

Higher Education Tax Credit Proposals

March 2007

Senator Kennedy Introduces College Affordability Legislation

In January, Sen. Ted Kennedy (D-MA) introduced the Student Debt Relief Act of 2007 (S. 359). The bill would: increase yearly maximum Pell Grant amounts; establish a Student Aid Rewards Program for schools participating in the Direct Loan Program; reduce the interest rate charged undergraduate student borrowers; and cap student loan repayments by students at no more than 15% of the amount a borrower's income exceed 150% of the poverty line.

The bill would also provide expanded tax breaks for student borrowers. Specifically, the proposed legislation would increase the current tuition deduction from \$4,000 to \$8,000 in tax year 2007 and then to \$12,000 in tax year 2008. Maximum eligible income limits for the deduction would be increased and indexed to inflation. Current tax deductions on student loan interest would be turned into a tax credit, but would be limited to the first five years of repayment. Like the income tax deductions, the maximum qualifying income limits would be increased and tied to the rate of inflation.

Senator Cantwell Introduces Multiple Bills Addressing Higher Education Tax Credits

In the first three months of 2007, Senator Maria Cantwell (D-WA), introduced three pieces of legislation focused on higher education tax policy:

- The Lifelong Learning Accounts Act of 2007 (S. 26), would: establish a tax-exempt lifelong learning account for the payment of certain employee higher education and training expenses; allow individuals a nonrefundable tax credit for contributions to such accounts; and allow employers a business-related tax credit for contributions to such accounts.
- The College Savings Act of 2007 (S. 141), would: increase the maximum annual contribution limit for Coverdell education savings accounts from \$2,000 to \$5,000 and make such increase permanent; and allow a tax deduction up to \$5,000 for contributions to an education savings account.
- The Education for Savings Act of 2007 (S. 157), would increase the maximum annual contribution limit to Coverdell education savings accounts from \$2,000 to \$5,000 and make such an increase permanent.



Senator Clinton Introduces Nontraditional Student Success Act

Early in 2007, Senator Hillary Clinton (D-NY) introduced the Nontraditional Student Success Act (S. 310), a bill designed to improve tuition assistance for nontraditional students. Some of the provisions in the bill include: increasing yearly maximum Pell Grant amounts; excluding the Earned Income Tax Credit (EITC) from financial aid determinations; creating a Nontraditional Student Demonstration Program; increasing minimum grant amounts for the federal TRIO program; and reauthorizing the Child Care Access Means Parents in School (CCAMPIS) program.

The bill would also: increase the percentage for the Lifetime Learning income tax credit for qualified higher education expenses, but reduce the maximum annual dollar amount; make a portion of the credit refundable; and direct the Secretary of the Treasury to establish a program for making advance payments of such credits to eligible institutions on behalf of certified individuals.

The bill was previously introduced in the 108th Congress, but not taken up for consideration.

Senator Schumer Introduces Bill Including Higher Ed Tax Credit Proposal

In February, Senator Charles Schumer (D-NY) introduced the Middle Class Opportunity Act of 2007 (S. 614). The bill would: increase the child tax credit for the first year a child is claimed as a qualifying child; expand the dependent care tax credit; and increase the Alternative Minimum Tax (AMT) exemption amount for two years.

The bill would also consolidate the existing HOPE and Lifetime Learning education tax credits into a new education tax credit. The new credit would be worth up to \$2500 per student. However, the credit would be allowed for no more than four years, and a student would only be eligible for the credit only if she or he is at least a ½ time student for at least one academic period during the tax year.

Senator Kerry Introduces Bill to Replace the Hope and Lifetime Learning Credits

The College Opportunity Tax Credit Act of 2007 (S. 97), introduced by Senator John Kerry (D-MA), would replace the Hope Scholarship and Lifetime Learning Tax Credits with an increased, partially refundable college opportunity tax credit. The new credit would cover up to four years (currently, limited to two years) of tuition and related expenses for full or part-time postsecondary and graduate students.



Baucus Savers Credit Legislation

Senator Max Baucus (D-MT) has signaled his interest in moving a package of education tax incentives through the Senate this year, including expanding the current “saver’s credit” to include individual savings put toward post-secondary education. Senator Baucus introduced legislation in the last Congress to expand the saver’s credit (although it did not include an education component); although he has not yet introduced legislation in the current Congress, it seems likely that he will.

Dr. Susan Dynarski Proposal

During a recent Senate Finance Committee hearing, Dr. Susan Dynarski outlined an idea for a “super-credit” that consolidated existing tax credits and grants into one larger refundable tax credit. The proposal would: create a single, refundable tax credit for tuition, fees, room, and board by merging the Hope and Lifetime Learning Credits into a single credit. The credit would be made refundable so families in lower tax brackets would be eligible for the maximum benefits, and tuition, fees, and room and board would be considered eligible expenses for the purposes of the credit. The credit would be delivered at the time of college enrollment rather than when taxes are filed.

Dr. Dynarski also suggested that Congress could even more radically simplify federal benefits for college by consolidating all aid for college under the auspices of the IRS.

