

# Senate Higher Education Tax Credit Proposals and Their Impact on Nontraditional Students

## A Side by Side Comparison

*Students and taxpayers often struggle to understand if they qualify for higher education tax breaks. The complexity of these provisions mean that many eligible taxpayers do not file for these benefits. According to a GAO study (GAO-07-262T), 27 percent of eligible tax filers did not claim either the tuition deduction or an education tax credit. Proposals to consolidate higher education tax credits and deductions are meant to address this lack of take up. But the proposals differ in how well they address the needs of low-income adults and other non-traditional students. According to a [2002 report by the National Center for Education Statistics](#) (NCES), 73 percent all undergraduates are in some way nontraditional. Higher Education tax credit proposals must address these students' needs.*

	Senator Schumer (D-NY): Higher Education Opportunity Act of 2007 (S. 851)	Rep. Emanuel (D-IL) and Senator Bayh (D-IN): Universal Higher Education and Lifetime Learning Act of 2007 (H.R. 2458/ S. 1501)
<b>Summary</b>	Consolidates Hope and Lifetime Learning tax credits into a "Higher Education Opportunity Credit." Would be allowed for qualified tuition and related expenses, and would include a small allowance for the cost of books. The value of the credit is limited to \$2,500 per year, under a fairly complicated calculation formula.	Consolidates three higher education tax incentives into one tax credit: Hope Credit, Lifetime Learning Credit, the tuition tax deduction. Value of the credit is limited to \$3,000 per year.
<b>Attendance Requirements</b> According to NCES, nearly half of all undergraduate students attend school part-time and almost two-thirds of non-traditional students attend part-time. Furthermore, almost 40 percent of all undergraduates work full-time and more than half of non-traditional students work full-time. It is likely that many such students would be ineligible for a credit available only to students attending school half-time or more. The Lifetime Learning Credit is currently available to students attending school less than half-time.	Individuals attending school less than half-time would be ineligible for the new, consolidated "Higher Education Opportunity Credit."	Students enrolled in one or more classes in a degree or certificate program would be eligible.



**Time-Limits**

Because non-traditional students are more likely to be enrolled in postsecondary education part-time (or less), it is often the case that it takes them longer than four years to attain their educational goals. While the current Hope Credit is limited to students in their first two years of postsecondary education, the Lifelong Learning Credit has no such limitations and can be used by students at any stage of their postsecondary education.

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**Refundability**

According to the Center on Budget and Policy Priorities (CBPP), a non-traditional age part-time student with no children would need an income of nearly \$9,000 to benefit at all from the current Lifetime Learning Credit (a non-refundable credit), and an income of nearly \$25,000 (more than twice what a full-time minimum wage worker earns) to benefit in full from the credit (see <http://www.cbpp.org/5-10-07tax.htm>)

The new credit is not refundable, so individuals with no tax liability (i.e. those with lower incomes) would see no benefit from the credit.

Provides a 50% refundable tax credit. Will allow households with no federal income tax liability, for the first time, to receive a tax benefit for education.

**Qualifying Expenses**

According to CBPP, year-round, full-time tuition and fees at community colleges – where low- and moderate-income students often attend – was \$2000 in 2003-04. However, community college students from families with incomes below \$20,000 had an average of \$4,800 in non-tuition education expenses not covered by governmental and institutional grants.

The new credit limits “qualifying expenses” to tuition and fess, with a small allowance for the cost of books (\$250). The credit does not allow for expenses such as room and board, and transportation costs.

Credit can be used to cover the cost of books, supplies, equipment, room and board, and transportation. Synchronizes the definition of eligible education expenses used in federal financial aid programs, like Pell Grants, with the new higher education tax credit.

**Conviction Restrictions**

The bill includes a drug felony ban. Students convicted of a Federal or State drug-related felony offense are ineligible for the credit.

**Number of Eligible Students Per Family**

A [recent U.K. study](#) reported that children in large families are disproportionately poor, finding that 50 percent of children in 4+ child families were poor compared with 23 percent in one-child families. Limiting the number of students eligible for the credit likely limits its ability to reach some of the students who need it the most.

The credit cannot be claimed for more than three eligible students.

