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Education - Coverdell Bill

Educ-Coverdell bill

Sandra Yamin
05/18/99 05:00:38 PM

Record Type: Record

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

cc: See the distribution list at the bottom of this message
Subject: REVISED -- Treas/Education Veto Letter

Attached is the revised Rubin/Riley letter that contains a veto threat on the unnumbered Senate bill scheduled for markup by the Senate Finance Committee as soon as tomorrow. The Senate bill contains objectionable provisions similar to those in the 105th Congress' HR 2646, which the President vetoed. Education and Treas. have requested clearance of this letter ASAP in order to send it out tonight. Appreciate your immediate attendtion on this item. Thank you.

- Coverdell-final.doc

Message Sent To:

Gene B. Sperling/OPD/EOP@EOP
Elena Kagan/OPD/EOP@EOP
Bruce N. Reed/OPD/EOP@EOP
Joseph J. Minarik/OMB/EOP@EOP
Barbara Chow/OMB/EOP@EOP
Charles E. Kieffer/OMB/EOP@EOP
Michael Deich/OMB/EOP@EOP
Tracey E. Thornton/WHO/EOP@EOP
Broderick Johnson/WHO/EOP@EOP
Charles Konigsberg/OMB/EOP@EOP
Tanya E. Martin/OPD/EOP@EOP

Education and Treasury agree on this version [5/18/99, 4:00 PM], subject to ED review of additional Treasury edits

Dear Mr. Chairman, [Dear Senator Moynihan]

We write to express our strong opposition to proposals for education tax incentives (Joint Committee on Taxation, "Description of Chairman's Mark of Proposals Relating to Education Incentives" (JCX-020-99), May 17, 1999), which we understand your committee will consider this week. In the summer of 1997, as Congress was in the final stages of consideration of the Taxpayer Relief Act of 1997, the President stated that he would veto the legislation if it contained a proposal relating to Education Savings Accounts that is similar to the education savings account proposal contained in the Chairman's mark. In 1998, we wrote to inform you that we would recommend to the President that he veto similar legislation, which, after consideration and approval by Congress, he did. If this proposal were to pass the Congress this year, we again would recommend to the President that he veto the bill.

Every American child deserves a high-quality elementary and secondary education. We believe that targeting our limited Federal resources to build stronger public schools will help ensure that all our children receive the education they need to be productive citizens. Public schools serve approximately 90 percent of students in grades K-12 and currently face record-breaking enrollments. By focusing resources on public schools, we can leverage community investment to help parents, teachers, and administrators meet the important educational challenges they face in serving the vast majority of our children: meeting high standards for learning and discipline; fixing school buildings; and providing a safe, drug-free environment for children. For this reason, the President's FY 2000 budget proposals include a school modernization bond initiative that would leverage $25 billion to renovate and build up to 6,000 public schools. In contrast, the Chairman's mark diverts needed attention and resources from our public schools, and it falls far short of adequately addressing the overwhelming problems that States and local communities face in building and modernizing their schools.

The current bill disproportionately benefits the most affluent families and provides little benefit to lower- and middle-income families. Additionally, given the expansion of tax-preferred savings vehicles in the Taxpayer Relief Act of 1997, we do not believe that further increasing the contribution limits for Education IRAs will generate much additional savings. Instead, the Chairman's mark would reward families, particularly those with significant means, for what they would do in any case.

We are also concerned that the bill would create significant compliance problems. The legislation allows tax-free withdrawals from Education IRAs for, among other things, tuition, fees, academic tutoring, special needs services, books, supplies and equipment expenses incurred in connection with the child's enrollment or attendance at a public or private elementary or secondary school. Withdrawals would also be tax-free if used for room and board, uniforms, transportation or supplementary items or services required or provided by the school. Distinguishing between an appropriately tax-free withdrawal and one that should be subject to tax would lead to significant additional record-keeping burdens for families and schools, as well as disputes when discretionary purchases are made.

We, therefore, urge the Committee not to approve this legislation.

We understand that Senators Robb and Conrad intend to offer a substitute that would replace the education IRA proposals in this bill with school modernization/construction bond proposals similar to those in the President's budget for fiscal year 2000. We strongly prefer that proposal and other alternatives that devote Federal revenue to improving the public schools so that a high-quality education is available to every American child regardless of his or her family income. Therefore, we strongly support the Robb-Conrad substitute.

Sincerely,

Robert E. Rubin	Richard W. Riley
Secretary of the Treasury	Secretary of Education

Educ - Cverdell

DRAFT
June 15, 1998
7:00 PM

Dear Lott/Daschle/Gingrich/Gephardt:

If the conference report on H.R. 2646 is presented to me, I intend to veto it because the "A+ Accounts" that it would authorize are bad education policy and bad tax policy.

Over the past few months, Congress faced a choice: whether to join together to support our public schools by helping ensure that every child in America has the opportunity to learn in a modern, safe, state-of-the-art school, or whether to divert resources to an ill-advised tax rebate that won't cover the cost of pencils for most families. The conferees on H.R. 2646 have made the wrong choice.

The need for school construction and renovation has never been more compelling. With the number of school-age children at record levels, schools across the country already are at or beyond capacity. One-third of our schools need to be modernized. Nearly half don't have the wiring to support basic computer equipment. If we want our children to be prepared for the 21st century, they ought to have 21st century schools. That is why I proposed tax credits to help build and modernize more than 5,000 schools.

In contrast, the A+ Accounts in H.R. 2646 would weaken public education and short-change our children. This $1.6 billion proposal, while siphoning limited federal resources away from public schools, would do very little for average families, offering an average of $7 in tax relief for parents of the 90 percent of our children who are in public schools, and $37 for the parents with children in private schools. It would disproportionately benefit the highest-income taxpayers, and families struggling to make ends meet would never see a penny of it.

I have just signed into law major legislation that will provide more than $200 billion over six years to help build and repair our nation's highways, bridges, and other transportation structures. Similarly, we have an obligation to invest in the infrastructure needs of our public schools. H.R. 2646 ignores that obligation. We have 564 days left before the 21st century. Let us work together on the right way to prepare our children for the new century. H.R. 2646 is the wrong way. I urge the Congress to reject it.

Sincerely,

Educ - school construction
and
Educ - Coverdell

April 16, 1998

MEMORANDUM FOR DISTRIBUTION

FROM: **STACIE SPECTOR**
CHANDLER SPAULDING

SUBJECT: **SCHOOL CONSTRUCTION AMENDMENT**

Senator Daschle's office has asked for our help with Senator Carol Moseley-Braun's School Construction Amendment. Attached is an overview of our efforts to support this vote that will take place next week on Tuesday, April 21, 1998. We have also attached a five-document package, which can be used in talking about the issue, including a letter from Senators Moseley-Braun, Daschle and others to their colleagues.

EFFORTS ON SCHOOL CONSTRUCTION AMENDMENT
Vote Will Be on Tuesday, April 21

<u>To Do's</u> (tentative)

- recommended POTUS meeting with Democratic leadership on Tuesday followed by a statement on school construction (tentative) (*Chief of Staff meeting)
- POTUS letter to Hill (to be given to Hill point person on Sunday to be distributed on Monday)
- target list from Leg. Affairs for calls from POTUS and VP (Roderick Johnson)

Target States:	*VP's Community Forum States*:
California	Iowa
Delaware	Arizona
Louisiana	Texas
Florida	North Carolina
New York	Mississippi
Pennsylvania	Ohio
Colorado	Virginia
Rhode Island	Maryland
Vermont	Massachusetts
Maine	*California
West Virginia	*Delaware
Connecticut	*Florida
New Jersey	*New York
	*Pennsylvania
	*Rhode Island
	*Maine
	*New Jersey

- VP calls and possible trip to Hill (John Schnur)
- conference calls to regional print reporters in 20 states (Estela Mendoza)
- report from community forums in 20 cities to be released by VP Tuesday (John Schnur)
- Talking Points for OPL, Political Affairs, IGA and other friends (Communications--attached)
- one-pager for OPL, Political Affairs, IGA and other friends to distribute to their networks and constituencies (Communications--attached)

<u>Outcomes</u>

Monday, April 20:

- POTUS letter to Hill
- call(s) by POTUS
- calls by VP
- press release issued announcing VP visit to Capitol Hill for Tuesday
- regional conference calls to print reporters
- calls to print reporters who have written on this already

Tuesday, April 21:

- VP brings report of summaries from community forums held in 20 cities last week to CMB/Daschle on the Hill
- POTUS meeting with Democratic leadership (tentative)
- highlight construction vote to press as key education issue as Congress prepares to vote (Senior Staff, Communications)

SCHOOL CONSTRUCTION TALKING POINTS

The Vote

- On Tuesday, April 21, the Senate considers the Moseley-Braun School Modernization Amendment to H.R. 2646, the Education Savings Act for Public and Private Schools.

- **Tuesday's vote is critical in determining whether Congress will act this year to provide adequate support for school construction.** With only a few working days left in session, this is the best remaining opportunity for the Senate to ensure that communities get the resources they need to make sure that our students learn in safe, modern, well-equipped schools.

- The School Modernization Amendment replaces provisions in H.R. 2646 that would reward wealthier families who would send their children to private school with or without subsidies, but would do nothing to fix school buildings or build new ones with a simple and effective means of helping communities modernize schools.

The Problem: Deteriorating Schools and Growing Enrollment

- This year, the American Society of Civil Engineers gave our schools an "F" in its infrastructure report card this year, worse than in roads, bridges, mass transit and every other category of investment. One third of all our schools need major repairs. More than one half have major building problems. **The School Modernization Amendment is designed to address a nationwide school facilities crisis.**

- The School Modernization Amendment is especially necessary now, because:

  The inventory of repair needs is large and growing. The General Accounting Office (GAO) estimated that the cost of bringing the nation's schools into "good overall condition" was $112 billion. The amendment will help states and communities stretch their education investments.

  The problem is worsening as enrollment surges. The National Center for Education Statistics projects that elementary and secondary enrollments will swell from 52.2 million in 1997 to 54.4 million in 2006. States and communities must act now. To accommodate the larger number of students they will need to build 6,000 new schools in the next decade.

  The condition of schools is related to student achievement. A growing body of research links student achievement and behavior to the physical building conditions and overcrowding. Construction and renovation is needed to accommodate smaller class sizes and new technology. Decaying environmental conditions -- peeling paint, crumbling plaster, non-functioning toilets, poor lighting, inoperative heating and cooling systems -- affect the learning as well as the health and the morale of students and staff.

The School Modernization Amendment

- **This amendment leverages our money by creating zero-interest bonds for states and school districts to issue to finance capital improvements.** Communities would be able to issue $21.8 billion worth of these bonds.

- We spend money at the federal level on roads that are the responsibility of state and local governments, but the most important infrastructure for our future is the infrastructure of education. This amendment creates a smart, effective investment that works at helping states and communities do more with less. Purchasers of these bonds would receive federal income tax credits in lieu of interest, cutting the cost of upgrading schools by at least a third, and by up to 50 percent in some cases.

- This amendment replaces current education IRA provisions in H.R. 2646 that would reward wealthier families who would send their children to private school with or without this subsidy. In fact, the average per return tax benefit in tax year 2002 would be only $7 for taxpayers with children in public schools and only $37 for taxpayers with children in private schools. The IRA provisions do nothing to fix school buildings and build new ones at a time when public schools face record enrollment for years to come.

LEGISLATIVE OVERVIEW:

MODERN CLASSROOMS IN PUBLIC SCHOOLS VS. TAX CUTS FOR PRIVATE SCHOOLS

On Tuesday, April 21, the Senate considers the Moseley-Braun School Modernization Amendment to H.R. 2646, the Education Savings Act for Public and Private Schools. The vote is critical to determining whether legislation will be passed this year that includes adequate support for school construction. With only a few working days left in session, this is the best remaining opportunity for the Senate to ensure that America's communities get the resources they need to make sure that students will be able to learn in safe, modern, well-equipped buildings.

H.R. 2646 would disproportionately benefit the most affluent families and provide little benefit to lower- and middle-income families or to families whose children attend public schools. Families in the highest income bracket that saved the maximum amount permitted by H.R. 2646 would receive more than twice the benefit of families in the lowest tax bracket that saved the same amount. Moreover, the bill would not create a significant incentive for families to increase their savings for educational purposes; it would instead reward families, particularly those with substantial incomes, for what they already do. Finally, a recent analysis by the Congressional Joint Committee on Taxation shows that taxpayers with children in public schools would receive an average benefit of only $7 under this proposal in 2002. Clearly, the education IRAs proposed in H.R. 2646 won't modernize our schools, they won't bring qualified teachers into our classrooms, and they won't link our schools to the information superhighway. This is not an effective way to improve education.

The School Modernization Amendment replaces the provisions of H.R. 2646 relating to Education Individual Retirement Accounts with a simple and effective means of helping communities revitalize schools. This amendment creates a new category of zero-interest bonds for states and school districts to issue to finance capital improvements. Communities would be able to issue $21.8 billion worth of these bonds (in addition to $800 million that is already authorized). Purchasers of these bonds would receive federal income tax credits in lieu of interest, cutting the cost of upgrading schools by at least a third, and by up to 50 percent in some cases.

SENATOR MOSELEY-BRAUN'S AMENDMENT VS. SENATOR COVERDELL'S BILL
School Construction or Peanuts for Education

The CMB Amendment: Improving Public Education to Benefit All Americans

- **Addressing the Real Educational Needs in America.** Our nation's schools suffer from problems like overcrowded classrooms, leaky roofs, asbestos and no heat or air conditioning. The CMB Amendment creates and expands tax incentives to help states and local school districts finance the construction and modernization of 5000 schools. With this funding, our children can learn in safe, modern and well-equipped schools.

- **Working to Strengthen Public Schools.** Most middle-class and working families send their children to public schools (approximately 90%). School construction and modernization will reduce class size and improve student achievement.

- **Helping States and Local Communities Prepare Students for the 21st Century.** The CMB Amendment will help states and local communities to provide modern, well-equipped schools. In order for students to be prepared to compete in the global economy, schools must be wired with computers and the latest technology.

The Coverdell Bill

- **Low priority for improving America's schools.** The Coverdell bill will not improve American education. Instead, it will give a tax break of approximately $96 for high-income families and only $1 for the lowest income families for educational expenditures like purchasing a home computer.

- **Weakening public schools.** Public schools are facing record enrollment for years to come and need school construction and modernization. The Coverdell bill will not provide for the repair, construction or renovation of public school buildings. Instead, the bill will reward tax benefits to America's wealthier families, many of whom send their children to private schools. In the year 2002, the average per return tax benefit under the Coverdell bill will be $37 for taxpayers with children in private schools and only $7 for taxpayers with children in public school.

- **Widening the Technological Gap Among America's Children.** The Coverdell bill will provide high-income families with a subsidy to buy home computers. The bill ignores the need among students who do not have computers at home and need computers in schools for access to technology.

SCHOOL CONSTRUCTION INITIATIVE:
DISTRIBUTION OF SCHOOL CONSTRUCTION BONDS BY STATE

(Total=$22.6 Billion, includes $0.8 Billion currently authorized)

STATE	Estimated Allocation
Alabama	$360,478,000
Alaska	$54,789,000
Arizona	$345, 748,000
Arkansas	$219, 375,000
California	$2,512,459,000
Colorado	$211,201,000
Connecticut	$219,298,000
Delaware	$54,882,000
District of Columbia	$61,816,000
Florida	$1,009,050,000
Georgia	$590,741,000
Hawaii	$61,526,000
Idaho	$65, 139,000
Illinois	$951, 617,000
Indiana	$347,424,00
Iowa	$155,215,000
Kansas	$168,327,000
Kentucky	$371,254,000
Louisiana	$536,376,000
Maine	$91,932,000
Maryland	$302,456,000
Massachusetts	$443,049,000
Michigan	$972,061,000
Minnesota	$268,505,000
Mississippi	$359,835,000
Missouri	$382,256,000

STATE	Estimated Allocation
Montana	$77,823,000
Nebraska	$95,748,000
Nevada	$67,983,000
New Hampshire	$54, 985,000
New Jersey	$496,657,000
New Mexico	$185,694,000
New York	$2,031,730,000
North Carolina	$422,018,000
North Dakota	$54,944,000
Ohio	$890,897,000
Oklahoma	$257,629,000
Oregon	$206,763,000
Pennsylvania	$991,422,000
Puerto Rico	$753,541,000
Rhode Island	$78,573,000
South Carolina	$275,251,000
South Dakota	$56,745,000
Tennessee	$383,013,000
Texas	$1,872,997,000
Utah	$99,548,000
Vermont	$54,092,000
Virginia	$347,367,000
Washington	$332,178,000
West Virginia	$213,308,000
Wisconsin	$382,940,000
Wyoming	$49,910,000

CAROL MOSELEY-BRAUN
ILLINOIS

COMMITTEES:
BANKING, HOUSING, AND URBAN AFFAIRS
FINANCE
SPECIAL AGING

United States Senate
WASHINGTON, DC 20510-1303

April 6, 1998

Dear Colleague:

When the Senate begins consideration of H.R. 2646, the Education Savings Act for Public and Private Schools, we plan to offer an amendment that will help communities rebuild and modernize their schools for the 21st century. We urge you to join us as cosponsors of this amendment.

Our amendment would replace the provisions of H.R. 2646 relating to Education Individual Retirement Accounts with a simple and effective means of helping communities revitalize their schools. The amendment creates a new category of zero-interest bonds for States and school districts to issue to finance capital improvements. States and school districts will be able to issue $21.8 billion worth of these bonds over the next two years -- doubling the amount of school modernization and construction that would otherwise occur.

Purchasers of these new bonds would receive federal income tax credits in lieu of interest, cutting the cost of upgrading schools by at least a third, and by up to 50 percent in some cases. Over five years, our amendment costs the federal government only $3.3 billion, which means that every federal dollar spent over the next five years will leverage 5.6 State and local dollars. In addition to striking the proposed changes to the Education IRAs, our amendment restricts a number of unwarranted tax benefits.

Our amendment imposes minimal administrative requirements on States, which need to comply with only two main requirements before issuing school modernization bonds. First, States must document their school facilities needs. Second, they must describe how they intend to allocate the bonding authority to assure that schools with the greatest needs, and the least resources, benefit.

Without this amendment, too many children will continue to attend classes in substandard environments. According to the U.S. General Accounting Office, 14 million children attend schools in need of major renovations or outright replacement. They estimate it will cost $112 billion just to bring schools up to "good, overall condition." That price tag does not include the cost of building the estimated 6,000 new schools that will be required over the next 10 years to meet soaring enrollment, nor does it include the cost of retrofitting schools so they can accommodate modern technology.

April 6, 1998
Page Two

Our current school finance system is failing to satisfy these tremendous needs, in part because State and local tax burdens are already high. By sharply reducing the cost of school modernization and construction, our interest-free school modernization bonds would provide a valuable new tool to communities seeking to improve their schools, and ease property and sales tax pressures on families at the same time.

A summary of the amendment is attached for your review To cosponsor, or for more information, please contact me or have a member of your staff call Steve Collens at 4-2854.

Sincerely,

Carol Moseley-Braun

Daniel Patrick Moynihan

Thomas A. Daschle

Edward M. Kennedy

Educ – Coverdell

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

March 12, 1998
(Senate)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

S. 1133 - Parent and Student Savings Account PLUS Act
(Coverdell (R) Georgia and 43 cosponsors)

If S. 1133, or its House companion measure H.R. 2646, were presented to the President, the Secretaries of Education and the Treasury would recommend that he veto the bill because it is bad education policy and bad tax policy.

Every American child deserves a high-quality elementary and secondary education. Targeting limited Federal resources to build stronger public schools will help ensure that all our Nation's children receive the education they need to become productive citizens. S. 1133 would divert needed resources from these schools.

S. 1133 would disproportionately benefit the most affluent families and provide little benefit to lower- and middle-income families. Families in the highest income bracket that saved the maximum amount permitted by S. 1133 would receive more than twice the benefit of families in the lowest tax bracket that saved the same amount. Moreover, given the expansion of tax-preferred savings vehicles in the Taxpayer Relief Act of 1997, the bill would not create a significant incentive for families to increase their savings for educational purposes. Instead, S. 1133 would reward families, particularly those with substantial incomes, for what they are already doing.

S. 1133 would also create significant compliance problems. Because the bill permits tax-free withdrawals from Education IRAs for a wide array of nonspecific expenditures, such as supplementary items for services required or provided by a school in which a child is enrolled, detailed family records will be needed to verify compliance.

We understand that Senator Daschle intends to offer a substitute that would devote revenue spent by this bill to school construction. We strongly support the school construction program, which would provide tax credits to improve the public schools and support a high-quality education available to every American child, regardless of their family income.

Pay-As-You-Go Scoring

S. 1133 would affect receipts; therefore, it is subject to the pay-as-you-go requirement of the Omnibus Reconciliation Act of 1990. The Administration's scoring of this bill is under development.

* * * * * * *

March 11, 1998

COVERDELL K-12 IRAs VS. SCHOOL CONSTRUCTION Educ - coverdell (and)

1. LET'S ADDRESS THE REAL EDUCATIONAL NEEDS IN AMERICA

Educ - school construction

HIGH PRIORITY: Leaky roofs and overcrowded classrooms are real problems that need to be addressed. The Administration's proposal targets Federal resources to finance the construction and modernization of more than 5,000 stronger schools so that children across America will be able to learn in safe, modern, well-equipped schools.

LOW PRIORITY: The Coverdell proposal gives a tax break that would be worth, on average, $96 for high-income families earning up to $150,000 and only $1 for the lowest income families for expenditures that might be related to education-- home computers, recreational expenses, purchasing cars to get to school, etc.[1] This tax break does nothing to improve the basics of American Education.

2. LET'S WORK TO STRENGTHEN PUBLIC SCHOOLS WHERE 90% OF AMERICAN MIDDLE-INCOME AND WORKING FAMILIES SEND THEIR CHILDREN

STRENGTHEN SCHOOLS: School modernization and construction will help schools reduce class size and provide a safer, more disciplined environment.

WEAKEN SCHOOLS: Coverdell drains-off precious tax dollars in greatest proportion for those in the highest tax bracket and rewards wealthier families who would send their children to private school with or without this subsidy. In fact, the average per return tax benefit in tax year 2002 would be only $7 for taxpayers with children in public schools and only $37 for taxpayers with children in private schools.[2] The Coverdell bill will do nothing to fix school buildings and build new ones at a time when public schools face record enrollment for years to come.

3. LET'S HELP COMMUNITIES PROVIDE MODERN, WELL-EQUIPPED SCHOOLS FOR THESE CHANGING TIMES AND TECHNOLOGICAL AGE

PREPARE OUR CHILDREN FOR CHANGING TIMES: School modernization and construction will help many communities provide modern, well-equipped schools that can be wired for computers and technology so that our children receive the education they need to succeed in the 21st century.

WIDEN THE GAP: The Coverdell bill would provide high-income families with a subsidy to buy home computers, while ignoring the needs of vast majority of children who rely on getting computers in their schools to have access to technology.

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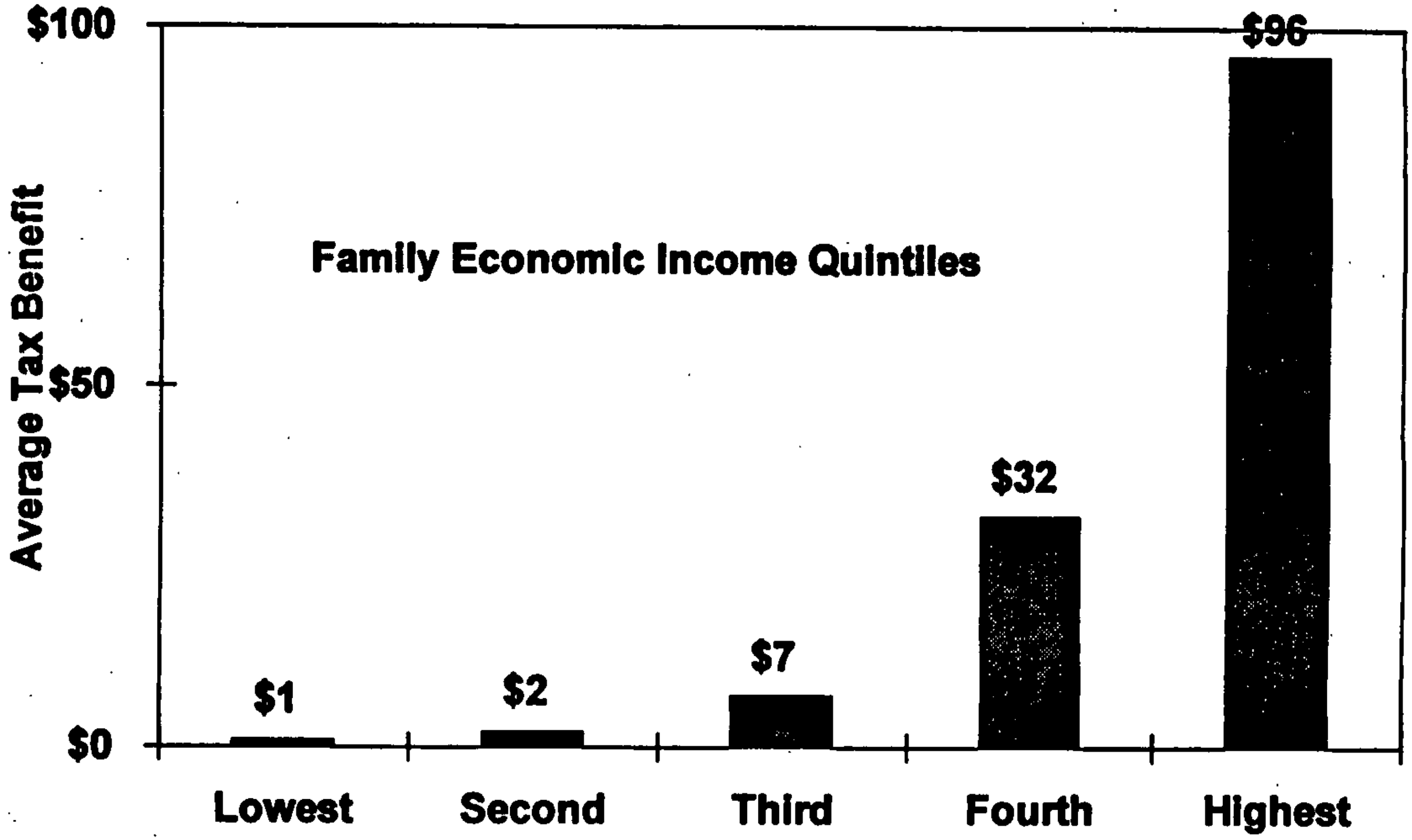
[1] These estimates are based on a similar proposal introduced by Senator Coverdell on July 31, 1997 and passed by the House of Representatives (H.R.2426) which would allow $2,500 annual contributions to an Education IRA. The current proposal under consideration would allow $2,000 annual contributions and would probably provide even smaller tax breaks.

[2] Source: Joint Committee on Taxation, U.S. Congress.

Inequities in Coverdell/Archer IRA



NOTE: These estimates are based on a similar proposal introduced by Senator Coverdell on July 31, 1997 and passed by the House of Representatives (H.R.2426) which would allow $2,500 annual contributions to an Education IRA. The current proposal under consideration would allow $2,000 annual contributions and would probably provide even smaller tax breaks.

U.S. Department of Education

Educati- -Coverdell

THE WHITE HOUSE

WASHINGTON

February 6, 1998

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: BRUCE REED
GENE SPERLING
LARRY STEIN

SUBJECT: Coverdell Education Tax Bill

On February 10 the Senate Finance Committee will mark-up Sen. Coverdell's education tax bill which provides tax-free IRA's for educational expenses, including tuition at private and parochial elementary and secondary schools.

Committee Democrats are currently split on this issue, with about a third opposed, a third prepared to strike deals in exchange for their support, and a third up in the air. Although the Administration strongly opposed versions of this bill last year, many Senators are uncertain about the Administration's current position, and believe the President may sign a bill if it reaches his desk. We need to make our position clear within the next 24 hours to have an impact on what happens in the Senate Finance Committee. We would like to use our meeting with you to discuss our position.

Background

A similar version of Coverdell was passed in the Senate 59-41 last June, as part of the Revenue Reconciliation Act of 1997. This provision was dropped in conference after the President sent the House and Senate leadership a letter indicating he would "veto any tax package that would undermine education by providing tax benefits for private and parochial school expenses."

When a similar provision was introduced in the House last fall, Secretaries Riley and Rubin underscored the Administration's opposition with a joint letter reciting both education and tax policy objections to the bill. The bill passed in the House by a vote of 230-198, but died in the Senate as a result of a successful filibuster effort led by Sen. Kennedy.

Secretary Riley is adamantly opposed to tax breaks for private school tuition on the ground that they are a back-door approach to vouchers and would undermine public education as much as conventional vouchers. The education community as a whole shares this view. Both Secretary Riley and Secretary Rubin also opposed the bill because its benefits are heavily tilted toward higher income families. Finally, Secretary Rubin opposed the bill because many of its provisions will be difficult to administer.

The Current Outlook

The bill will clearly be reported out of committee with some Democratic support. Sen. Daschle has asked Sen. Breaux to work with other Democratic Senators to draft compromise language on the proposal. Several meetings have been held, but no consensus has been reached. Sen. Roth has approached Sen. Breaux about putting together a package that could win bipartisan support in the Finance Committee. A package of this kind would include provisions of particular interest to individual Senators -- e.g., tax-free withdrawals from prepaid college tuition plans for Sen.Graham. Republicans even might add a school modernization provision to the bill to make it more attractive to Senate Democrats and the Administration.

We expect the bill to be taken up by the full Senate before the recess. The odds of a successful filibuster are lower this year than last, and Senator Kennedy is now enlisting Senators to sign a letter that indicating support for a veto. There is no timetable for taking this bill up in the House, though passage in the Senate will send a strong signal to the House leadership.

Administration Options

We have two basic options. When we meet, we need to settle on one and devise a strategy to accomplish it.

Remain firm in our veto strategy. Our opposition to the Coverdell bill is based on sound principles of both education and tax policy. Clear and continued opposition is also important to our allies within the education community, whose strong support is crucial to the success of our overall education agenda. If we firmly reiterate our intent to veto Coverdell, we can minimize the extent to which amendments are added to the bill and help Sen. Kennedy marshal support for a veto. Based on last year's vote, we believe we have enough votes to sustain a veto in the House as well.

Name our price. As indicated above, there is a possibility that a school modernization provision could be added to the Coverdell bill. Sen. Mosley-Braun's staff have indicated some interest in pursuing this approach, depending upon the position we take. We could indicate that we would accept a bill that attached a sizeable school construction initiative to Coverdell IRAs. Of course, we would have to be clear in advance on the size of the construction component as well as acceptable offsets.

There has also been some discussion about adding some of our child care tax provisions to the Coverdell proposal, but this now seems a far more remote possibility.

Educ - Coverdell Amendment

2-9-98

THE WHITE HOUSE

WASHINGTON

copied
Sperling
Reed
Stein
COS

February 8, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: SEAN MALONEY

SUBJECT: Strategy on Coverdell Education IRA Proposal

The attached Sperling/Reed/Stein memo asks you to adopt a strategy for dealing with Senator Coverdell's education IRA proposal, in advance of its scheduled Senate Finance Committee mark up on Tuesday. Your advisers, including Secretaries Riley and Rubin, met with Erskine on Friday to discuss the two options presented below.

Background. As you know, Coverdell would raise annual education IRA contribution limits from $500 to $2,000 and broaden permissible account distributions to include private elementary and secondary school tuition -- a back-door voucher favoring the rich that would divert scarce resources from public schools. Last July, you threatened to veto the entire budget bill if it included Coverdell's proposal. Last fall, the House passed it 230-198; it died in the Senate after a Kennedy-led filibuster. This year, the bill will get a strong vote out of committee; the filibuster may not hold. So far, Dems have been unable to add school construction and other provisions.

Option 1. Stick to the strong veto message and discourage Democrats from adding ameliorative provisions. This option is consistent with last summer's veto threat and would satisfy public school advocates. A veto appears to be sustainable in the House, though perhaps not in the Senate. You could reassess later, if a veto-proof majority emerges. However, Daschle and other Dems have signaled they may not oppose Coverdell this year; we would miss a school construction opportunity; and Republicans would have a popular issue to criticize us on.

Option 2. Stick to the veto threat, but encourage Democrats to add provisions that we support, such as school construction. Depending on the success Dems have adding proposals, we could negotiate a deal or revert to a veto. This option offers possible progress on school construction and would deprive the Republicans of a popular issue. However, it could be portrayed as a flip-flop; could start us down the "slippery slope" on vouchers; and would be strongly criticized by public education supporters.

Views. *All of your advisers* support Option 1 -- sticking with a strong veto message for now and discouraging Dems from adding improvements. Everyone believes Coverdell is bad policy and a move towards vouchers. Opposing popular IRAs will be hard, however, and harder still if the bill includes some help for public schools. Your advisers suggest encouraging Dems to offer a *substitute* for Coverdell when the bill goes to the floor.

Option 1 (recommended) ___ **Option 2** ___ **Discuss** ✓

2-9-98

THE WHITE HOUSE

WASHINGTON

'98 FEB 7 PM6:26

FEBRUARY 7, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING
BRUCE REED
LARRY STEIN

RE: STRATEGY ON COVERDELL EDUCATION IRA PROPOSAL

The Senate Finance Committee is scheduled to mark-up the Coverdell Education IRA proposal on Tuesday, February 10, 1998. A group of your advisors, including Secretaries Rubin and Riley, met with Erskine Friday to discuss our legislative strategy. This memorandum lays out the current situation, several options, and the recommendations of your economic team.

Background:
Senator Coverdell's proposal would expand the existing education IRA in two ways. First, it would broaden the accounts to allow for distributions to pay for educational expenses, including tuition, at private elementary and secondary schools. Currently the accounts are limited to higher education. Second, it would raise the contribution limit from $500 to $2,000 annually.

Senator Coverdell's proposal is objectionable on policy grounds for two key reasons. It provides for tax-side subsidy for private schools, and, thereby, diverts scarce resources from public schools. In this respect, the proposal can be viewed as a back-door voucher. Secondly, the tax benefits are heavily skewed to people with high incomes; 70 percent of the benefits flow to the top 20 percent of families.

For these reasons, as you will recall, you sent a strong letter to the Congressional Leadership on July 29, 1997, that stated your opposition to the Coverdell proposal and your intention to veto the entire budget bill if it were included (The Republicans had asked for the letter as a condition of removing the Coverdell provision from the bill).

Last fall the House passed the Coverdell proposal by a vote of 230-198. During House consideration, Secretary Riley and Secretary Rubin underscored the Administration's opposition with a joint letter that opposed the provision on both education and tax policy grounds. This bill died in the Senate as a result of a successful filibuster effort led by Senator Kennedy. After the Senate vote, Senator Daschle publicly warned that the filibuster might not hold this year and there is a uncertainty among some Democrats of how strong our veto resolve is on this issue.

Current Situation
The Coverdell proposal remains a top item on the Republican agenda and they are trying to move it quickly. Chairman Roth and Majority Leader Lott are pursuing a strategy of garnering support for Coverdell in return for the inclusion of pet proposals (education only) of the members on the Committee. That strategy appears to be working. For Senator Graham, a provision providing tax-free treatment for withdrawals from state pre-paid tuition plans will be added to the Chairman's mark. Apparently for Senator Moynihan, favorable tax treatment for employer provided educational assistance is extended both in time and coverage to include graduate education, as we do in our budget. Add Senator Breaux, who has supported Coverdell previously, and even with less than enthusiastic Republican, Senator Chafee, the bill looks like it could come out of Committee with a strong vote.

Despite attempts by Senator Moseley-Braun, school construction is not currently included, though discussions are continuing over the weekend. Sen. Moseley-Braun's staff has indicated that she would probably vote for Coverdell if it included a school construction proposal worth at least $3 billion or so over five years (the Administration proposal is $5 billion). You will recall that Senator Lott has been a strong opponent of school construction in the past.

Options
In our meeting, we discussed the following strategy options: 1) stick to our very strong veto threat. 2) Continue the veto threat, but encourage Democrats to add school construction and other items for a possible ultimate deal.

<u>Option 1:</u>
Under this strategy option, we would stick very strongly to our veto threat with the full intention of vetoing any bill that includes the Coverdell proposal, just as we have done to date. We would not encourage Democrats, to the extent possible, from adding proposals that we support.

Pros:

- Consistent with the position you took in your letter to the Congressional leadership during the Balanced Budget Agreement negotiations.
- Satisfies public school advocates concerned about vouchers.
- Appears sustainable at least in House (though possibly not in the Senate). There are apparently 8-12 wavering Senate Democrats. Both the House and Senate dynamic could possibly change to the extent something very attractive gets added, such as a robust school construction provision.
- Can reassess later if dynamics change, or if veto-proof majority begins to emerge.

Cons:

- Minority Leader Daschle and other Democrats have signaled that they may not stick with their position last year opposing Coverdell. The bill could come out of Finance with an overwhelming vote.

- Lose opportunity for possible progress on school construction.

- Republicans continue to have a popular issue to criticize us on.

Option 2:
Under this strategy, we would stick to our veto threat, but we would encourage Democrats to add provisions that we support, such as school construction. Depending on how much success Democrats have, down the road we would either engage in negotiations to add more of our proposals or we would stick to our veto threat.

Pros:

- An opportunity to achieve a success on school construction.

- Robs Republicans of an issue, while forcing them to cave in on school construction.

Cons:

- Would be portrayed as a flip-flop, perhaps affecting credibility of future veto threats.

- May contribute to "slippery slope" on school vouchers, as public school advocates fear.

- Would be strongly criticized by public education supporters, even if it includes a substantial school construction investment.

Recommendation:
All of your advisors agree that Coverdell is bad public policy. Proponents of Coverdell intend for this to be a first step towards vouchers. Moreover, the tax benefits disproportionately benefit high income people.

Some of your advisors believe that switching will be seen as moving away from a principled position. Others, however, point out the potential for an education bill moving through Congress with possible strong momentum and including several attractive components, including pre-paid tuition plan provisions, enhanced employer provided education benefits, and perhaps school construction. It would be difficult to make an effective public case against such a bill. An IRA does not strike people as a voucher, plus people understand IRAs and they like them. The public case against a bill becomes that much harder to the extent provisions are included that help public schools, such as school construction.

While some of your advisors believe that we will need to continue to re-assess our position as events unfold, and some felt we should never move off our current position, it is the consensus view of your advisors that there is nothing to be gained from moving off of your strong veto threat now. It is also agreed that, we should not, at least for now, encourage Democrats to try to load up the bill with attractive items, while recognizing that Finance Committee Democrats will do some of this on their own. Rather, we can encourage Democrats to offer a proposal as a *substitute* for Coverdell when the bill goes to the Senate floor.

________ Recommended Option Strong Veto Threat Encourage Democratic Substitutes	_________ Option 2 Strong Veto Threat Encourage Democrats To Add to Coverdell	______ Discuss

Educ - Coverdell bill

Michael Cohen
02/09/98 02:42:38 PM

Record Type: Record

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

cc:
Subject: Coverdell

Shireman tells me that Gene and Erskine spoke to POTUS about Coverdell, and his decision is to maintain our previous position--a clear veto threat.

NEC is notifying Treasury, and asking Rubin to make some calls to committee Dems before mark-up. I've talked to Education. Barbara Chow is putting a Riley/Rubin letter they had been sitting on into the system for quick clearance and release.

Educ - Coverdale

DRAFT
Feb. 5, 1998
9:45 AM

Honorable William V. Roth, Jr.
Chairman
Committee on Finance
U.S. Senate
Washington, D.C. 20510-6200

Dear Mr. Chairman:

We write to express our strong opposition to the "A+ Accounts for Public and Private Schools Act", Title I of S. 1590, which we understand your committee may soon consider. Last summer, when a similar proposal was passed by the Senate, the President stated that he would veto the legislation that contained it. This bill raises the same concerns as the proposal in last year's Senate bill and in H.R. 2646, which the House passed last fall. As we stated in a letter to your House counterparts on that bill in October, we would recommend that the President veto the A+ Accounts Act should it reach his desk.

Every American child deserves a high-quality elementary and secondary education. We believe that targeting our limited Federal resources to build stronger public schools will help ensure that all our children receive the education they need to be productive citizens. Public schools serve approximately 90 percent of students in grades K-12 and currently face record-breaking enrollments. By focusing resources on public schools, we can leverage community investment to help parents, teachers, and administrators meet the important educational challenges they face in serving the vast majority of our children: meeting high standards for learning and discipline, fixing school buildings, and providing a safe, drug-free environment for children. In contrast, the A+ Accounts for Public and Private Schools Act diverts needed attention and resources from our public schools.

The bill disproportionately benefits the most affluent families and provides little benefit to lower- and middle-income families. First, the average family typically saves a modest amount and, therefore, would get little reward from the compounding of tax-free earnings in an Education IRA. By contrast, wealthy families save more and, therefore, would have greater accumulations of tax-free earnings in an Education IRA. Second, the benefit of tax-free accumulation under the bill increases with a family's marginal tax rate. Thus, for example, a family in the 31 percent marginal tax bracket that saved $2,500 per year for six years would realize twice the tax benefit under the bill ($1046) as a family in the 15 percent bracket saving the same amount ($514).

We are also concerned that the bill would create significant compliance problems. The legislation allows tax-free withdrawals from Education IRAs for, among other things, "supplementary expenses required for the [child's] enrollment or attendance ... at a public, private or religious school", but provides no guidance in identifying what these expenses are. Distinguishing between an appropriately tax-free withdrawal and one that should be subject to tax and penalty would lead to significant additional tax complexity for families.

Finally, we do not believe that increasing the contribution limits for tax-preferred saving opportunities will generate much additional saving and would, instead, reward families, particularly those with significant means, for what they would otherwise do.

We therefore strongly urge the committee not to approve this legislation.

Sincerely,

Robert E. Rubin
Secretary of the Treasury

Richard W. Riley
Secretary of Education

II

105TH CONGRESS
2D SESSION

S. 1590

To improve elementary and secondary education.

IN THE SENATE OF THE UNITED STATES

JANUARY 29, 1998

Mr. COVERDELL (for himself, Mr. LOTT, Mr. NICKLES, Mr. MACK, Mr. CRAIG, Mr. MCCONNELL, Mr. GREGG, Mr. COATS, Mr. INHOFE, Mr. MURKOWSKI, Mr. ABRAHAM, Mr. KYL, and Mr. WARNER) introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To improve elementary and secondary education.

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 "Better Opportunities for Our Kids and Schools Act".

TITLE I—A+ ACCOUNTS FOR PUBLIC AND PRIVATE SCHOOLS

SEC. 101. SHORT TITLE.

This title may be cited as the "A+ Accounts for Public and Private Schools Act".

1-
101

SEC. 102. MODIFICATIONS TO EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS.

(a) TAX-FREE EXPENDITURES FOR ELEMENTARY AND SECONDARY SCHOOL EXPENSES.—

(1) IN GENERAL.—Section 530(b)(2) of the Internal Revenue Code of 1986 is amended to read as follows:

"(2) QUALIFIED EDUCATION EXPENSES.—

"(A) IN GENERAL.—The term 'qualified education expenses' means—

"(i) qualified higher education expenses (as defined in section 529(c)(3)), and

"(ii) qualified elementary and secondary education expenses (as defined in paragraph (4)).

Such expenses shall be reduced as provided in section 25A(g)(2) but only with respect to amounts in the account which are attributable to contributions for any taxable year ending before January 1, 2003, and earnings on such contributions.

"(B) QUALIFIED STATE TUITION PROGRAMS.—Such term shall include amounts paid or incurred to purchase tuition credits or certificates, or to make contributions to an ac-

102(a)(1)
[IRC, 530(b)(2)]

count, under a qualified State tuition program (as defined in section 529(b)) for the benefit of the beneficiary of the account.".

(2) QUALIFIED ELEMENTARY AND SECONDARY EDUCATION EXPENSES.—Section 530(b) of such Code is amended by adding at the end the following new paragraph:

"(4) QUALIFIED ELEMENTARY AND SECONDARY EDUCATION EXPENSES.—

"(A) IN GENERAL.—The term 'qualified elementary and secondary education expenses' means tuition, fees, tutoring, special needs services, books, supplies, computer equipment (including related software and services) and other equipment, transportation, and supplementary expenses required for the enrollment or attendance of the designated beneficiary of the trust at a public, private, or religious school.

"(B) SPECIAL RULE FOR HOMESCHOOLING.—Such term shall include expenses described in subparagraph (A) required for education provided for homeschooling if the requirements of any applicable State or local law are met with respect to such education.

102(a)(2)
[IRC, 530(b)(4)(A)-(B)]

"(C) SCHOOL.—The term 'school' means any school which provides elementary education or secondary education (through grade 12), as determined under State law.".

(3) CONFORMING AMENDMENTS.—Subsections (b)(1) and (d)(2) of section 530 of such Code are each amended by striking "higher" each place it appears in the text and heading thereof.

(b) TEMPORARY INCREASE IN MAXIMUM ANNUAL CONTRIBUTIONS.—

(1) IN GENERAL.—Section 530(b)(1)(A)(iii) of the Internal Revenue Code of 1986 is amended by striking "$500" and inserting "the contribution limit for such taxable year".

(2) CONTRIBUTION LIMIT.—Section 530(b) of such Code is amended by adding at the end the following new paragraph:

"(4) CONTRIBUTION LIMIT.—The term 'contribution limit' means $2,500 ($500 in the case of any taxable year ending after December 31, 2002).".

(3) CONFORMING AMENDMENTS.—

(A) Section 530(d)(4)(C) of such Code is amended by striking "$500" and inserting "the contribution limit for such taxable year".

102(a)(2) [Sec, 530(b)(4)(C)] -
(3)(A)

(B) Section 4973(e)(1)(A) of such Code is amended by striking "$500" and inserting "the contribution limit (as defined in section 530(b)(4)) for such taxable year".

(c) WAIVER OF AGE LIMITATIONS FOR CHILDREN WITH SPECIAL NEEDS.—Paragraph (1) of section 530(b) of the Internal Revenue Code of 1986 is amended by adding at the end the following flush sentence:

"The age limitations in the preceding sentence shall not apply to any designated beneficiary with special needs (as determined under regulations prescribed by the Secretary).".

(d) CORPORATIONS PERMITTED TO CONTRIBUTE TO ACCOUNTS.—Paragraph (1) of section 530(c) of the Internal Revenue Code of 1986 is amended by striking "The maximum amount which a contributor" and inserting "In the case of a contributor who is an individual, the maximum amount the contributor".

(e) EFFECTIVE DATE; REFERENCES.—

(1) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the amendments made by section 213 of the Taxpayer Relief Act of 1997.

(2) REFERENCES.—Any reference in this section to any section of the Internal Revenue Code of

102(a)(3)(B)-(E)

1986 shall be a reference to such section as added by the Taxpayer Relief Act of 1997.

~~TITLE II—DOLLARS TO THE CLASSROOM~~

~~**SEC. 201. DIRECT AWARDS OF CERTAIN EDUCATION FUNDING TO STATES.**~~

~~(a) DIRECT AWARDS OF CERTAIN EDUCATION FUNDING.—~~

~~(1) IN GENERAL.—Notwithstanding any other provision of law, for each fiscal year the Secretary shall award the total amount of funds described in paragraph (2) directly to States in accordance with this subsection.~~

~~(2) APPLICABLE FUNDING.—The total amount of funds referred to in paragraph (1) are all funds not used to carry out paragraph (8)(B) for the fiscal year that are appropriated for the Department of Education for the fiscal year to carry out programs or activities under the following provisions of law:~~

~~(A) Title III of the Goals 2000: Educate America Act (20 U.S.C. 5881 et seq.).~~

~~(B) Title IV of the Goals 2000: Educate America Act (20 U.S.C. 5911 et seq.).~~

~~(C) Title VI of the Goals 2000: Educate America Act (20 U.S.C. 5951).~~

201(a)(1)-
(2)(C)

Educ - Coverdale

DRAFT
Feb. 5, 1998
9:45 AM

Honorable William V. Roth, Jr.
Chairman
Committee on Finance
U.S. Senate
Washington, D.C. 20510-6200

Dear Mr. Chairman:

We write to express our strong opposition to the "A+ Accounts for Public and Private Schools Act", Title I of S. 1590, which we understand your committee may soon consider. Last summer, when a similar proposal was passed by the Senate, the President stated that he would veto the legislation that contained it. This bill raises the same concerns as the proposal in last year's Senate bill and in H.R. 2646, which the House passed last fall. As we stated in a letter to your House counterparts on that bill in October, we would recommend that the President veto the A+ Accounts Act should it reach his desk.

or President would veto the bill.

Every American child deserves a high-quality elementary and secondary education. We believe that targeting our limited Federal resources to build stronger public schools will help ensure that all our children receive the education they need to be productive citizens. Public schools serve approximately 90 percent of students in grades K-12 and currently face record-breaking enrollments. By focusing resources on public schools, we can leverage community investment to help parents, teachers, and administrators meet the important educational challenges they face in serving the vast majority of our children: meeting high standards for learning and discipline, fixing school buildings, and providing a safe, drug-free environment for children. In contrast, the A+ Accounts for Public and Private Schools Act diverts needed attention and resources from our public schools.

The bill disproportionately benefits the most affluent families and provides little benefit to lower- and middle-income families. First, the average family typically saves a modest amount and, therefore, would get little reward from the compounding of tax-free earnings in an Education IRA. By contrast, wealthy families save more and, therefore, would have greater accumulations of tax-free earnings in an Education IRA. Second, the benefit of tax-free accumulation under the bill increases with a family's marginal tax rate. Thus, for example, a family in the 31 percent marginal tax bracket that saved $2,500 per year for six years would realize twice the tax benefit under the bill ($1046) as a family in the 15 percent bracket saving the same amount ($514).

We are also concerned that the bill would create significant compliance problems. The legislation allows tax-free withdrawals from Education IRAs for, among other things, "supplementary expenses required for the [child's] enrollment or attendance ... at a public, private or religious school", but provides no guidance in identifying what these expenses are. Distinguishing between an appropriately tax-free withdrawal and one that should be subject to tax and penalty would lead to significant additional tax complexity for families.

Finally, we do not believe that increasing the contribution limits for tax-preferred saving opportunities will generate much additional saving and would, instead, reward families, particularly those with significant means, for what they would otherwise do.

We therefore strongly urge the committee not to approve this legislation.

Sincerely,

Robert E. Rubin
Secretary of the Treasury

Richard W. Riley
Secretary of Education

Educ - Coverdale

DRAFT

February 25, 1998
(Senate)

S. 1133 - Parent and Student Savings Account PLUS Act
(Coverdell (R) Georgia and 43 cosponsors)

If S. 1133 were presented to the President, the Secretaries of Education and the Treasury would recommend that he veto the bill because it is bad education policy and bad tax policy.

Every American child deserves a high-quality elementary and secondary education. Targeting limited Federal resources to build stronger public schools will help ensure that all our Nation's children receive the education they need to become productive citizens. S. 1133 would divert needed resources from these schools.

S. 1133 would disproportionately benefit the most affluent families and provide little benefit to lower- and middle-income families. Families in the highest income bracket that saved the maximum amount permitted by S. 1133 would receive more than twice the benefit of families in the lowest tax bracket that saved the same amount. Moreover, given the expansion of tax-preferred savings vehicles in the Taxpayer Relief Act of 1997, the bill would not create a significant incentive for families to increase their savings for educational purposes. Instead, S. 1133 would reward families, particularly those with substantial incomes, for what they are already doing.

S. 1133 would also create significant compliance problems for families. The bill permits tax-free withdrawals from Education IRAs for supplementary expenses required for a child's enrollment in a public, private, or religious school but provides no guidance concerning what a taxpayer can legitimately claim.

* * * * * * *

Educ - Coverdell Amendment

Michael Cohen
02/03/98 11:49:55 AM

Record Type: Record

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

cc:
Subject: Heads up on a couple of education issues

A couple of things are developing that you need to know about.

1. **Class Size/tobacco:** Barbara Chow has some state-by-state runs comparing various medicaid formula to our class size formula and to the child care formula. She's going to try to put together a meeting tomorrow, with the three of us, Jen Klein and whoever from OMB tobacco world is appropriate, to try and figure out how to deal with different needs and expectations re: formula. I'm going to try and get a copy of the runs later today; I'll share with you whatever I get.

On a related note, ED staff are desperate for some kind of briefing on tobacco that will give them a big picture, and help them deal with questions from ed.groups and the hill. I think this would be useful, even if it only enables them to give more sophisticated nonanswers than they can give now. I think there are 3-4 people at ED who need this (Mike, Scott Fleming, Susan Frost) and me. Could one of you do this, or is there someone better? Are there talking points or Q's and A's we could use instead?

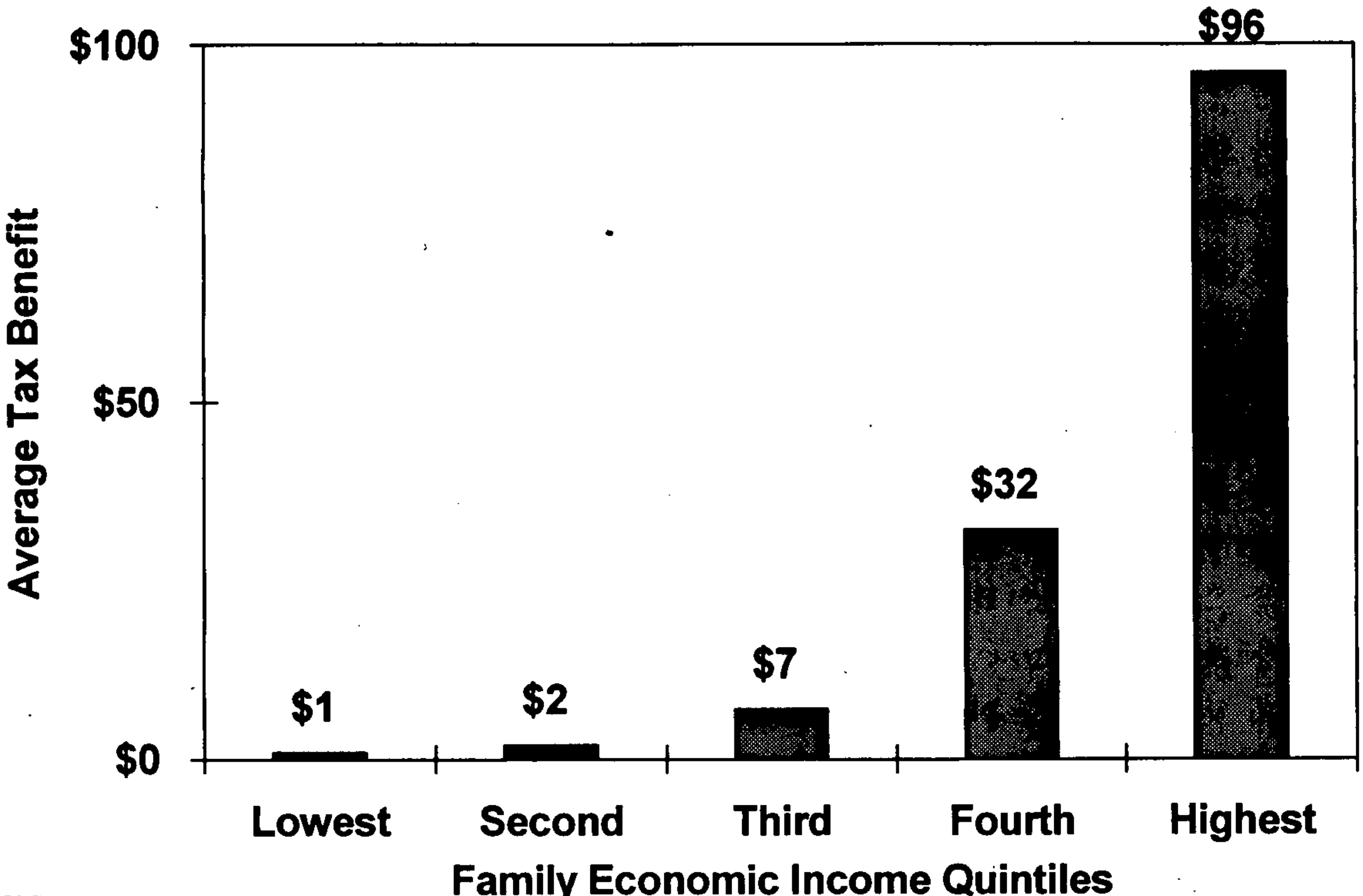
2. **Coverdell Tax Free Savings Accounts:** Apparently this is going to be marked up in Senate Finance sometime in the next few weeks, and we are trying to put an Administration position together. Here is the lay of the land as best as I can tell;

- Riley is still adamantly opposed, and wants an Administration alternative--tax free saavings accounts that are not targeted to education, but which could be used for any purpose
- Treasury is likely to be adamantly opposed to ED's proposal on the grounds that it is bad tax policy
- Senate Dem's on Finance Committee are apparantly ok with Coverdell, will probably vote for it, and believe that POTUS will sign it. **Do you have an insight on this? POTUS signed the letter last year saying he would veto balanced budget deal if it included Coverdell, but I was never sure that his opposition was particularly strong or long-lilved.**
- There is some interest among Senate Dem's in a modified version of Coverdell that would not allow the savings account $ to pay for private school tuition, but would allow it for related education expenses--tutors, books, transportation to and from school, etc. Last year we thought this was bad tax policy too-- undesirable disributional impact, and too easily subject to abuse (like using the $ to buy your kid a car which he happens to use to drive to school).
- There is also an idea beginning to take shape to trade Coverdell for School Construction, with everybody walking away with something.
- Barbara Chow reports that Podesta is very concerned with the constituency group politics in this, and is therefore likely to side with Riley in oppostion to Coverdell.

I'm going to a DPC/NEC/OMB/ED/Treasury meeting this afternoon. Any guidance for me? My sense is to see if we can come up with an option that ED and Treasury will both like (not likely) and to see if the Coverdell-for-Modernization deal could work. While I never thought Coverdell is a particularly good idea--its benefits are skewed to upper income families, are small overall (a few bucks for most middle class families), I also have had a hard time seeing this as a voucher quite the way Riley does.

Education - Coverdell bill

Inequities in Coverdell/Archer IRA



U.S. Department of Education

Educ - Coverdell bill

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
October 22, 1997

Contact: Susan Lewis Sallet
(202) 622-2920

**STATEMENT OF LAWRENCE H. SUMMERS
DEPUTY SECRETARY, U.S. DEPARTMENT OF TREASURY
REGARDING THE COVERDELL PARENT AND STUDENT
SAVINGS ACCOUNT PLUS ACT**

I am sorry I cannot join Secretary Riley and Congressmen Rangel, Clay and Stenholm in person today to speak on this important issue. This Administration is strongly committed to improving the quality of primary and secondary education for every child in our country. However, we do not support the Coverdell proposal which would divert needed attention and resources from our public schools.

As stated recently in a letter from Treasury Secretary Rubin and Education Secretary Riley, this proposal raises the same concerns as the proposal passed by the Senate last summer and opposed by the Administration. At that time, the President stated that he would veto the legislation that contained this measure, and Secretary Rubin and Secretary Riley stated that they would recommend that he veto this bill should it reach his desk.

The Coverdell proposal would disproportionately benefit the most affluent families and provide little benefit to lower and middle-income families. According to a Treasury Department analysis, almost 70 percent of the benefits of this proposal would flow to families in the top 20 percent of income distribution and about 27 percent to families in the top ten percent. Low- and moderate income families are less likely to have assets to contribute to education IRAs and the benefit of the proposal depends on the family's marginal tax rate, which lessens its value for these families.

In addition, we do not believe that increasing the contribution limits for tax-preferred saving opportunities will generate much additional saving and instead, will reward families, particularly those with significant means, for what they would otherwise do.

We are also concerned the bill could create significant tax compliance problems. The legislation allows tax-free withdrawals from Education IRAs for "supplementary expenses required for [the child's] enrollment or attendance at a public, private or sectarian school," but provides no

RR2005

guidance in identifying what these expenses are. Distinguishing between an appropriately tax-free withdrawal and one that should be subject to tax and penalty would lead to significant additional tax complexity for families.

Congressman Rangel's substitute proposal would instead increase the volume of qualified zone academy bonds to help public schools with a substantial number of low-income students afford improvements in their infrastructure, their equipment and their teacher training. We support this and other proposals that would help the majority of students who are in public schools rather than using federal funds to encourage a shift away from these important community resources.

-30-

Coverdell Parent and Student Savings Account Plus Act (1)

(1998 Income Levels)

Family Economic Income Quintile (2)	Number of Families (millions)	Average Tax Change ($)	Total Tax Change: Amount (3) ($M)	Total Tax Change: Percent Distribution (%)	Tax Change as a Percent of: Current Federal Taxes (4) (%)	Tax Change as a Percent of: Family Economic Income (%)
Lowest (5)	21.6	-1	-13	0.4	-0.10	-0.01
Second	22.2	-2	-39	1.3	-0.06	-0.01
Third	22.3	-7	-158	5.1	-0.10	-0.02
Fourth	22.3	-32	-716	23.3	-0.23	-0.04
Highest	22.3	-96	-2147	69.8	-0.24	-0.05
Total (5)	111.3	-28	-3076	100.0	-0.21	-0.04
Top 10%	11.1	-75	-840	27.3	-0.13	-0.03
Top 5%	5.6	-24	-135	4.4	-0.03	-0.01
Top 1%	1.1	-1	-1	0.0	-0.00	-0.00

Department of the Treasury
Office of Tax Analysis

October 21, 1997

(1) This table distributes the estimated change in tax burdens due to the Parent and Student Savings Account Plus Act introduced by Senator Coverdell, as adopted by the Ways and Means Committee.

(2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and underreported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

(3) The change in Federal taxes is estimated at 1998 income levels but assuming fully phased in (2007) law and behavior. The change is measured as the present value of the tax savings from one year's contributions. The technical correction pertaining to mandatory distributions at age 30 with a ten percent penalty for distributions not used for education expenses is assumed to have been passed.

(4) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Federal taxes are estimated at 1998 income levels but assuming 2007 law and, therefore, exclude provisions that expire prior to the end of the Budget period and are adjusted for the effects of unindexed parameters.

(5) Families with negative incomes are excluded from the lowest quintile but included in the total line.

NOTE: Quintiles begin at FEI of: Second $16,950; Third $32,563; Fourth $54,758; Highest $93,222; Top 10% $127,373; Top 5% $170,103; Top 1% $408,551.

Coverdell Parent and Student Savings Account Plus Act (1)

(1998 Income Levels)

Family Economic Income Class (2) (000)	Number of Families (millions)	Average Tax Change ($)	Total Tax Change: Amount (3) ($M)	Total Tax Change: Percent Distribution (%)	Tax Change as a Percent of: Current Federal Taxes (4) (%)	Tax Change as a Percent of: Family Economic Income (%)
0 - 15	18.5	-1	-10	0.3	-0.11	-0.01
15 - 30	21.8	-1	-32	1.0	-0.06	-0.01
30 - 40	12.1	-3	-41	1.3	-0.07	-0.01
40 - 50	9.7	-8	-74	2.4	-0.10	-0.02
50 - 60	7.9	-15	-115	3.7	-0.15	-0.03
60 - 75	9.4	-23	-219	7.1	-0.18	-0.03
75 - 100	11.7	-59	-690	22.4	-0.34	-0.07
100 - 200	15.6	-118	-1842	59.9	-0.43	-0.09
200 & over	3.9	-13	-50	1.6	-0.01	-0.00
Total (5)	111.3	-28	-3078	100.0	-0.21	-0.04

Department of the Treasury
Office of Tax Analysis

October 21, 1997

(1) This table distributes the estimated change in tax burdens due to the Parent and Student Savings Account Plus Act introduced by Senator Coverdell, as adopted by the Ways and Means Committee.

(2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and under-reported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent that reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

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(5) Families with negative incomes are included in the total line but not shown separately.

Educ - Coverdale Bill

Ronald E. Jones
10/17/97 08:40:40 AM

Record Type: Record

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

cc:
Subject: SAP for HR 2646, Education Savings Act for Public and Private Schools

Reminder, we're looking for any comments on the SAP stating the veto recommendation by Secs. Riley and Rubin by noon today. A copy of the SAP, which was based on their October 9th letter, follows.

October 16, 1997
(House Rules)

H.R. 2646 - Education Savings Act for Public and Private Schools
(Archer (R) Texas and Gingrich (R) Georgia)

If H.R. 2646 is presented to the President, the Secretaries of Education and the Treasury would recommend that he veto the bill because it is bad education policy and bad tax policy.

Every American child deserves a high quality elementary and secondary education. Targeting limited Federal resources to build stronger public schools will help ensure that all our Nation's children receive the education they need to become productive citizens. H.R. 2646 would divert needed resources from these schools.

H.R. 2646 would disproportionately benefit the most affluent families and provide little benefit to lower- and middle-income families. Families in the highest income bracket that saved the maximum amount permitted by H.R. 2646 would receive more than twice the benefit of families in the lowest tax bracket that saved the same amount. Moreover, the bill would not create a significant incentive for families to increase their savings for educational purposes; it would instead reward families, particularly those with substantial incomes, for what they already do.

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Message Sent To:

Education —
Coverdell bill

DRAFT -- NOT FOR RELEASE

October 16, 1997
(House Rules)

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