The Consortium for Higher Education Tax Reform

The Honorable Max Baucus, Chairman
Committee on Finance
U.S. Senate
Washington, D.C. 20510

The Honorable Orrin Hatch, Ranking Member
Committee on Finance
U.S. Senate
Washington, D.C. 20510

The Honorable Michael F. Bennet, Chairman
Subcommittee on Taxation and IRS Oversight
Committee on Finance
U.S. Senate
Washington, D.C. 20510

The Honorable Michael B. Enzi, Ranking Member
Subcommittee on Taxation and IRS Oversight
Committee on Finance
U.S. Senate
Washington, D.C. 20510

November 20, 2013

Dear Senators Baucus, Hatch, Bennet, and Enzi:

Thank you for your leadership on reforming the tax system. As you engage in this important task, we ask you to devote special attention to the rapidly growing, poorly targeted, duplicative, and complex array of higher education tax benefits. The Consortium for Higher Education Tax Reform is a partnership of four organizations concerned with college affordability, access, and completion for low- and modest-income individuals: the Center for Postsecondary and Economic Success at CLASP, Young Invincibles, the New America Foundation's Education Policy Program, and The Education Trust.

Most policymakers, if asked to name the largest form of federal student aid, excluding loans, would guess Pell Grants—but they would be wrong. It is student aid delivered through the tax system. Since its inception in the late nineties, tax-based student aid has more than quadrupled and now represents more than half of all non-loan federal student aid. In 2012, the federal government spent nearly $34 billion on tax-based aid—$1 billion more than the total spent on Pell Grants. This growth has occurred with little scrutiny about whether tax-based aid advances national goals.

Given rising college costs and tight federal budgets, we urge you to take action to make sure tax subsidies for higher education improve college affordability, access and completion. Our consortium has developed specific recommendations that would go a long way toward fixing current problems with tax-based aid. Our reforms would ensure that tax-based student aid goes to low- and modest-income students who struggle most with college costs, rather than to higher-income individuals who are already very likely to attend college without a tax incentive. We would eliminate overlapping tax benefits, make it easier for families to understand and claim tax-based student aid, and deliver aid when college bills are due. Further, we propose linking tax breaks for higher education institutions to their performance on college access and completion. Finally, we would reinvest any potential savings from our reforms into student aid. Every dollar should be used to improve college access, affordability, and success, including through funding for the Pell Grant program.

We propose to:

- Simplify tax-based aid by eliminating the Tuition and Fees Deduction, the Lifetime Learning Credit, and Coverdell Education Savings Accounts.

- Refocus the largest remaining higher education tax benefits on low- and modest-income students. We accomplish this by lowering and extending the income phase-out range for the AOTC, and applying this same phase-out to the Student Loan Interest Deduction and the parental Exemption for Dependent Students.
- Improve the AOTC by making it fully refundable, permanently extending the credit, and indexing it for inflation after 2018.
- Coordinate AOTC benefits with Pell Grants to address rising levels of unmet financial need among low- and modest-income students.
- Reinvest any savings from reform in students, by investing in Pell grants, or other programs that promote affordability, access, and success.
- Adopt a new institutional eligibility threshold that ends tax breaks—such as tax-exempt status, charitable deduction eligibility, or access to tax-exempt bond financing—to institutions of higher education that fail to meet either minimum college access or completion standards.
- Create a mechanism for families to receive the AOTC as an advance payment so that the credit reaches them when college bills are due, not months later.
- Expand outreach to students and parents about the availability of tax-based aid and how to claim it. (The consortium will develop the details of these last three proposals in the coming months.)

Our package of reform proposals would realign the federal investment in tax-based aid with national goals of increasing college affordability, access and success. More than 80 percent of households with college students would continue to receive higher education tax benefits under our proposals, and the aid would be much more fairly distributed among low- and modest-income households, instead of skewed toward the wealthiest fifth as it is now. In addition, our proposals are fiscally responsible. According to estimates from the Tax Policy Center, our reform package would raise $16 billion in revenue over ten years (2014-2023), funds that would further help students through reinvestment in financial aid.

We hope these ideas can aid your efforts to simplify and improve higher education tax benefits and would welcome an opportunity to discuss them with you.

Respectfully,

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CLASP
policy solutions that work for low-income people

YOUNGINVINCIBLES

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