Moreover, on average, a college graduate will earn $600,000 more over the course of a lifetime than a high school graduate -- and this gap is widening. Someone with an associate's degree from a two year college earns more than a high school graduate, as well.

THE NEW TAX CUTS SIGNED BY THE PRESIDENT WILL HELP MAKE COLLEGE MORE AFFORDABLE FOR STUDENTS AND FAMILIES. President Clinton's new Hope Scholarship makes the first two years of college universally available, providing students with a tax credit of up to $1,500 -- about the same as the average tuition at a local community college. Moreover, college juniors and seniors, as well as graduate and professional students, and adults who want to go back to school will be eligible for a Lifetime Learning tax credit worth 20% of the first $5,000 of tuition and fees through the year 2002 (and 20% of the first $10,000 beginning in 2003). The new law also allows parents and grandparents to make penalty-free withdrawals from their IRAs to pay for higher education expenses, and enables them to open new Education IRAs where they can invest $500 per child every year to build up money, tax free, for college. In addition to the tax cuts, the balanced budget agreement also provides the largest Pell Grant increase in two decades, as sought by the President; Congress must fulfill this promise next month.

STUDENTS SHOULD BEGIN PREPARING FOR COLLEGE EARLY BY TAKING TOUGH COURSES IN MIDDLE SCHOOL AND HIGH SCHOOL. Students who take algebra and geometry by the end of eighth and ninth grades are much more likely to go on to college than students who don't; in a national study, only 26 percent of low-income students who did not take geometry went on to college, compared with 71 percent of those who did. Back to School is an ideal time for parents to talk with teachers, principals, and guidance counselors to make sure students sign up for a rigorous classes that will keep them on track for college. A new handbook, "Getting Ready for College Early," will help parents of students in middle school and junior high with choosing courses and other basics of college planning -- like where to find out how much college really costs and what resources are available make college affordable. "Getting Ready for College Early," together with "A Families' Guide to the 1997 Education Tax Cuts," is available free of charge from the U.S. Department of Education by calling 1-800-USA-LEARN.

Education – Hope schol.
+ other tax credits

William R. Kincaid
07/09/97 11:02:51 AM

Record Type: Record

To: See the distribution list at the bottom of this message
cc:
bcc:
Subject: Re: Revised Cardin

I spoke with Mike Smith last night, and he thought this was basically on track. One clarification may be necessary, though: the tax credit would not be limited to Title I-eligible students, nor would the services actually be provided through Title I; instead, the point is that what is allowable under Title I and Agostini v. Felton with respect to the location of the services, who provides the services, and the nature of the services would also be allowed under the the tax credit program. For example, a parochial school could not actually provide the services paid for via the tax credit, although the services could be located at a parochial school, provided, say, by a public school employee.

To keep the ball rolling, I have asked legislative counsel at ED to begin working on specs, particularly for the education-related provisions, under the expectation that at some point Treasury would need to be brought into the mix. As I get additional comments from folks here I can feed them in.

According to the Department, this week the education groups are beginning to really press Cardin on this, so he may be receptive to this kind of compromise.

William R. Kincaid

William R. Kincaid
07/08/97 05:31:32 PM

Record Type: Record

To: See the distribution list at the bottom of this message
cc:
Subject: Revised Cardin

When you review what I have done on Cardin, please look at this slightly revised version. Thanks.

SECOND DRAFT -- July 8, 1997

An Amendment to Allow a Tax Credit for Costs and Fees Paid for Supplementary Educational

Services for Children
[possible substitute for Cardin]

Credit would be for up to [$150 or 50% of the costs incurred, whichever is less--Cardin amount] per year per child ages 6-18, enrolled as a full time elementary or secondary school student

Credit would be for costs and fees paid

Services provided must be *supplementary* to the basic educational program, and can include extra help/tutoring in core academic subjects, including reading and math, *[that the student is studying in school--Cardin language*] [as well as enrichment in art, music etc.]; the credit is not available for regular tuition costs

[*Allowable services may not include college entrance test preparation --Cardin language*]

Services must be provided outside the regular school day, which can include before- or after-school, during summers, or on weekends

Consistent with Title I and the Supreme Court's ruling in Agostini vs. Felton , services may be provided at a public school or at another site (including private religious schools), but may not include sectarian instruction.

Services must be provided by the local school district, or under contract to the local school district, consistent with Title I.

Note: Some districts currently provide after-school or summer services for free; others have elected to charge for them. In localities where the services are provided for free, there is no need for the tax credit because after-school services are already available. In localities where services are only available for a fee, the legislation would aid families that want extra services for their children. In communities where after-school tutoring is primarily provided in venues such as Boys and Girls Clubs, the school district could agree to contract with such organizations to provide the services. Where no services are currently offered, the tax credit may encourage districts to begin offering such services.

Because the services would be provided under the auspices of the local school district, there would be no need for any sort of "certification" process as envisioned in the Cardin legislation. Services could be provided through private organizations under contract to school districts to the same extent they can presently be provided under Title I.

Message Sent To: ____________________

William R. Kincaid
07/08/97 12:23:26 PM

Record Type: Record

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

cc: Robert M. Shireman/OPD/EOP
Subject: Cardin Amendment

Below is my cut at the substance of what we agreed to at yesterday's Ed Strategy meeting as a possible substitute for the Cardin amendment. Please let me know if this strikes you as a sensible approach and whether it accurately captures what we discussed. It would be particularly helpful to get your feedback on the bracketed portions, which I don't think we really addressed yesterday, and which differ from Cardin's approach. I will separately circulate this to Mike Smith and others at Education for their reactions.

If folks agree that this is basically on the mark, I also need guidance on next steps. I think drafters would need to put this more in the form of legislative specs. Education would need to be involved, especially because this is designed to parallel key aspects of Title I and take into account Agostini v. Felton. On the other hand, because it is tax legislation, presumably Treasury needs to be involved at some point, as well. I can imagine ED taking a first cut, and then passing over to Treasury, but what do others think? And once that is settled, who should take the lead in shopping this with Cardin?

Thanks.

ROUGH DRAFT -- July 8, 1997

An Amendment to Allow a Tax Credit for Costs and Fees Paid for Supplementary Educational Services for Children
[possible substitute for Cardin]

Credit would be for up to [$150 or 50% of the costs incurred, whichever is less--Cardin amount] per year per child ages 6-18, enrolled as a full time elementary or secondary school student

Credit would be for costs and fees paid

Services provided must be *supplementary* to the basic educational program, and can include extra help/tutoring in core academic subjects, including reading and math [that

Educ: Hope schol + other tax credits

THE WHITE HOUSE
WASHINGTON

July 29, 1997

Dear Mr. Leader:

I want to again thank you for working in a productive, bipartisan manner to develop this bipartisan budget agreement. I feel particularly good about the strong education package that is included in the tax bill. As you know, in working out the final agreement, I strongly opposed the Coverdell amendment. I would veto any tax package that would undermine public education by providing tax benefits for private and parochial school expenses.

Sincerely,

Bill Clinton

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

Educ - Hope schol + other tax credits

Robert M. Shireman
07/10/97 12:42:21 PM

Record Type: Record

To: Elena Kagan/OPD/EOP

cc: Michael Cohen/OPD/EOP, Cheryl D. Mills/WHO/EOP, Bruce N. Reed/OPD/EOP, Gene B. Sperling/OPD/EOP

Subject: Re: URGENT: Tax bill may slash graduate stipends! (fwd)

The House bill has two provisions which seem, in part, aimed at scaring the higher education community so that they will fight to keep what they have rather than fighting to get what the Administration has been pushing in terms of tax cuts for higher education.

The strategy, unfortunately, has worked to a degree, generating grassroots e-mail traffic like this one.

Treasury is on top of this, and will oppose imposing the new taxes on graduate students and eliminating the tax-exempt status of TIAA-CREF (the pension plan used by many colleges and school districts). We don't yet know how serious Archer is about these provisions, so we have not yet reached the question of whether any compromises should be considered (the graduate student provision also affects tuition waivers granted to faculty and their children, which in some cases may be harder to justify).

Educati- - Hope + other tax credits
scholarship

William R. Kincaid
07/09/97 04:17:05 PM

Record Type: Record

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

cc:
Subject: Cardin and Riley

Mike Smith spoke with Secretary Riley about the Cardin provision and the possible compromise language we have been working on. The Secretary wants to be clear that his strong preference is to remove the Cardin tax credit provision outright. He sees the compromise language as the last option if all other efforts to get Cardin to drop the provision fail.

Message Sent To:

Bruce N. Reed/OPD/EOP
Elena Kagan/OPD/EOP
Michael Cohen/OPD/EOP
Ananias Blocker III/WHO/EOP
Kathryn B. Stack/OMB/EOP
Robert M. Shireman/OPD/EOP

JUN-27-97 06:39 PM P.01

Educatic - hope schol + other tax credits

BReed | G Sperling | Rahm

What do you think?

BC

THE PRESIDENT HAS SEEN
7-1-97

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Democratic Leadership Council

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Reed
Sperling
Emanuel
COS

FAX TRANSMITTAL SHEET

Pages (including cover): 6

Phone:

Fax: 456-6703

To: Nancy Hernreich

From: AL FROM

Comments: Please pass on to the President. He asked me to send it today.

IF THERE ARE ANY PROBLEMS WITH THIS TRANSMISSION, PLEASE CALL (202) 546-0007. THANK YOU.

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June 27, 1997
Memorandum to the President
From: Al From
Subject: Guaranteed College Tuition Plan

It was good to see you today and terrific to see you getting around so well.

As promised, I've attached our compromise higher education plan. This plan would further the goal of expanding access to college that you set out when you offered the Hope Scholarship. But it would go even further. It would guarantee that no young person who makes the grade and agrees to do community service would be unable to go to college for inability to pay. And, it would reinforce the linkage of college aid to community service, which is another important part of your legacy.

If, as it appears, you can't get support in the Conference for your plan -- and you don't like the House and Senate plans -- I think you might want to give serious consideration to offering this as a compromise.

Here's how the plan would work:

1. It would offer a four year refundable $2500 annual tax credit (adjusted for inflation) to families of students who attend public, in-state institutions and are willing to perform community service.

2. That tax credit, combined with the new $3000 Pell grant (or other existing higher education aid), would cover the fees and tuition costs at most state colleges, with a significant amount left over for living expenses.

The plan is explained in more detail in the PPI backgrounder I've attached. I think the most attractive part of it is that it would establish a national policy that makes college affordable for every young person no matter how poor. It is not unlike the policy we used to sell the EITC -- that no one who works, full-time, year round to support a family should have a wage below the poverty level.

I think it is a political 10 strike -- and it has the added benefits of being good policy and furthering main objectives of your Administration.

If you have any interest in pursuing this, I'll be in Annapolis this weekend, where I can be reached at P6/(b)(6) [001]

I'll follow up on our larger conversation when you get back from Madrid.

PPI
PROGRESSIVE POLICY INSTITUTE

Backgrounder
June 1997

Hope Revisited

Using Tax Policy to Expand Access to Higher Education

by Jonathan E. Kaplan and Chris J. Soares

President Clinton has made balancing the budget and expanding access to a college education central missions of his presidency, and rightly so. Spurring private investment by reducing the deficit, while enabling millions of young Americans to develop productive and advanced skills, is critical to ensuring strong growth and restoring broad upward mobility in the next century. To these ends, the $35 billion earmarked in the budget deal to help families send their children to college offers a landmark opportunity: We can inaugurate a new era in American education in which any young person able to make the grade and willing to serve his or her community will be able to go to college.

To achieve this goal, Congress should dramatically expand access to higher education by redesigning the President's proposed HOPE tax credit and tuition tax deduction. In its place, we propose a four-year, refundable tax credit for families of students who attend public, in-state institutions and are willing to perform community service. Combined with existing federal aid programs, a $2,500 annual tax credit would cover the tuition and fees at most state colleges and universities in the country, with money left over for living expenses. By tying the new tax credit to community service, we also would reinforce the value, introduced by President Clinton in his Americorps initiative, that anyone receiving government assistance should give something back to the country.

The President's current proposal would allow families sending children to college to either deduct up to $10,000 in tuition costs for two years or claim a $1,500 tax credit for tuition costs for two years. While the goal is sound, as the proposal now stands it would provide tax relief to middle-class families already capable of sending their children to college, but not expand access to college for students from low-income families. Most research shows that with the current provision of public and private assistance, rising college costs today do *not* reduce college attendance among children from middle-class families, but rather only affect *which* institutions they attend. Studies show, however, that the cost of college *does* reduce enrollment among children from poor families. But these families do not earn sufficient income to take advantage of the proposed new tax credit and deduction. Moreover, since the value of any tax deduction increases with a taxpayer's tax bracket, the greatest benefits would go to the more affluent families who need them least.

The current proposals would have another unintended effect: higher tuition prices for everyone. This is likely to occur through a normal economic process called "capitalization," in which markets build into the price of a product part of the value of any tax preference associated with the purchase of that product. If the new deduction is worth an average of $1,000 to families sending their children to college, schools will be able to raise their tuition by some amount up to $1,000 without sacrificing enrollment. In all likelihood, only part of this deduction would translate into higher tuition charges. But to the extent this occurs over time, the proposal will end up raising the price of tuition, offsetting the tax benefits to those sending their children to college while subsidizing salaries and other expenses in higher education.

By pushing up tuition charges, the plan could actually *reduce* overall access to college, especially among children from poor families who would not benefit from the new deduction or tax credit. Increased tuition inflation is the last thing low-income students need: Even if tuition prices continue to rise only at the rate of the past 20 years, by 2015 almost seven million students could be priced out of higher education, according to a new study by the Council on Aid to Education.

For all of these reasons, the President's proposals have not found much support in Congress. The plan can be redesigned to target more of its resources to those who, without its help, could not afford to stay in college or even to attend at all. PPI's new plan would create a four-year tax credit—available to students from poor families along with everyone else—if they attend a public, in-state college or university and agree to perform community service. We estimate that by 2001, 3.7 million young Americans would take advantage of this tax credit to pursue higher education, including 1.1 million who otherwise would not have been able to go to college, and more than 400,000 who would have had to drop out for financial reasons. To achieve this, Congress should do the following:

- **Instead of providing a two-year, $10,000 tuition deduction or a two-year, $1,500 tax credit, offer one benefit: *a $2,500 tax credit indexed to inflation and available for four years.*** The credit would cover the tuition and fees for in-state students at most public institutions. Providing the credit for up to four years would cover an entire college education, and indexing the level of the credit to inflation would maintain its value over time.

- **Make the tax credit refundable, so that low-income families owing no income tax could still receive the $2,500 to cover their children's college tuition costs.** In this way, the policy would help those aspiring college students who need it most. Today, less than 40 percent of high school graduates from low-income families go on to college, as compared to more than 55 percent from middle-class families and some 80 percent from affluent backgrounds. Moreover, receiving this benefit would not preclude receiving

Thuynua

other federal aid, such as Pell Grants. For those students from moderate or poor circumstances, the $2,500 credit, along with a Pell Grant, would cover tuition, fees, books, and at least a portion of living expenses at most state colleges and universities.

- **The credit should be directed to students attending two-year or four-year public colleges or universities in their home states.** This condition will help limit the policy's cost and target limited public resources to those who most need them, since more affluent students choosing to attend a private college or go out of state would not receive the tax benefit.

  Directing these public resources to public institutions would also reduce the potential for tuition inflation. Among private institutions, there would be no new inflation pressures. Attempts by public colleges and universities to capitalize the tax benefit into higher tuition prices would face a serious hurdle: Approval by Boards of Regents answerable to governors or state legislatures answerable to voters--including some voters with children attending a public college or university, but unable to claim the new tax credit.

- **Students receiving this credit should also agree to perform community service--before, during, or after college.** Tying the benefit to a young person's willingness to perform public service would extend the compact of mutual responsibility between young people and the country. It would also help target the resources to those who most need or want them, since they would be willing to incur this additional obligation. This restriction would also prevent the HOPE Scholarship from becoming a welfare-state benefit that imposes no responsibility on those receiving it.

This strategy would achieve the President's goal, and more. For the first time in our history, every young American with the ability and tenacity to pursue a higher education will have the resources to do so, so long as they are willing to pay the country back with some form of public service. Once again, we estimate that by 2001, 3.7 million college students would take advantage of this opportunity, including 1.1 million who otherwise could not have attended college and more than 400,000 who would have had to drop out for financial reasons.

These estimates, while necessarily speculative, are based on all the available data and econometric analysis—for example, evidence that each $150 reduction in tuition costs increases college enrollments by 1.6 percent, that 81 percent of students attend public institutions, that 79 percent of those attend them in their home states, and that approximately 32 percent of college students from middle- and upper-income families currently perform community service.

Year	*Number of Students*	*Maximum Value*	*Cost*
FY 1998	1,170,000	$2,500	$ 2.7 billion
FY 1999	2,160,000	$2,575	$ 5.1 billion
FY 2000	2,980,000	$2,652	$ 7.1 billion
FY 2001	3,720,000	$2,732	$ 9.0 billion
FY 2002	3,720,000	$2,814	$ 9.3 billion

This strategy would cost $33.2 billion over the first five years. Compared to the President's proposals, this approach would further expand educational opportunities, promote a greater sense of responsibility among the young people receiving its benefits, stimulate less inflation in tuition prices, and cost less.

Jonathan Kaplan and Chris Soares are Economic Policy Analysts at the Progressive Policy Institute. PPI Research Analyst Stephanie Soler also contributed to this report.

Education - Hope schol + tax provisions

Michael Cohen
07/07/97 02:41:57 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP

cc:
Subject: Mike Cohen and my edits on the tax letter

As the attached indicates, Treasury did not include language in Rubin's tax letter regarding graduate student tuition waivers, TIAA-CREFF, or the Cardin amendment. Apparently Bob Shireman was talked out of our position by Treasury. Bob is gone until later this week, and I have not been able to find out what happened.

We should bring this up at the 4:30 Education meeting, and see if anyone else knows what happened.

---------------------- Forwarded by Michael Cohen/OPD/EOP on 07/07/97 02:38 PM ---------------------------

Kathryn B. Stack
07/07/97 01:12:17 PM

Record Type: Record

To: Michael Cohen/OPD/EOP

cc:
Subject: Mike Cohen and my edits on the tax letter

Below are the edits Bob sent. Gotbaum talked to Treasury, a Treasury guy called Shireman, and according to what Bob and Leg. Reference told me, Bob agreed not to fight Treasury on its preference NOT to include most of the changes. (I think Bob said that on Cardin, Treasury would try to work quietly to get it dropped.) I'll fax you the final letter.

---------------------- Forwarded by Kathryn B. Stack/OMB/EOP on 07/07/97 01:09 PM ---------------------------

Robert M. Shireman
07/03/97 01:59:09 PM

Record Type: Record

To: Kathryn B. Stack/OMB/EOP, Barry White/OMB/EOP, Kenneth S. Apfel/OMB/EOP

cc: Mike_Smith @ ed.gov @ inet, Michael Cohen/OPD/EOP
Subject: Mike Cohen and my edits on the tax letter

Here are our suggestions for addressing the concerns that have been raised and other issues:

2nd paragraph: add "postsecondary" before "educational opportunities"

Last paragraph on first page, first line: add "part-time students and students" after "help"

Just prior to the Child Credit section, add:

We object to provisions in the House bill that would impose new taxes on graduate student tuition waivers, would change the tax status of TIAA-CREF, and would provide a tax credit for particular types of "accredited" tutoring assistance. [Need to check terminology in the bill].

Education – Hope Schol. + other tax credits

Michael Cohen
06/13/97 10:09:38 AM

Record Type: Record

To: Bruce N. Reed/OPD/EOP

cc: Elena Kagan/OPD/EOP
Subject: Cardin education tax credit memo

As the attached suggests, an el/sec tax credit for kids who get tutoring help (presumably after school -- I'm checking on the details) passed in comittee yesterday. We think the motivation behind this is an effort by Ben Cardin to do something for Sylvan Learning Centers, a Baltimore-based tutoring company. The NEA, at least, and perhaps ED, sees this as a voucher-like, nose-under-the-camels tent step that must be opposed at all costs. We may get some pressure today to take a clear public position against this on those grounds.

Based on what I now know about this proposal, there are lots of reasons to oppose it; chief among them is that it is part of a package that inadquately funds our higher education tax credit. Even without that, I'm not sure its a workable proposal (e.g., $150 doesn't buy much tutoring, how do you figure out who an eligible provider is, how does this interact with child care tax credit for parents who send thier kids to after school day care programs where they may also get help with homework or some kind of academic enricment, etc.).

However, I dont' think we should rush to oppose this as the first step in the beginning of the end of public education, as we will be pushed to do by voucher opponents. It isn't. And since it is not billed as a voucher-like effort by those Dems who authored and voted for it, we shouldn't define it as such and in so doing hand voucher proponents a victory they didn't earn.

I'll keep you posted as I get the bill language and as this issue unfolds.

---------------------- Forwarded by Michael Cohen/OPD/EOP on 06/13/97 09:32 AM ---------------------------

Robert M. Shireman
06/12/97 06:25:20 PM

Record Type: Record

To: Michael Cohen/OPD/EOP

cc:
Subject:

- Next, Rep. Cardin's (D-MD) amendment to provide for tax credits that benefit certain elementary and secondary students passed. Specifically, a credit of the lesser of $150 or 50% of qualifying expenses would be available for "supplementary education" for full-time students that are under 18. This appears to be intended to cover remedial classes, though the amendment specifically excludes courses to prepare for college entrance exams. This credit was funded by capping the maximum annual contributions to Chairman Archer's proposed education investment accounts at $5,000 per account. (There was no annual cap in Archer's mark, though implicitly annual contributions would have been capped at $10,000 or else they would enter into the gift-tax base.) The credit may be viewed by some as a potential move toward tuition vouchers; at any rate, it attracted significant Republican support, and passed 22-17.

cc: Mike Cohen -
Are you into This to the extent you should (or want to) be?
Elena

EK

File: ED - Hope Scholarships

THE WHITE HOUSE

WASHINGTON

May 22, 1997

TO: BRUCE REED

FROM: MARK MAZUR Mark

SUBJECT: EDUCATION TAX INCENTIVES AND ADMINISTRATION STRATEGY

Gene Sperling chaired a meeting on tax issues on Monday and a follow-up meeting was held on Thursday, chaired by Chief of Staff Bowles to discuss the Administration's strategy regarding the upcoming tax bill (part of the budget reconciliation process). An area of emphasis was the education tax incentives contained in the Administration's FY 1998 Budget. This memo summarizes the discussion. Please let me know if you wish to go over this material in more detail.

As you know, the Administration fought hard for assurances from the Republican leadership that the tax bill considered by Congress this year would incorporate the Administration's proposed tuition tax deduction and HOPE scholarship tax credit at a revenue cost of about $35 billion over 5 years. One issue addressed in the meetings is whether the Administration should help Congressional Democrats develop an alternative to the Republican tax package. In general, the answer was "yes" but that the Administration should be careful not to unravel the bipartisan approach to enacting a budget reconciliation bill. Different strategies are called for in the House and the Senate.

In the House, Treasury and Education are working with a proposal from Mr. Rangel to see if there are items consistent with Administration priorities. One possibility involves the Rangel proposal for "tax credit bonds" to finance construction, rehabilitation, and operation of "Education Zone Academies". This proposal could be modified to address many of the goals of the Administration's school construction initiative, but with the interest subsidy paid through the Tax Code. Another proposal from Rep. Rangel would expand the work opportunity tax credit to cover graduates of the Academies (which Education is trying to modify into a school-to-work tax credit). Treasury's Office of Tax Policy is trying to come up with proposals along these lines that would provide a distinct Democrat approach to a tax bill.

In the Senate, the Democrats on the Senate Finance Committee are less cohesive and less interested in supporting the Administration's education tax initiatives. Treasury has been developing proposals to combine the proposed child-based tax credit and IRA expansions into a "Kidsave" proposal, similar to the one developed by Senator Lieberman. (The idea behind "Kidsave" is to provide a tax credit for taxpayers with children and then to provide a match, or increased credit, if the funds are deposited into a tax-favored account used to pay for the child's post-secondary education or to support the child's retirement.) Treasury (especially Deputy Secretary Summers) is not enamored with the Breaux/Lieberman approach (because of its emphasis on saving for retirement) and so is unlikely to come up with proposals the "Kidsave" advocates will strongly support. However, the proposals may be similar enough to the original "Kidsave" proposals to generate some interest in working with the Administration.

The current plan is to have preliminary packages available for the President to look at Thursday night. These packages will provide distinct choices about the overall direction of a Democrat tax package. They will also highlight some issues for the President to decide, where disagreements between Treasury and Education need to be resolved. One issue is whether the maximum HOPE scholarship credit or tuition deduction amount should be reduced to provide a revenue offset for dropping the B- requirement and/or the Pell grant offset in the HOPE scholarship. Treasury is in favor of dropping the entire grade requirement while Education prefers to substitute a requirement that the second-year student have reached "sophomore" status (this would likely be an administrative nightmare, at least as difficult as checking grades). In addition, Treasury would prefer reducing the maximum HOPE scholarship amount to as little as $1,200, while Education would place a cap on the total tax benefit available through the tuition tax deduction at $1,500 per year. A second issue is whether a proposal for a deduction for student loan interest should be added (Education is in favor and Treasury was unsure about this item). Undoubtedly, other issues will arise as the packages are constructed and the revenue totals required to meet the agreed-upon targets.

cc: EK, PW

ED- hope scholarships

YOUNG
HARRIS
COLLEGE

Office
of
President

February 21, 1997

P.O. Box 98
Young Harris
Georgia 30582

Dr. Stanley O. Ikenberry
President
American Council on Education
One Dupont Circle
Washington, D.C. 20036

Dear Dr. Ikenberry:

In light of President Clinton's Hope Scholarship proposals, I am sharing our positive experience at Young Harris College with Georgia's HOPE program. Young Harris College is a traditional two year, independent, residential, liberal arts college related to the United Methodist Church. The college is located in a rural environment in the mountains of northeast Georgia and has a capacity enrollment of 530 students. Our students are primarily the traditional college freshmen and sophomores, i.e., 18 -20 year olds just out of secondary school. More than 90% will transfer to a four year college after completing their work at Young Harris. We are somewhat selective in our entrance requirements. Our average freshman in Fall 1996 had a high school grade point average, computed on academic courses, of 2.93. Our average SAT was 997.

I understand from the media that some have suggested that the programs proposed by President Clinton will lead to increased tuition, less institutional student aid and grade inflation. Our experience at Young Harris College suggests that these problems are unlikely to occur. In fact, we have increased institutional student aid since the beginning of Georgia's HOPE program, moderated tuition increases, and raised our admission requirements which has led to a modest improvement in student achievement. We believe that, at our institution, HOPE has had a positive impact which has benefited students.

Since the inception of the HOPE program in Georgia in Fall 1993, we have raised our entrance requirements to Young Harris College three times. This has led to a corresponding improvement in the academic performance of our students. For example, in the 1992 Fall Quarter, the last year before the existence of the HOPE program, 9.9% of our students were on the Dean's List. In the 1996 Fall Quarter 15% had achieved this distinction. In Fall 1992 12.6% of our students were placed on academic probation while in 1996 only 9.9% were on academic probation. After the 1992 Fall Quarter 2.1% of our students were suspended from college because of poor academic performance while only 0.1% were suspended after the 1996 Fall Quarter. We suggest that the difference is improved academic preparation at the entrance into college and the financial incentive of HOPE to achieve academically while enrolled.

One of the primary stimulants to increased tuition at our institution is the cost of institutionally funded financial aid. This assistance, which comes from tuition revenue and gifts to the operating fund of the college, increases each year. These increases cause a corresponding increase in tuition and, in turn, necessitate additional increases in institutionally funded student financial aid. There is every incentive for us to keep our tuition as competitive as possible. If we can do a better job of controlling institutionally funded financial aid, we can better control our tuition increases. As in any free market environment, a lower cost makes us more attractive to a prospective student.

Our evidence indicates that the HOPE program has helped us moderate our tuition increases even though we have increased our institutionally funded student assistance during the existence of the HOPE program. In the 1992-1993 academic year, our total financial aid awarded to 543 students was $1,699,583. Of that amount, $763,743 was from institutional funds which was 47% of the aid awarded. During the 1995-1996 academic year, we awarded a total of $2,800,603 to 570 students. Our 1995-1996 institutional share was $1,019,179 which is 36% of the aid awarded. Thus while we have increased our institutional financial assistance to students, we also have decreased the percentage of total aid provided from college sources. Since 1993 our students have received a total of $1,395,464 from the HOPE program. Had we not had the HOPE assistance, we would have had to make up those funds from institutional sources which would have raised our percentage of institutionally funded student aid and increased the amount of tuition charged to fund that aid. My estimate is that increase probably would have been as high as $600.

Evidence at our institution suggests that the HOPE program has helped us achieve four desired results: maintain full enrollment, raise academic standards, increase student financial assistance, slow tuition increases. We believe that the program has been positive for our students. Our evidence suggests that President Clinton's Hope program could also be positive for students.

Sincerely yours,

Thomas S. Yow

Thomas S. Yow, III
President

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