



To: The Honorable Diane Black and the Honorable Danny Davis
From: Alliance for Excellent Education
Date: April 15, 2013
Re: Comments for Education and Family Benefits Tax Working Group

Thank you for the opportunity to comment on education-related tax benefits as part of the upcoming education and family benefits tax working group. In January, the Alliance for Excellent Education (the Alliance) released a report, [Repairing a Broken System: Fixing Federal Student Aid](#), in which there are recommendations for changing the myriad programs that provide postsecondary financial aid for American students and their families. More on the report is available at www.fixfinancialaid.org.

The federal student aid system demands reform because it is complicated and unwieldy for most consumers. Although many of the system's programs are focused on promoting student access to postsecondary education, both the twenty-first-century and America's declining position as a leading producer of college graduates require that the aid provided by the federal government promote both access *and* completion. In doing so, the nation will see a return on the significant investments made in college students as they reap the benefits of college completion for themselves and their families as well as their communities, states, and the nation.

The current higher education-related tax incentives are poorly targeted at promoting either access or completion. There are various federal tax credits and deductions that serve relatively similar purposes that make it difficult for filers to know which credits and deductions are optimal for their individual circumstances. Unfortunately, they all share a similar weakness: the benefit, which comes in the spring, is disconnected from the fall, when many students enroll in academic programs. Consequently, these tax benefits do not provide assistance to impoverished students who need capital up front to pay for schooling.

The income eligibility threshold for the American Opportunity Tax Credit (AOTC) is \$80,000 for individuals and \$160,000 for joint filers. In 2009, the year AOTC was introduced, families earning between \$100,000 and \$180,000 received the largest amount combined (\$3.88 billion) and share (26 percent) of the nearly \$15 billion in tax credits, whereas middle-income families' share was reduced from 76 percent under the Hope education credit (1999) to 56 percent under AOTC (2009).¹ The change in income eligibility has specifically expanded eligibility to families who are better positioned to pay for college expenses without federal assistance.

Tax credits and deductions are estimated to result in a loss of approximately \$70 billion in federal revenue.² With the nation's debt already massive and continuing to grow, and its need to have a better educated citizenry, the nation's education and spending policies must be more efficiently and strategically used.

The Alliance recommends merging the AOTC and the Lifetime Learning Credit into one tax credit for individuals earning \$60,000 or less annually and families earning \$120,000 or less annually.

This approach would simplify the current tax credits and create a benefit directed toward the middle class. In order to provide an additional incentive for students to complete their academic programs, this tax credit would be available to individuals (or their families, in the case of dependent students) who enroll in an eligible institution of higher education on a full-time basis for at least one semester per year.

The current tax credits and deductions do not allow for expenses beyond tuition and fees for purposes of claiming the credit. However, other expenses, such as room and board, books, transportation, and health insurance, are real expenses that are considered part of the cost of attendance (COA). The Alliance recommends that the new tax credit allow a portion of the COA, controlling for institutional type, to be factored into the revised tax credit as well as other education tax deductions.

The new tax credit should continue to be partially refundable for tax filers without enough tax liability to take full advantage of the credit. This provision is similar to the AOTC.

Unifying the tax credits and allowing a portion of expenses for the COA would increase support for middle-class families and simplify the system, thereby making it easier for families to predict their benefit. Being able to reliably calculate and count on that benefit will be a comfort to families straining to send students to college in a struggling economy.

The Alliance thanks you for your consideration and looks forward to working further with the education and family benefits tax working group. For additional information, please contact Phillip Lovell, the Alliance's vice president of federal advocacy, at [REDACTED] or [REDACTED]

Notes

¹ S. Burd, *Moving on Up: How Tuition Tax Breaks Increasingly Favor the Upper-Middle Class* (Washington, DC: Education Sector, 2012).

² Ibid.