

Issues of Importance Regarding Black-Davis Student and Family Tax Simplification Act (H.R. 3393)

Current Status:

- On June 25, 2014, the House Ways and Means Committee approved a slightly modified version of H.R. 3393 on a party line vote of 22-13. The revised bill restored the income eligibility thresholds to current levels of the American Opportunity Tax Credit (AOTC). Under current law, the maximum AOTC is \$2,500 per student. The tax credit is refundable up to 40 percent or \$1,000.

Overview:

- The higher education community strongly supports reform of the current AOTC, the Hope Scholarship Credit, the Lifetime Learning Credit and the tuition deduction, which are overly complex and difficult for students and their families to correctly use. A consolidated credit would simplify the higher education tax benefits while still retaining positive aspects of the present credits and deduction to better serve low and middle income traditional and nontraditional students now and in the future, helping them attain an associate or bachelor's degree, graduate education, or lifelong learning.
- Overall, the bill takes several important steps forward to create a simpler, single tax credit. However, some of the changes would negatively impact many low and middle-income students and families who benefit under current law. Unfortunately, we cannot support the bill in its present form.

Positive Changes:

- **Permanent Extension and Increased Refundability** – The bill permanently extends and indexes the AOTC, maintains the credit's expanded eligible expenses, increases refundability to \$1,500 or 60 percent of the credit from the current \$1,000 or 40 percent, and makes it easier to reach the maximum refundable credit of \$1,500. This increased emphasis on the neediest students is long overdue.
- **Pell Grant Interaction Fix** – The bill also better coordinates the interaction of the AOTC with the Pell grant. Currently, the AOTC eligibility formula sharply limits the size of the tax credit received by needy students at the lowest cost schools. As a result, many of the lowest-income students do not receive any benefit from the current AOTC.
- **Income Eligibility Limits Restored** – The *modified* bill restores the AOTC's income phase-outs to those provided by the Hope Scholarship Credit. Currently, the AOTC phases out for individuals between \$80,000 to \$90,000 (\$160,000 to \$180,000 for joint filers). The original bill would have phased-out the reconfigured credit for individuals between \$43,000 to \$63,000 (\$86,000 to \$126,000 for joint filers).

Changes of Concern:

- **Nontraditional Students** – The bill will reduce support for many undergraduates, particularly low and middle income nontraditional students, by limiting benefits to four years. In addition, many less than half time students who are now eligible for the Lifetime Learning Credit and the tuition deduction would no longer receive benefits.

The bill appears to rely on outdated assumptions about the typical student in higher education. Today, nearly 50 percent of undergraduates and three-quarters of all students are adult learners, age 23 or older, with a quarter over age 30, a proportion that will likely continue to grow. These students are not just older than their traditional classmates. They tend to work full-time, or have dependents—including multiple roles as parents and caregivers—serve in the military, or some combination of these, with a longer time to degree.

- **Graduate Students** –The bill’s reconfigured AOTC would provide no benefit to graduate students and to many fewer lifelong learners, many of whom are low-income and need assistance in pursuing additional skill development or the advanced degrees that employers and our economy need. The loss of benefits for graduate students comes on top of recent decisions by policy makers to end graduate-student eligibility for federal subsidized loans and forcing them to pay higher interest rates on student loans than undergraduates, a troubling pattern of increasing the cost of education for students pursuing advanced degrees.

Potential Modifications:

- The higher education community seeks modifications to the Committee-approved bill that maintains the bill’s emphasis on reform and simplification while also continuing to provide tax benefits to nontraditional and graduate students. These potential modifications could include:
 - Substitute the bill’s proposed four-year limit for the AOTC with *a lifetime dollar cap* that would allow part-time, full-time, and graduate students to take advantage of the credit over many years. This would permit nontraditional and other lifetime learners to receive the benefit. Other legislative proposals would set the lifetime dollar limit at \$15,000.
 - Create a second tier AOTC for students enrolled beyond the bill’s four-year limit. This second tier credit could be set a lower annual amount and limited to a specified number of years. S. 835, the American Opportunity Tax Credit Permanence and Consolidation Act, uses this approach.
 - Preserve the qualified tuition deduction for **graduate students only**.