EFC

EDUCATION FINANCE COUNCIL

Hearing on “Tax Reform and Tax Provisions Affecting State and Local Governments”

Statement for the Record by the Education Finance Council

House Committee on Ways and Means

March 19, 2013

The Education Finance Council (EFC) is the national trade association representing nonprofit and state agency student loan organizations. EFC commends the Ways and Means Committee for examining Federal tax provisions that affect State and local governments as it continues its work on comprehensive tax reform. Many EFC members function as entities of their state—these entities and the students they serve are uniquely affected by the following Federal tax provisions.

Tax-Exemption of Municipal Bonds

Many EFC members are issuers of tax-exempt bonds which are used for funding student loans. Tax-exempt bonds lower issuers' financing costs, which they pass along to student loan borrowers in the form of lower interest rates. Tax-exempt bonds have been a source of affordable financing for decades and have provided millions of students the ability to affordably access higher education. In order to maintain the stability of the tax-exempt bond market, EFC opposes efforts to limit or cap the deductions or exemptions a taxpayer may claim because this effectively places a tax on these bonds. EFC also opposes replacing tax-exempt bonds with tax credit or direct pay bonds because of their limited market acceptance.

AMT Holiday for Private Activity Bonds

In 2009, legislation was passed that granted an exemption for private-activity bonds (PAB) and municipal bonds – like those issued by state agency student loan providers - from the individual Alternative Minimum Tax (AMT). This "AMT holiday" reduced the cost significantly of financing; creating savings that were passed on to borrowers and investors. The AMT holiday expired in December of 2010. EFC urges Congress to renew the AMT holiday for PABs this year, potentially in conjunction with comprehensive tax reform.

Allowing 150(d) Nonprofits to Originate Alternative Loans

For many years, certain nonprofit student loan providers were allowed to utilize tax-exempt financing to originate and purchase student loans under the Federal Family Education Loan Program (FFELP). Because lending under the FFELP was eliminated in 2010, EFC supports changing section 150(d) of the tax code to allow nonprofit lenders to access tax-exempt funding to provide college students with low-interest loans to fill the gap between Direct Federal loans, Pell grants, and other financial aid and the cost of education.

EFC strongly encourages the Committee to take into consideration the impact tax reform will have on all forms of state governments, including nonprofit student loan issuers. Changes to Federal tax provisions to expand the use of tax-exempt bonds will have a meaningful effect in helping students and parents finance access to higher education.