The Honorable Rahm Emanuel
Statement for the Record – Select Revenue Measures Subcommittee Hearing on Higher Education Tax Incentives
May 1, 2008

First, I would like to thank Chairman Neal and Ranking Member English for holding this important hearing on higher education tax incentives. Second, I want to thank Congressman Dave Camp who has worked with me on the issue of simplifying and strengthening the higher education tax benefits during the 110th Congress. And, finally, a special thank-you to my fellow Chicagoan Dr. Wayne Watson, Chancellor of the City Colleges of Chicago, for traveling here to D.C. again to provide his insight and testimony on ways that we can make higher education more affordable and accessible for all students who are seeking higher education.

Today, a college education is as important as a high school degree was a generation ago. That's why Dave Camp and I have introduced the Universal Higher Education and Lifetime Learning Act of 2007, a bill that consolidates the three main education tax benefits into one easy-to-use higher education tax credit. Post-secondary education has become the key to obtaining a high-skill, high-wage job. Studies show that 80% of the new jobs over the next decade will require some level of higher education. As I like to say, you earn what you learn. Unfortunately, the only thing increasing as fast as the importance of a college degree is the cost of getting that degree.

Skyrocketing costs are putting college out of reach for lower and middle-income students. College costs have grown nearly 40 percent in the last five years. The average cost for a year at a community college is over $13,000. The average cost for a year at a public four-year school is over $17,000. The average cost for a year at a private four-year school is over $32,000. Is it any surprise that two-thirds of students at four-year colleges and universities are graduating with student loan debt?

And even more alarming is that over the past decade, the amount of student loan debt that the typical college student owed has doubled, going from $9,250 to over $19,000. The typical college grad gets a diploma in one hand and a $19,000 VISA bill in the other.

In my home state of Illinois, the cost of one year at the flagship public university, the University of Illinois, is about $19,000. The average college graduate in Illinois is now graduating with $17,650 in student loan debt. The cost of higher education is closing the door of opportunity for millions of students. Estimates show that 4.4 million academically qualified students will opt not to enroll in a four-year university, and 2 million of them will forgo college entirely, all because the cost of a college education is beyond their reach.

Last year, the Democratic Congress passed the College Cost Reduction and Access Act, the single largest investment in higher education since the GI bill. The legislation increased the maximum Pell Grant scholarship amount, cut interest rates in half on subsidized student loans, and eliminated unnecessary federal subsidies to the student loan industry. Two weeks ago, the House passed the Ensuring Continued Access to Student Loans Act of 2008. This legislation responds to the current credit crisis and ensures that families can access the loans they need to pay for college. More can be done to make college more affordable and accessible and one area that is ripe for reform is the tax code and how it is being used to achieve these goals.

The problem with the current tax system is simple. There is too much complexity and too little assistance for those who most need it. The tax code now includes 12 different tax benefits for higher education. The IRS Publication that explains these benefits is 80 pages long. Of the six different education tax benefits that include phase-out provisions based on income, there are five different income threshold amounts. Among the nine provisions that provide a benefit to reduce education "expenses," there are six different definitions of expenses. Books and supplies are allowable expenses for three education benefits, but not for the other six.

The result of this complexity is that, according to today's GAO testimony, 412,000 tax filers, who were eligible for the education tax benefits, did not claim them. In addition, there were an additional 189,000 taxpayers who claimed one of the education benefits but claimed the wrong one. In total, GAO estimates that 28% of eligible tax filers, or more than 600,000 people, did not take full advantage of these education tax benefits.

When I've talked about this problem in the past, I usually say "if we want people to go to college, they shouldn't have to stop first at H+R Block." But what the GAO report has found is that even the H+R Block tax professionals are getting it wrong. The report finds that 50 percent, or one out of every two, of the tax returns that did not take the right credit were prepared by tax preparers. Millions of dollars in education assistance is being left on the table.

To simplify the tax code and make higher education more affordable and accessible, Congressman Dave Camp and I introduced the Universal Higher Education and Lifetime Learning Act of 2007. Instead of three different tax benefits, with three different sets of complex rules, our bill creates one easy-to-understand education tax credit. The credit provides up to $3,000 in tax relief, about half of the average cost of tuition and fees at a public college or university. To promote lifetime learning and non-traditional students, the credit is available to those who take one or more courses. The credit is available to those who attend two-year community colleges, four-year colleges or universities, and two years of graduate school. To make it available to more middle-class families, the credit is available to single taxpayers making up to $80,000 and for married couples making up to $160,000. To make higher education more accessible, the credit is partially refundable, which will allow about a third of all households – and almost half of all families with children – to benefit from the education tax breaks for the first time. Finally, our bill expands the type of higher education expenses that can qualify for the credit to room and board, books and supplies, and transportation. As Dr. Wayne Watson has noted in his testimony, excluding these expenses effectively prevents community college students from receiving any help with what amounts to 80% of their costs. Federal financial aid covers non-tuition costs. A 529 savings account can also be used to cover these costs. Our bill will put the federal tax credit for education on equal footing with these other programs.

This bill enjoys bipartisan and bicameral support. There are currently 19 cosponsors, including 12 Democrats and 7 Republicans. There are 10 cosponsors that serve on the Ways and Means Committee. Senator Bayh has introduced the Senate version of this legislation. The bill is supported by a wide coalition of education, business, and consumer groups, including the American Association of Community Colleges, American Association of Universities, the National Association of State Universities and Land-Grant Colleges, the National Association of Independent Colleges and Universities, the American Association of State Colleges and Universities, the American Council on Education, the American Association of Jesuit Colleges and Universities, the U.S. Chamber of Commerce, Financial Services Roundtable, Business Roundtable, The Workforce Alliance, and the United States Public Interest Research Group.