THE WHITE HOUSE

WASHINGTON

June 10, 1997

MEMORANDUM FOR GENE SPERLING

FROM: **Jonathan Kaplan**
Charles Marr
Bob Shireman

SUBJECT: **Potential Rollout Ideas for the Archer Tax Plan**

As we try to find ways to continue to hit the Archer tax plan this week for its numerous shortcomings, you might want to consider some of the ideas outlined below. Obviously, not all of these event ideas warrant the President's or Vice President's involvement; members of the Cabinet could quite easily take the lead.

In addition, the Vice President may give an economic speech next Monday, June 16 -- a down day for the President -- and his staff is looking for a specific announcement.

Education

The President's HOPE scholarship proposal is severely scaled back under Archer's plan and, as a result, organizations such as the American Association of State Colleges and Universities have spoken out against it. The President, Vice President, or First Lady -- along with Secretaries Rubin and Riley -- could conduct an event with community college Presidents as well as college students and their families. We suggest that you consider proposing that the President participate in a short event this weekend in California, a state with a huge community college network (caveat: we step on race speech). Another thought would be to invite Georgia Gov. Miller to Washington for a similar event.

Treasury and Education are still considering a Riley/Rubin event tomorrow -- perhaps with the Vice President as well -- highlighting the education groups' support for our plan and some of their criticisms of the Archer plan. By the end of today, we expect to have statements critical of the Archer plan from the **College Board**, the American Association of Community Colleges, the United States Student Association, and USPIRG. (ACE and the other Dupont Circle associations issued a very mild statement that we may be able to use; they don't want to attack Archer too sharply.)

Environment/Urban Issues

The Brownfields tax initiative was obviously left out of the Archer plan. As a result, according to the DPC, the Conference of Mayors is circulating a letter quite critical of the plan. In addition, EPA is currently checking with the environmental groups to determine their sense of the Archer plan. Working with CEQ, EPA, and Intergovernmental, we could potentially organize an event with the Green Group and several key mayors to highlight the absence of urban and environmental provisions in the Archer plan -- and contrast it with the President's tax initiatives.

In addition to the Brownfields tax initiave, the EZ/EC expansion was also left out of the Archer plan. This could also be wrapped into an event focused on the environmental strengths of the President's plan and failings of the Archer plan.

Child Care Credit

Based on Archer's penalty for working women through the child care tax credit's effect on the child tax credit, we might consider an event targeted to specialty media, such as *Working Women* magazine.

Welfare-to-Work

Archer's welfare-to-work tax credit is smaller than the Administration's proposal. We could try to determine if any of the welfare organizations are criticizing the Archer plan on those grounds. In the event that they are, Secretaries Rubin and Shalala could highlight our proposal with some of the groups that support our welfare-to-work tax credit.

Workplace Benefits Issues

At a time when the Administration is trying to expand health care and pension coverage to American workers, the Archer plan -- through its independent contractor provision -- would move us in the opposite direction. Apparently, the AFL-CIO and several women's groups are writing letters opposing this provision. The Department of Labor, in conjunction with the AFL-CIO and other key unions, could coordinate an event focusing on how workers stand to lose under this proposed provision. However, this is a hugely popular issue in the small business community, and it may not be worth getting actively involved in this specific debate, particularly if the unions and other groups plan to contest this strongly.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

June 26, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: Robert Rubin RER
Gene Sperling

SUBJECT: An Offer on Your Tax Package

Your budget team met in Erskine's office today to finalize our recommendations for our tax package to be offered on Monday. The following memo summarizes issues and highlights choices that need to be made concerning the package. The side-by-side following the options memo compares the features and five-year costs of the competing Administration, House and Senate choices.

Post-Secondary Education

- o **Option 1** provides a two-year HOPE scholarship of $1,000 and 50 percent of additional expenses up to $1000 starting in 1998. It provides a 20 percent credit on allowable out-of-pocket education expenses of $5,000 through 2000 and $10,000 thereafter. The package is more generous than the House and Senate packages.
  - This costs roughly $34.5 billion through 2002 and $90.6 through 2007 under Treasury's scoring. We expect JCT scoring to be at least $5 billion higher in the first five years.
- o **Option 2** would give a four year HOPE scholarship of $1,000 for students attending at least half time in a degree or certificate program, and 20 percent of additional expenses up to $1000 starting in 1998. Students not eligible for the HOPE scholarship could get a credit for 20 percent of additional expenses up to $1000 starting in 1998. This package will cost in the neighborhood of $35 billion under Treasury's scoring.
- o **Option 3** mirrors the proposals offered by the House and Senate Democrats. It gives a HOPE Scholarship of $1000 and 50 percent of additional expenses up to $200 through 1999, $400 in 2000 and $1,000 thereafter. Students must be attending at least half time in the first two years of a degree or certificate program. If a student is not eligible for the HOPE scholarship, we would give a 20 percent tuition credit on expenses up to $4,000 through 1999, $7,500 in 2000 and $10,000 thereafter.
  - This option costs $32.3 ($37.4) billion through 2002 and $88.6 ($87.3) through

2007 under Treasury (JCT) scoring.

Your advisers are in general agreement that Option 1 makes the most sense at this time. It stays close to the original proposal in your Budget and allows you to stress how the proposal best advances your goal of making the 13th and 14th grades universal, plus it has a strong lifelong learning component. Furthermore, by including the notion of 50 percent of the second $1,000, it addresses the tuition inflation argument and shows us being responsive to suggestions by Daschle and Senate Democrats.

Many of your advisers believe that in the end, we may wish to fall back to a single, simpler four-year option -- such as Option 2. Most of your advisers would rather lead with Option 1 and use a version of Option 2 (perhaps with a more generous lifelong learning provision) as a fall-back. Frank Raines, however, would favor moving to this option sooner rather than later as a means of showing our immediate willingness to offer a compromise suggestion on our tax priority.

___ prefer Option 1 ___ prefer Option 2 ___ prefer Option 3

General Capital Gains Relief

- **Option 1** would provide a 30 percent exclusion. This holds the top rate at 28 percent, but gives a rate cut to all taxpayers in the 36 percent bracket and lower. Taxpayers in the 28 percent and 15 percent brackets get as much relief as they do under the 20/10 separate rate schedule. The proposal would include the President's home sale provision.
    - Costs $8.2 billion through 2002 and $17.5 billion through 2007 (Treasury scoring). We expect the JCT to score this as costing several billion less through 2002.
- **Option 2** would provide a separate rate schedule approach (using rates of 24/12), retain 28 percent rate for collectibles, depreciation recapture at 26 percent, AMT adjustment to tax gains at 24 percent, President's home sale provision.
    - Treasury estimates that this proposal would raise $3.6 billion through 2002 and $4.6 billion through 2007. We expect the JCT to score this as losing roughly $2 billion through 2002 and roughly $20 billion through 2007.
- **Option 3** is the proposal that came out of the Finance Committee, which had a separate rate schedule of 20/10, depreciation recapture at 24 percent and the President's home sales provision. An AMT feature will need to be addressed.
    - JCT estimates that the Senate Finance proposal would lose $3.3 billion through 2002 and $23.9 through 2007.

Your advisers recommend Option 1. This proposal provides a broad based capital gains tax cut to all but the people at the very top of the income scale. The Republicans will not like it because it does not provide relief to the roughly half percent of taxpayers who are in the 39.6 percent bracket, but it will put them in an awkward message situation, help with our distribution, and most importantly, give us room to move in exchange for coming our way on the higher education tax cut and the "stacking" on EITC.

___ prefer Option 1 ___ prefer Option 2 ___ prefer Option 3

Child Credit

The child credit is the piece that moves to fit the rest of the package.

- **Option 1** would do the following. First, the child credit would be stacked before the EITC, ensuring that working families who pay income taxes receive the benefit of the child credit. Moreover, the child credit would be partially refundable to the extent the employee share of payroll taxes exceeds their EITC. Thus, the child credit will offset income taxes and payroll taxes, to the extent the latter exceeds the EITC. Second, we will cover children under 17, as is the case in the Congressional packages. Third, we would keep the optional Kidsave feature that allows parents to contribute up to the amount of the credit plus $500 to a nondeductible, backloaded IRA-type savings vehicle. Earnings would be distributed tax free for the child's education and possibly child related events, or for the parent's retirement. Fourth, the income phaseouts will be as in the FY98 budget ($60,000 to $75,000) through 2002 and higher thereafter. Fifth, the credit will be phased in (starting at $300 in 1998 and phasing up to $500) to fit the $85 billion budget agreement.

- **Option 2** would drop refundability, stack the child credit before the EITC and include the optional Kidsave feature. The proposal should first phase-in at a level comparable to the Republican proposal (no credit in 1997, $400 in 1998 and $500 thereafter). It should then cover children under 17 (though we could cover 17 year olds) and then use whatever money is remaining to increase the income limits beyond the $60,000-$75,000 range in the FY98 Budget (we will increase the income limits after 2002).

- **Option 3** incorporates a more generous Kidsave feature. It would give a child credit of $500 for families that do not contribute to a Kidsave account, and a $600 child credit to families that contribute at least $600 to the Kidsave account. This proposal would need to be somewhat less generous in some dimension than Option 2 in order to finance the saving subsidy.

Your advisers recommend Option 1. The major issue of the discussion was to what extent out proposal should be refundable. Focusing strictly on stacking would allow us a cleaner message because it would keep the debate on the young police officer you discussed at the press conference. On the other hand, going with refundability would allow us to stay close to our Democrats, plus leave room to move later.

All of us agree that we did not want to allow the Republicans to be able to frame the message as Democrats for welfare payments at the expense of Republicans for tax credits for teens in middle class families. We reached consensus around a proposal that would give the tax credit to teenagers, and have partial refundability -- but only to the degree that people paid payroll and income taxes beyond what they get in their EITC. In this way, we take away the Republican message on teenagers, keep some element of refundability, but keep our message that this is a tax cut only for people who owe federal payroll and income taxes. While this may not be as strong on refundability as some Democrats will like, it has partial refundability, keeps our message advantage, and can be described as taking characteristics from both the Rangel and Daschle packages. In order to afford all this, however, we have to phase in the $500 credit -- but that is consistent with your original child credit proposal.

___ prefer Option 1 ___ prefer Option 2 ___ prefer Option 3

Airport and Airways Trust Fund

- o **Option 1** would follow the President's FY 1998 budget by extending the airline ticket tax through 2007 and wait for the National Civil Aviation Review Commission to propose a more long-term solution to meet the FAA's long-term needs with user fees.

- o **Option 2** would adopt changes from the Finance Committee mark, which raise an additional $2.9 billion through 2002 and $8 billion through 2007. While no airline supports increased fees, low-cost carriers prefer the Senate approach versus the "head tax" provisions proposed in the House.

Your advisers recommend that you choose Option 1, which sticks with what was in your budget and keeps you out of this fight.

___ prefer Option 1 ___ prefer Option 2

Tobacco Taxes

- o **Option 1** would impose a 20 cents/pack increase in the tobacco excise tax as included in the Finance Committee package, but dedicate the revenue to a trust fund for children's and health expenditures. Under this option tobacco taxes would not displace other raisers needed to finance the tax cuts that are sought.

- o **Option 2** would impose a 20 cent/pack increase in the tobacco tax and use it to fund other measures.

o **Option 3** would not include a tobacco tax increase.

Your advisers recommend Option 1. We believe we should include a tobacco tax increase but insist that it go to help advance your goals for children. We will discuss with Bruce Reed and others the best tactical strategy for deciding how we should describe what such children's concerns these funds should go to.

___ prefer Option 1 ___ prefer Option 2 ___ prefer Option 3

Comparison of Major Provisions of Competing Tax Packages, June 24, 1997 (Scoring through 2002)			
Item	Suggested Administration Package	Ways and Means Package	Senate Finance Committee Package
Education	HOPE Scholarship: 100 percent of the first $1,000 and 50 percent of additional expenses up to $1000 starting in 1998. Tuition credit: 20 percent credit on allowable out-of-pocket education expenses of $5,000 through 2000 and $10,000 thereafter. ($34.5)	Modified HOPE scholarship --50% of expenses up to $3,000 (phaseout $40,000-50,000 singles/$80,000-100,000 joint). ($22.3) Deduction for undergraduate expenses paid through state-sponsored prepaid tuition program of up to $10,000/yr., $40,000 max. per student. ($0.9)	Modified HOPE scholarship --50% of expenses up to $3,000; 75% of up to $2000 for community colleges and technical school students (phaseout $40,000-50,000 singles/$80,000-100,000 joint). ($20.4) No deduction or credit, other than Modified Hope Scholarship.
School construction	Allocable tax credits for K-12 construction. ($2.5; Rangel spent $1.7)	None	Raise small issuer arbitrage exemption for education facilities. ($.03)
Section 127	Permanent extension of Section 127, for both graduates and undergraduates. ($3.6)	Six month extension of Section 127 for undergraduates. ($0.2)	Permanent extension of Section 127, for both graduates and undergraduates. ($3.5)
Computer technology K-12	Subsidy for Internet access for K-12 schools. ($0.3)	Enhanced deduction for corporate contributions to schools. ($0.2)	Exclude certain teacher training (including technology training) expenses from application of 2% floor on miscellaneous itemized deductions. ($0.1)
Student loans	$2500 above-the-line student loan interest deduction. ($1.1)	None	$2500 above-the-line student loan interest deduction. ($1.1)

$150 million bond cap for private colleges and universities	Repeal bond cap. ($0.3)	Raise by $10 million per year until it reaches $200 million. ($0.13)	Repeal bond cap. ($0.3)
IRA withdrawals	Penalty-free IRA withdrawals for undergraduate, post-secondary vocational, and graduate education expenses. ($0.8)	Penalty-free IRA withdrawals for undergraduate, post-secondary vocational, and graduate education expenses. ($0.8)	Penalty-free IRA withdrawals for undergraduate, post-secondary vocational, and graduate education expenses. ($0.8)
Education saving incentives	Kidsave accounts (i.e. backloaded IRA for educational saving), with $1,000 contribution limit. As in the Senate, education expenses financed by Kidsave withdrawals would reduce allowable expenses for the Hope Scholarship.	Education investment accounts for children under 18 (maximum $5,000 annual contribution, $50,000 aggregate contributions), private prepaid tuition plans; deduction for undergraduate and post-secondary vocational expenses of up to $10,000/yr., $40,000 max. per student. ($7.0)	Contributions of up to $2000 (plus $500 child credit) per year to Education IRA-- tax-free inside buildup and tax-free withdrawals if used for higher education; allow private prepaid tuition plans $2000 (plus $500 child credit) per year; tax-free withdrawals for prepaid State-sponsored programs. ($ 6.2)
Middle-Class Tax Relief	This provision will be adapted to fit the $85 billion net tax cut target. The credit will be stacked before the EITC and partially refundable. It will cover kids under 17, incorporate an optional Kidsave feature, phases out between $60,000 and $75,000 (prior to 2002) and phases in to a $500 credit, starting at $300 in 1998.	$500 ($400 in 1998) child credit, non-refundable, under 17, stacked <u>after</u> the EITC; 50% offset with dependent care credit for married couple making $60,000 or more ($33,000 for other taxpayers), beginning after 2000. ($71.3) Phased out starting at $75,000 for singles and $110,000 for joint	$500 ($250 in 1997 only for children under 13) child credit, for children under 17 (18 after 2002); mandatory Kidsave for children age 13 and above; stacked <u>after</u> half of the EITC. ($83.5) Phased out starting at $75,000 for singles and $110,000 for joint

		Index dependent care tax credit expense limit, $75,000-$100,000 AGI phaseout. ($0.1)	
Alternative Minimum Tax	None	Increase individual AMT exemption amount by $1,000 every other year from 1999 through 2007, index thereafter. ($1.2)	Increase individual AMT exemption amount by $600 (joint) for 2001-2002; $950 (joint) every year thereafter. ($0.35)
Corporate AMT	None. (Exemption from AMT for small corporations -- included as part of Administration Simplification Proposal)	Exemption from AMT for small corporations. ($0.6)	None
	None	Prospective repeal of AMT depreciation. ($11.8)	None
Capital Gains Provisions	30% exclusion; retain 28% for collectibles. $500,000 exclusion for home sales. Includes the President's home sales provisions. ($8.4, Treasury estimate).	Separate 20/10 rate schedule, 26% maximum rate on depreciation recapture, <u>indexing starting in 2001</u>; phase down of top corporate capital gains rate to 30% for assets held at least 8 years. $500,000 exclusion for home sales. (raises $2.7)	Separate 20/10 rate schedule, 24% maximum rate on depreciation recapture, <u>no indexing or corporate capital gains</u>. $500,000 exclusion for home sales. ($3.3)
Small Business Provisions	Variant of Bumpers-Matsui targeted small business relief. ($0.4, Treasury)	None	Slightly expanded version of Administration's proposal. ($0.7)

IRAs	None, but allow penalty-free IRA withdrawals for education and establish new Kidsave accounts	Create backloaded American Dream IRA's, penalty free rollovers from IRA (which raises money), special purpose withdrawals for first time home purchase. ($.03)	Expand income phaseouts for deductible IRAs; expand availability of spousal IRAs; create backloaded IRA Plus accounts; special purpose withdrawals for first time home purchases. ($3.3)
Home Office	Increase availability of home office deduction. ($0.6, Treasury)	Slightly modified version of home office provision ($1.1)	None
Estate Tax	Daschle qualified family owned business estate tax relief. ($2.3, Treasury)	Increase unified credit to $1.0 million by 2007. ($7.5)	Increase unified credit to $1m by 2006 ($3.1). Modified Daschle proposal with $1m exemption for qualified businesses ($3.1). Up to $1m exclusion for conservation easements and other changes ($0.4)
Urban Initiatives	Expansion of EZs and ECs, Brownfields, CDFI and the welfare-to-work tax credit. ($2.3)	Modified welfare-to-work provision ($0.1); no brownfields or EZ/ECs.	Restricted brownfields ($0.25); no welfare-to-work or EZ/ECs.
Other Presidential Initiatives	Equitable tolling, Puerto Rico, FSC software, and DC. ($1.3)	Modified D.C. package ($0.3); no equitable tolling, FSC software, or Puerto Rico	Modified D.C. package ($0.3); FSC software ($0.6); no equitable tolling or Puerto Rico.
Extenders	R&E, contributions of appreciated stock to private foundations, WOTC and orphan drug credit. ($2.8)	1-1/2 year extension of R&E, and contributions of appreciated stock to private foundations; one year extension of modified, two-tier WOTC; and permanent extension of orphan drug credit. ($4.1).	Two-and-a-half year extension of R&E and contributions of appreciated stock to private foundations; modified two-tier WOTC and permanent extension of orphan drug credit. ($6.6)
Independent contractors	None	Liberalized independent contractor rules. ($1.0).	Provision re: classification of securities brokers. (negligible).

UNITED STATES DEPARTMENT OF EDUCATION

THE SECRETARY

July 18, 1997

TO: Bob Shireman

MEMORANDUM FOR THE PRESIDENT

FROM: SECRETARY RICHARD W. RILEY

SUBJECT: HOPE AND "LIFELONG LEARNING" TAX CREDITS

I. SUMMARY

As I briefly mentioned to you yesterday, I think the "real hole" in the House and Senate tax cut plans is the omission of your 20% tax credit for lifelong learning. It is clear that the 20% tuition tax credit to serve juniors, seniors, graduate students and lifelong learning was part of the agreement signed off on by Speaker Gingrich and Majority Leader Lott (see attached letter). Given the urgency of the situation, your direct involvement to raise national visibility and attention on this issue -- in my estimation -- is paramount.

I lay out below why this lifelong learning tax credit is so important to the country's future and why the time is right for you to engage.

II. DISCUSSION

For years, experts in education, business, and the economy have talked about two impending "sea changes" in America life: (1) the necessity to change jobs perhaps as many as seven times in a lifetime to stay employed and support a family; and (2) the critical importance of learning for a lifetime in order to navigate these changing times and changing skill demands.

The early negative impact of this "sea change" on American families was seen in the "anxiety" shown in the late 1980s and early 1990s before the strong economic recovery began. Many working and middle-income families had their confidence eroded in their ability to support themselves and their families and handle these changes. This fundamental concern is still just below the surface. That is why a tax credit to help Americans afford access to lifelong learning is absolutely vital as a way to deal positively with this "sea change."

IMPORTANCE

The HOPE scholarship is one very important big idea because it will help provide an incentive for many working and lower middle-income families to send their children to college in the first place. However, the second "big idea" is the 20% lifelong learning tax credit to affect positively, over the long term, tens of millions of Americans at critical transitions in their adult lives: (1) help adults go to college to get additional education and training in order to get ahead or prepare for a change in jobs and skill requirements; (2) assistance to finish a 4-year degree; and (3) provide an incentive for graduate school in this education era. In the first year alone, 7,000,000 additional Americans will be helped by the lifelong learning tax credit -- and in the future, all Americans who return to college would benefit.

The 20% lifelong learning tax credit will result in important advances educationally, economically, and politically. Each year when taxpayers see their ability to write off 20% of the cost for tuition to upgrade their education at a college, whether they use it or not, they will feel like someone is on their side to navigate this changing economy. The American people clearly know that getting more education and skills at a college or post-secondary institution is the way to get ahead -- that is why recent surveys show that almost 95% of parents want their kids to go to college. Yet, 75% of Americans do not have school-age children. So without the 20% tax credit, this group of adults without school-age children will not realize an important benefit.

The 20% lifelong learning tax credit addresses a huge group of taxpayers, voters and employees who often may not have an incentive or cannot quite afford to upgrade their education. It could be one of the major defining issues for you and and your Administration.

TIMING

Because all of the early attention was given to the HOPE tax credit, and now that it is included in the House and Senate versions, it is only natural that the American public and higher education community are now just in the very early stages of tuning in to the 20% lifelong learning tax credit. However, the head of the community colleges, David Pierce, rightfully observed recently that the 20% tax credit is the "powerful sleeper" in the President's package.

While HOPE is grand for half-time and full-time students in the first two years of college, it doesn't help those millions of adults who need and want to go back periodically to take an important course or two at a community or technical college. The lifelong learning tax credit is the "backbone" for access to "higher education for all Americans."

To lay the groundwork for heightening awareness on this issue, last Friday the U.S. Department of Education mailed a letter (copy enclosed) to 10,000 leaders of post-secondary institutions, colleges and universities explaining the importance of the lifelong learning tax credit and sent out to media outlets a breakout showing how many more persons in their state would benefit from the lifelong learning tax credit. This week the key leaders in higher education came together and agreed to make a concerted effort to promote the Clinton lifelong learning credit.

Because of the urgency of raising visibility on the lifelong learning tax credit, we need our President to get fully and openly involved in engaging the American public and informing them of the positive effect of the 20% lifelong learning tax credit on the vast majority of adults in America. The groundwork has been laid for you to mobilize action.

Congress of the United States
Washington, DC 20515

May 15, 1997

The Honorable William J. Clinton
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20515

Dear Mr. President:

We would like to take this opportunity to confirm important aspects of the Balanced Budget Agreement. It was agreed that the net tax cut shall be $85 billion through 2002 and not more than $250 billion through 2007. We believe these levels provide enough room for important reforms, including broad-based permanent capital gains tax reductions, significant death tax relief, $500 per child tax credit, and expansion of IRAs.

In the course of drafting the legislation to implement the balanced budget plan, there are some additional areas that we want to be sure the committees of jurisdiction consider. Specifically, it was agreed that the package must include tax relief of roughly $35 billion over five years for post-secondary education, including a deduction and a tax credit. We believe this package should be consistent with the objectives put forward in the HOPE scholarship and tuition tax proposals contained in the Administration's FY 1998 budget to assist middle-class parents.

Additionally, the House and Senate Leadership will seek to include various proposals in the Administration's FY 1998 budget (e.g., the welfare-to-work tax credit, capital gains tax relief for home sales, the Administration's EZ/EC proposals, brownfields legislation, FSC software, and tax incentives designed to spur economic growth in the District of Columbia), as well as various pending congressional tax proposals.

In this context, it should be noted that the tax-writing committees will be required to balance the interests and desires of many parties in crafting tax legislation within the context of the net tax reduction goals which have been adopted, while at the same time protecting the interests of taxpayers generally.

We stand to work with you toward these ends. Thank you very much for your cooperation.

Sincerely,

Newt Gingrich
Speaker

Trent Lott
Senate Majority Leader

PRINTED ON RECYCLED PAPER

UNITED STATES DEPARTMENT OF EDUCATION

THE SECRETARY

July 1997

Dear College President:

I am writing to inform you of President Clinton's tax cut proposal which he unveiled on Monday, June 30. As the President's proposals were being considered over the past six months, you and your colleagues made suggestions for improvement, and the President responded with changes that have made his plan stronger and more progressive: the tax credit is no longer offset by Pell Grants; the grade requirement was replaced with "satisfactory academic progress," making it consistent with the Federal student aid programs; and now the deduction has been shifted to a more progressive 20 percent tax credit. With your help, we have a solid plan that offers opportunity in the rapidly changing economy by helping people improve their education and upgrade their skills throughout their lives.

In the next few weeks, Congress will consider three versions of tax cuts. The President's proposal provides two-thirds of the tax cuts to the middle sixty percent of families -- more than twice the share that the House and Senate plans provide for these families. If we act now, we can secure these important tax cuts for working families.

For higher education, the difference is clear. The President's plan will provide help to <u>seven million more</u> students in 1998 than the House and Senate passed plans, because the President's plan is the <u>only</u> one on the table that offers tax relief for families paying tuition out-of-pocket for:

* Juniors and seniors
* Part-time students seeking to improve or acquire job skills
* Graduate students

The President's proposal helps these students by providing a 20 percent tuition credit on expenses up to $5,000 initially and $10,000 beginning in 2001. At a time when older workers need to improve their education and upgrade their skills, it is critical that the education tax cuts promote lifelong learning.

The President's proposal makes the 13th and 14th years of education -- the first two years of college -- universally available by providing a modified two-year $1,500 HOPE Scholarship. First and second-year students would receive a 100% credit for the first $1,000 of tuition and fees plus 50% of the next $1,000. A student going to a typical community college with tuition of $1,200 would receive a $1,100 credit under the President's proposal. After 2002, the tax credit would increase to $2,000: 100% of the first $1,500 and 50% of the next $1,000.

President Clinton's tax plan incorporates other higher education provisions that have broad-based bipartisan support, including: a permanent extension of the tax preference for employer-provided

President Clinton's Higher Education Tax Cuts: Greater Benefits for More Families

While providing the greatest help in the first two years, the Administration's plan has always gone *much* farther, granting a substantial tax cut for virtually *any* investment in postsecondary education or training. Unlike the Congressional plans, the President's tax credits cover *more types and ages of postsecondary students*, including:

- part-time students (less than half-time) seeking to improve or acquire job skills;
- students beyond their first two years of undergraduate study;
- graduate students.

Although the Administration, House and Senate plans all provide modest assistance for students who borrow or families who have special education savings accounts, for many situations that families find themselves in, the House and Senate plans provide little or no help. Consider the following:

Tuition Tax Credits Under Various Situations	*President*	House Plan	Senate Plan
Two kids in college: Married couple, $60,000 income, with two kids in college: one at a community college with $2,000 tuition and $200 books, the other a junior at a private college with $10,000 tuition.	$2,500 ($3,500 after year 2000)	$1,100	$1,500
Divorced parent, same income: Single parent with $50,000 income, one child going to an average community college full-time ($1,200 tuition and fees)	$1,100	$0	$0
Returning to school less than half-time: Family with $30,000 income, one parent going to a public four-year college part-time to change careers ($2,000 tuition and fees)	$400	$0	$0
Child is beyond first two years: Family with $40,000 income, one child is junior at average private college ($12,000 tuition and fees)	$1,000 ($2,000 after year 2000)	$0	$0
Returning to school full-time to become a teacher: Homemaker, family income of $70,000, attending graduate teacher training program at public university after being out of college for 20 years ($3,500 tuition).	$700	$0	$0
Graduate student: Single graduate student with $15,000 income and tuition of $15,000.	$1,000	$0	$0

Methodology of State-by-State Analysis

Using a nationally-representative sample of postsecondary students and data on Pell Grant recipients, an estimate was derived for the proportion of the total national number of recipients of the tax benefit in 1998. Using that ratio, the number of recipients for each State was determined. Based on the Joint Tax Committee and Treasury revenue estimates of the three plans for 1999, a dollar amount for each State was derived using the same ratio as the State/national number of beneficiaries.

Distribution of Higher Education Tuition Tax Credits by Student's State of Legal Residence 1/
(Beneficiary Calculations FY 1998/Dollar Amounts FY 1999)

	Number of Beneficiaries 2/ (in thousands)			Dollar Amounts of Benefits (in millions)			Dollar Difference: (in millions) President Compared to	
	President	House/Senate	Difference	President	House	Senate	House	Senate
Alabama	195	87	108	$111.6	$76.2	$72.3	$35.4	$39.3
Alaska	27	13	16	15.4	10.6	9.6	4.8	5.8
Arizona	244	100	136	139.4	97.0	89.6	42.4	49.8
Arkansas	79	36	43	45.3	32.0	29.6	13.4	15.6
California	1,654	733	922	944.0	655.9	605.8	259.0	339.1
Colorado	219	97	122	125.6	86.7	80.9	38.8	44.8
Connecticut	149	66	83	85.1	56.4	54.2	28.3	30.9
Delaware	42	19	23	23.8	16.4	15.2	7.4	8.7
District of Columbia	74	32	41	42.0	28.9	26.7	13.1	15.3
Florida	553	248	306	318.1	220.6	205.8	95.5	112.3
Georgia	266	119	147	152.0	106.5	99.2	45.7	53.8
Hawaii	61	27	34	35.0	24.1	22.2	10.9	12.8
Idaho	51	25	26	29.5	20.8	19.0	8.6	10.5
Illinois	665	290	374	382.2	264.6	244.4	117.6	137.8
Indiana	259	115	144	148.2	103.1	96.3	45.1	52.9
Iowa	150	67	83	88.9	59.9	55.4	28.9	30.5
Kansas	151	47	54	86.8	60.2	55.6	26.3	30.9
Kentucky	154	69	85	88.3	61.9	57.2	26.3	31.0
Louisiana	166	75	91	94.9	67.6	62.0	27.3	33.0
Maine	50	22	28	28.7	20.0	18.5	8.7	10.3
Maryland	243	108	136	138.9	96.2	88.9	42.7	50.1
Massachusetts	383	169	214	218.4	151.2	138.9	67.2	79.8
Michigan	495	219	274	281.4	195.8	180.7	85.6	100.7
Minnesota	258	115	143	147.4	102.6	94.7	44.9	52.7
Mississippi	97	44	53	55.4	39.5	36.3	16.2	19.1
Missouri	259	115	144	148.3	103.3	95.4	45.0	52.9
Montana	32	16	16	18.6	13.1	12.3	5.4	6.4
Nebraska	104	45	58	59.2	41.1	38.0	18.0	21.2
Nevada	61	27	34	34.9	23.9	22.0	10.7	12.8
New Hampshire	57	25	32	32.8	22.7	21.0	10.1	11.8
New Jersey	304	134	169	173.5	120.3	111.1	53.2	62.4
New Mexico	87	39	48	49.9	35.0	32.3	14.0	17.6
New York	897	402	495	513.5	360.0	332.7	153.5	180.7
North Carolina	333	148	185	190.4	132.1	122.0	58.3	68.3
North Dakota	34	15	19	18.3	13.5	12.6	5.7	6.7
Ohio	482	214	267	275.2	191.9	177.3	83.3	97.9
Oklahoma	156	70	86	89.1	62.6	57.6	26.5	31.3
Oregon	147	65	82	84.2	60.5	54.0	23.7	30.2
Pennsylvania	545	242	303	311.3	216.5	200.0	94.8	111.4
Rhode Island	67	30	37	38.4	26.6	24.6	11.7	13.8
South Carolina	150	67	83	85.9	60.0	55.4	25.9	30.5
South Dakota	31	14	17	17.6	12.4	11.5	5.2	6.1
Tennessee	212	94	117	121.1	84.6	78.1	36.5	43.0
Texas	841	374	467	480.6	334.9	309.3	145.7	171.2
Utah	128	58	70	72.3	50.5	46.7	21.8	25.6
Vermont	31	14	17	18.0	12.5	11.6	5.5	6.4
Virginia	321	142	179	183.3	127.1	117.4	56.2	65.9
Washington	255	113	142	146.8	101.3	93.6	44.5	52.3
West Virginia	75	34	41	42.8	30.0	27.7	12.8	15.1
Wisconsin	277	122	155	158.2	109.6	101.2	48.6	57.0
Wyoming	27	12	15	15.4	10.7	9.9	4.7	5.5
US Totals	12,900	5,600	7,000	$7,200.0	$5,012.0	$4,630.0	$2,188.0	$2,570.0

1/ Includes HOPE Scholarship plans and the President's 20% tax credit for lifelong learning.
Calculations do not include interest deductions and tax benefits that could be received
in outyears from savings incentives in all three plans.
2/ The number of beneficiaries is the same under the House and Senate plans, though the amounts of benefits differ.

Source: Education Department estimates based on State-level enrollment and Pell Grant recipient data.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release August 5, 1997

STATEMENT BY THE PRESIDENT

I have today approved H.R. 2014, the "Taxpayer Relief Act of 1997." Together with the Balanced Budget Act of 1997, this legislation implements the bipartisan budget agreement.

I have long considered tax cuts for middle-income Americans and small businesses a top priority. In 1993, I worked with the Congress to cut taxes for 15 million working families by expanding the Earned Income Tax Credit, and by providing investment incentives for small businesses. A year later, I proposed my Middle Class Bill of Rights, including child tax credits, deductions for higher education, and expanded Individual Retirement Accounts. Then, in 1996, I signed into law a number of other tax benefits for small businesses and their employees -- including greater expensing for small-business investments, greater deductibility of health insurance premiums for small businesses and their employees, and expanded and simplified opportunities for retirement savings. Also in 1996, I signed into law a $5,000 tax credit for adoption expenses ($6,000 for adopting children with special needs) and higher limits for tax-deductible contributions by spouses to Individual Retirement Accounts.

This year, I once again proposed my Middle Class Bill of Rights. On May 2, 1997, the congressional leadership and I reached a historic bipartisan budget agreement that included the broad outlines of key elements of my tax-cut plan.

As my Administration has worked with the Congress over the last few months to develop the details of the balanced budget agreement, I have insisted that the tax-cut package meet four basic tests. First, the tax cuts must be fiscally responsible by avoiding an explosion in revenue costs in years outside the budget windows. Second, the tax cuts must provide a fair balance of benefits for working Americans. Third, the tax cuts must encourage economic growth. Fourth, the tax package must reflect the terms of the bipartisan budget agreement, including a significant expansion of opportunities for higher education for Americans of all ages.

I believe that H.R. 2014 meets these tests. It will provide an estimated $95 billion in net tax cuts over the next 5 years. It is a fair plan that places a priority on education tax cuts and provides a child tax credit to families who work hard and pay taxes. It also incorporates Republican priorities in a good-faith effort to honor the budget accord and to reach final agreement on a tax cut the American people deserve. This legislation will not only provide needed tax relief for middle-class Americans, but will also encourage economic growth. It is also fiscally responsible: the costs of these tax cuts are fully offset in accordance with the balanced budget agreement.

I am especially pleased that the legislation includes, with certain modifications, the key features of my Middle Class Bill of Rights designed to give middle-income families the tax relief they need to help them raise their children, save for the future, and pay for postsecondary education.

Education

I have long believed that the tax system should better encourage investment in college education and job training. This legislation incorporates the key aspects of my proposals for a $1,500 HOPE Scholarship to make 2 years of college universally available and a 20 percent tuition credit to make the third and fourth years of college more affordable and to promote lifelong learning.

The legislation also contains a number of other education initiatives that my Administration has strongly supported. These include tax incentives for public school repair, renovation, and educational enhancement in poor neighborhoods through Education Zone Academy Bonds; student-loan forgiveness exemptions similar to those that I have previously proposed; tax incentives to help public elementary and secondary schools obtain up-to-date computer technology; increased availability of tax-exempt financing for new capital expenditures by private colleges and universities; and a special tax-favored savings vehicle to help families save for higher education.

The bill also includes a 3-year extension of the exclusion of employer-provided educational assistance from taxable income. While I am disappointed that the Congress did not adopt my proposal to extend this exclusion permanently or to include graduate education, I intend to continue to work with the Congress to achieve these important goals.

Child Credit

I have long advocated a child tax credit for tax-paying working families. Consistent with my proposal, H.R. 2014 will provide $500 per child tax credits ($400 in 1998) for families with children under 17. In working with the Congress to develop this legislation, I have insisted that the group that can benefit from the child credit include working families with incomes between $15,000 and $30,000. I am pleased that the child credit as contained in H.R. 2014 meets this requirement so that these families receive relief from both income and payroll taxes.

IRAs and Other Savings Incentives

Since 1994, my budget has contained proposals to provide greater tax incentives for long-term savings for retirement and other important purposes. I am pleased that, consistent with my budget proposals, H.R. 2014 permits penalty-free withdrawals from existing IRAs to finance higher education expenses and for first-time home purchases, makes deductible IRAs more widely available, and gives taxpayers the choice of a new backloaded IRA. I am pleased that the Congress moved from its original position so that the IRAs contained in H.R. 2014 are more targeted to lower- and middle-income families. I am concerned, however, that the Congress did not move far enough, and that the bill contains other features that will provide a windfall to high-income individuals who will merely shift savings from taxable vehicles into IRAs, rather than create new savings.

Distressed Areas and Urban Tax Initiatives

Revitalizing distressed urban and rural areas throughout the country is a high priority of my Administration. I have proposed a number of initiatives to increase investment in disadvantaged areas. I am pleased that H.R. 2014 includes versions of most of these initiatives. As I have earlier proposed, the bill would encourage the cleanup of polluted urban and rural areas, known as brownfields, by allowing a current deduction for certain costs incurred by businesses to remediate environmentally contaminated land in certain areas. I am disappointed, however, that this provision is scheduled to sunset after 3 years.

My 1993 tax plan included certain tax incentives for nine empowerment zones and 95 enterprise communities. Over 500 communities submitted applications for these 104 designations. The final designations were announced in December 1994. To build upon the success of this program, and to mobilize more communities to promote business development and to create jobs, I proposed two additional urban empowerment zones as defined by the 1993 legislation, and proposed a second round of competition to designate 20 additional empowerment zones, with a different mix of tax incentives, and 80 additional enterprise communities. I am pleased that H.R. 2014 provides for the designation of the additional empowerment zones, but disappointed that it does not make provision for the new enterprise communities.

It has been an important goal of my Administration to encourage employment of disadvantaged residents of the District of Columbia and to revitalize those areas of the District where development has lagged. I am pleased that H.R. 2014 includes tax incentives for the District of Columbia. I am disappointed, however, that it does not include my proposals to create an Economic Development Corporation for the District, stimulate investments in Community Development Financial Institutions, or facilitate the restructuring of our Nation's affordable housing portfolio.

Welfare-to-Work

I am pleased that H.R. 2014 includes a modified version of my welfare-to-work tax credit proposal, which is designed to generate new job opportunities for long-term welfare recipients. I am also pleased that the bill extends the Work Opportunity Tax Credit (WOTC), but I am disappointed that it modifies the structure to allow employers to claim the WOTC for hiring workers for a very short period of time and does not expand the program to cover childless, able-bodied adults ages 18-50 who are subject to the Food Stamp time limit and work requirements.

Small Business Tax Cuts

I am pleased that H.R. 2014 enacts many of the recommendations of the 1995 White House Conference on Small Business. For example, it includes my proposal to exempt from the alternative minimum tax (AMT) corporations with gross receipts of less than $5 million. Under this proposal, roughly 95 percent of all corporations (more than two million) would be spared the complication of calculating the AMT.

Earlier this year, my Administration announced its support for expansion of the home office deduction and the small business capital gains incentive. These proposals were intended to help high-tech and bio-tech entrepreneurs, start-up companies, parents who work out of their homes, and other Americans who are seizing the opportunities of the new economy. I am pleased that H.R. 2014 expands the home office deduction, but disappointed that it contains only limited modification of the small business capital gains incentive.

Capital Gains Relief

I am pleased that H.R. 2014 includes my proposal to exempt up to $500,000 in capital gains on the sale of a home from all capital gains taxes. This encompasses over 99 percent of homes sold in the U.S. and will dramatically simplify taxes and record keeping for over 60 million homeowners.

I had also proposed a 30 percent exclusion for capital gains. I continue to have concerns that the across-the-board capital gains relief in H.R. 2014 is too complex and will disproportionately benefit the wealthy over lower- and middle-income wage earners. I am pleased, however, that H.R. 2014 does not contain the House provision to index capital gains, which would have caused even greater complexity and would have contributed to an explosive revenue cost after 2007.

Estate Tax Relief

I am pleased that, consistent with my proposal, H.R. 2014 contains a special exemption for interests in qualified farms or small businesses that, when combined with the unified credit, will exempt up to $1.3 million in value. I am also pleased that the bill includes a version of my proposal to provide liquidity relief for estates containing small businesses and farms. The bill also increases the unified estate and gift tax credit on a phased-in basis to reach $1 million in 2006. I continue to have concerns that this provision is too expensive and will be of no benefit to the vast majority of American families.

Tobacco Taxes

Earlier this year I proposed an increase in tobacco taxes that would be separated into a trust fund and dedicated entirely to expanding health coverage for children, addressing other children's development issues, and improving the overall public health. I am pleased that such a provision has been included in H.R. 2015. I am seriously concerned, however, that H.R. 2014 provides that the increase in tobacco taxes collected is to be credited against the total payments made by parties pursuant to the tobacco industry settlement agreement of June 20, 1997.

Simplification

I am pleased that H.R. 2014 includes many of the items previously contained in my April package of some 60 measures designed to simplify the tax laws and enhance taxpayers' rights. I am concerned, however, that the sheer multitude of miscellaneous tax code amendments contained in H.R. 2014, will contribute significantly to complexity for taxpayers and tax planners. I am also concerned that some of the provisions that will affect many taxpayers, such as the capital gains provision, are unduly complex. I continue to support revenue-neutral initiatives to simplify the tax laws and to promote sensible and equitable administration of the tax laws. I urge the Congress to continue to work with me to achieve these goals. In addition to supporting legislative initiatives, my Administration is committed to taking appropriate administrative action to implement this tax legislation in a manner that minimizes taxpayer burdens, and further, that simplifies the tax laws and enhances procedural safeguards for taxpayers.

Other Presidential Initiatives

My tax plan included extensions of the research tax credit, the orphan drug credit, and the tax incentive for contributions of appreciated stock to private foundations. I am pleased that H.R. 2014 includes such extensions. I am also pleased that H.R. 2014 includes my proposal to extend the foreign sales corporation benefit, which exempts a portion of income for tax purposes, to include computer software licensed for reproduction abroad.

I am disappointed, however, that H.R. 2014 omits a number of my important initiatives, including my proposal to protect the rights of disabled persons by extending the time such people are allowed to claim a tax refund to include the period during which they are mentally or physically impaired.

The bill also omits my proposal to restore the wage-based tax incentive for new investments in Puerto Rico. While I agreed last year to ending the credit not directly based on economic activity, I opposed phasing out the wage-based incentive. It is a mistake not to continue this credit and open it to new investments in Puerto Rico, which has a jobless rate three times the national rate.

I am also very disappointed that the tax incentives for renewable fuels were not extended in this budget. Earlier this year, I proposed extension of the excise tax exemption for ethanol in our surface transportation reauthorization proposal. I urge the Congress to extend the ethanol subsidy when it considers the reauthorization bill later this year.

Other Issues of Concern

The bill extends the Airport and Airways Trust Fund taxes and sets new fee structures without the benefit of the pending study by the National Civil Aviation Review Commission. The Administration may propose changes to these provisions after it reviews the Commission's recommendations.

The bill also transfers the 4.3 cents per gallon in fuel taxes currently dedicated to deficit reduction from the General Fund to transportation trust funds. While the transfer provision itself has no revenue or spending effect, I am concerned that transferring the revenue may spur efforts to move the trust funds off-budget and create pressure to increase ground transportation spending to levels significantly higher than contemplated by the bipartisan budget agreement.

Finally, H.R. 2014 contains a provision that is intended to address the capital needs of Amtrak. The provision is contingent on the enactment of subsequent Amtrak reform legislation. Although the provision is highly problematic in terms of tax policy, my Administration looks forward to working with the Congress to secure the enactment of Amtrak reform legislation that is fair to all parties.

Conclusion

Despite my reservations, H.R. 2014 meets the basic tests established by my Administration and provides needed tax relief for working Americans. I am grateful for the bipartisan support that this measure received in the Congress, and I am pleased to have signed it into law.

WILLIAM J. CLINTON

THE WHITE HOUSE,
August 5, 1997.

# # #

A SUMMARY OF THE EDUCATION TAX CUTS IN THE 1997 BALANCED BUDGET PLAN

Many new tax benefits for adults who want to return to school and for parents who are sending or planning to send their children to college will be available due to the balanced budget signed into law in August, 1997. These changes are the largest investment in higher education since the passage of the G.I. Bill in 1945.

These tax cuts essentially make the first two years of college universally available, and they will give many more working Americans the financial means to go back to school if they want to choose a new career or upgrade their skills. When fully phased in, 12.9 million students are expected to benefit -- 5.8 million under the HOPE Scholarship tax credit, and 7.1 million claiming the Lifetime Learning tax credit.

- **Up to a $1,500 tax credit for students starting college**

The HOPE Scholarship tax credit helps make the first two years of college universally available. Students will receive a tax credit of 100% on the first $1,000 of tuition and required fees and 50% on the second $1,000. This tax credit will be available for payments after December 31, 1997 for college enrollment after that date. This credit is available for tuition and required fees less grants, scholarships, and other tax-free educational assistance. A high school senior going into his or her freshman year of college in September, 1998, for example, could be eligible for as much as a $1,500 tax credit.

> *A married couple with an adjusted gross income of $60,000 and two children in college at least half-time, one at a community college with a tuition of $2,000 and the other a sophomore at a private college with $11,000 tuition, would have their taxes cut by as much as $3,000.*

This credit is phased out for joint filers between $80,000 and $100,000 of adjusted gross income, and for single filers between $40,000 and $50,000. The credit can be claimed in two taxable years for students who are in their first two years of college or vocational school and who are enrolled on at least a half-time basis for any portion of the year.

- **The Lifetime Learning tax credit**

This tax credit is targeted to adults who want to go back to school to upgrade their skills and to college juniors, seniors, graduate and professional students, mid-career changers and those who want to take a course or two. A family will receive a 20% tax credit for the first $5,000 of tuition and required fees paid each year through 2002, and for the first $10,000 thereafter. The Lifetime Learning tax credit is available for tuition and required fees less grants, scholarships, and other tax-free educational assistance, just like the HOPE tax credit, for amounts paid on or after July 1, 1998 for post-secondary enrollment beginning on or after July 1, 1998. The credit is available on a per-taxpayer (family) basis, and is phased out at the same income levels as the HOPE Scholarship tax credit throughout their lifetime. Families will be able to claim the Lifetime Learning tax credit for some members of their family and the HOPE Scholarship tax credit for others who qualify.

> ***Returning to school full-time to become a teacher***: A homemaker, whose family has an adjusted gross income of $70,000, wants to attend a graduate teacher training program at a public university after being out of college for 20 years ($3,500 tuition). Her family's income taxes would be cut by as much as $700.

> ***Automobile Mechanic***: A married man, whose wife works part-time, and who has two grown children and an adjusted gross income of $32,000, is going back to a local technical college **to take some computer classes** with a tuition of $1,200. This family would have their taxes cut by as much as $240.

- ## Parents and grandparents can create education IRAs and make penalty-free withdrawals from other IRAs

Beginning January 1, 1998, taxpayers may withdraw funds from an IRA, without penalty, for the higher education expenses of the taxpayer, a spouse, a child, and even a grandchild. For each child under age 18, families may also deposit $500 per year into an Education IRA in the child's name. Earnings will accumulate tax-free and no taxes will be due upon withdrawal for post-secondary expenses for tuition and required fees (less grants, scholarships, and other tax-free educational assistance), books, equipment, and eligible room and board if used before the age of 30.

A taxpayer's ability to contribute to an Education IRA is phased out when the taxpayer has adjusted gross income between $150,000 and $160,000 for joint filers, and for single filers between $95,000 and $110,000. There are a few restrictions. A taxpayer, for example, who uses the tax-free distributions from an Education IRA may not, in the same year, benefit from the HOPE Scholarship or Lifetime Learning Credit.

- ### Expanded benefits for qualified State tuition plans

This provision allows qualified State-sponsored tuition plans -- the earnings from which are not taxed until the time of withdrawal as a result of a law passed last year -- to include savings for certain room and board expenses for students who attend on at least a half-time basis. Withdrawals are eligible for the HOPE Scholarship tax credit and Lifetime Learning tax credit.

- ### Paying back student loans at less cost

For many college graduates, one of their first financial obligations is to pay off their student loans, which average about $13,500. This provision will reduce the burden of this obligation by allowing students or their families to take a tax deduction for interest paid in the first 60 months of repayment on student loans.

> *A senior graduates from college and finds a job paying $25,000 a year (an has no other income). The student has a total student debt of $13,500 and is in the 15% federal income tax bracket. The monthly payment for this student's loans is $166. The total amounts of payments for the year is $1,992, over half of which is interest --$1,080 --which can be deducted under the new law. The student's maximum tax benefit will can be calculated by multiplying $1,080 by 15%: for a savings of $162 (for years after 1998).*

The maximum deduction is $1,000 in 1998, $1,500 in 1999, $2,000 in 2000, and $2,500 in 2001 and beyond. It is phased out for joint filers with adjusted gross income between $60,000 and $75,000, and single filers between $40,000 and $55,000. The deduction is also available for all educational loans, such as student, parent, federal and nonfederal loans, made before August of 1997 when the tax cuts became law but only to the extent that the loan is within the first 60 months of repayment.

- ### Going to school while you work

The tax relief bill extends Section 127 of the tax code for three years for undergraduate education (for courses beginning prior to June 1, 2000). This provision allows workers to exclude up to $5,250 of employer-provided education benefits from their income. This provision will enable many Americans to pursue their goals of lifelong learning.

- **Community service loan forgiveness**

This provision excludes from income student loan amounts forgiven by non-profit, tax-exempt charitable or educational institutions for borrowers who take community-service jobs that address unmet needs.

The balanced budget bills signed by President Clinton include many other provisions that will help all of the young people in America to grow and learn and help families navigate through these changing times. For example, the law provides $24 billion to provide health insurance to as many as 5 million more children. The tax cut bill includes a provision to encourage computer donations to schools. The balanced budget agreement protects and advances President Clinton's top domestic priorities, such as an expansion of Head Start, and an increase in the maximum Pell grant for college to $3,000. All of these benefits and tax cuts have one goal: to give parents the support they need to give their children a first class education and hope for the future.

Sincerely,

Richard W. Riley
U.S. Secretary of Education

For additional information on meeting the costs of college and lifelong learning for you, your children and grandchildren please call: 1-800-USA-LEARN.

The Chronicle of Higher Educatio

GOVERNMENT & POLITICS

November 28, 1997

The Politicking and Policy Making Behind a $40-Billion Windfall

How Clinton, Congress, and colleges battled to shape Hope scholarships

By DOUGLAS LEDERMAN

The White House thought it had a deal.

For months, Clinton Administration aides had been frustrated by colleges' tepid support for the President's proposed tax breaks for tuition, which promised to return tens of billions of dollars to the pockets of students and their families.

Mr. Clinton's advisers wanted foot soldiers for the looming legislative war over how to shape the first major tax cut since 1981. So they hatched a plan: Package the President's proposals with benefits for low-income students, who were largely shunned by the Clinton tax breaks, and win college leaders over.

On January 27, 1997, a damp, chilly evening in Washington, two dozen college lobbyists crowded into a conference room in the Old Executive Office Building. In streamed the Administration team: the Secretary of Education, the Deputy Secretary of the Treasury, the director of the National Economic Council, and a guggle of other aides.

They explained that the next day, when Mr. Clinton previewed the higher-education part of his planned 1998 budget at a press conference, he would bring good tidings. Among the proposals: A $300 increase in the maximum Pell Grant for needy students; a plan to make the grants available to hundreds of thousands of financially independent students; and a 50-per-cent cut in the fees that borrowers pay on student loans.

Oh, and there was one more feature: As if it were an afterthought, the Education Secretary, Richard W. Riley, mentioned that the Administration had altered its proposed $1,500 tax credit for tuition so that it would *not* be refunded to students from families too poor to pay

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income taxes.

During his presidential campaign, Mr. Clinton had described his "**Hope Scholarship**" tax credit as a way to expand access to college for all. The talk was far different on this day. "This is a middle-class tax break, first and foremost," said the President's economic adviser, Gene B. Sperling. Low-income students, he said, would be helped by the bigger Pell Grant and other elements of the budget package.

The President wants to use the tax bill to help education, while the Republicans in Congress want to cut capital gains for the rich, Mr. Sperling argued to the uncertain gathering. If you don't support us, he warned, *they* will shape the bill, and they'll find someone else who wants the billions of dollars intended for students and their families.

When the pitch was over, the room fell silent. Then David L. Warren, president of the National Association of Independent Colleges and Universities, rose to his feet. "We're with you," he said. Leaders of the American Council on Education added their support.

Officials of a few other groups, however, including the American Association of State Colleges and Universities, offered no such endorsements. For them, there was still no deal.

Few moments better capture the policies and the posturing behind the process that resulted in the most significant federal higher-education legislation in three decades: the Taxpayer Relief Act of 1997, which, beginning in January, will deliver $40-billion in tax breaks to students and their families over five years.

Interviews with more than three dozen college officials, Administration aides, lawmakers, and others reveal many strands of the story of how the tax bill took shape: the conflicting tactics that groups like the state-college association and the American Council on Education used to try to get what they wanted; the relevance, or irrelevance, of academe's leaders in the rarefied political atmosphere in which the deal-making took place; the ability of one Congressman to threaten long-held tax breaks for graduate students and faculty members; and the contentious, complicated relationship between the Clinton Administration and college leaders.

More than anything else, however, it is a tale of how politics shapes -- and subverts -- education policy.

To supporters of the Clinton plan, the story is about how a shrewd Democratic team built support for an enormous infusion of federal funds to higher education, despite the country's budget-cutting mood and intense opposition from Republicans.

To others, it is about how election-year politics led the Administration to abandon the students most in need of federal aid -- and how college officials, blinded by dollar signs, went along for the ride.

AN APPEAL TO THE MIDDLE CLASS

The **Hope Scholarship**, a central plank on which President Clinton based his successful re-election campaign, has its roots in his political nadir: the Congressional elections of 1994.

A few weeks after Republicans had won control of Congress on a platform of balancing the budget and cutting taxes, President Clinton introduced his "Middle-Class Bill of Rights." It called for a balanced federal budget, a tax credit for every child, and a $10,000-a-year tax deduction for the cost of postsecondary education.

Liberals attacked the plan as a betrayal, and Republicans called it a desperate attempt by a Democratic President to steal from their playbook. College officials criticized the tuition deduction because it would give bigger subsidies to people with high incomes than to those in lower tax brackets. The Middle-Class Bill of Rights went nowhere.

Administration aides were disappointed by colleges' lack of support. But over the next few months, the two groups teamed up against Republican efforts to slash federal student aid. President Clinton twice turned G.O.P. plans to cut financial aid to his political advantage. In May 1995, Republican lawmakers proposed ending the interest payments that the government makes on student loans for qualified borrowers while they are in college. Then, in the fall, they introduced a plan to balance the budget in seven years, a measure that would have cut student aid significantly.

A clash of wills over the budget plan caused the government to shut down for several days in late 1995. Congressional Republicans absorbed most of the resulting public anger, and the President, viewed as education's savior, scored big political points. He would remember the lesson.

BIG NUMBERS IN OPINION POLLS

As the White House began preparing its fiscal-1997 budget plan that fall, aides to Mr. Clinton knew they wanted to do something to expand access to higher education. A consensus emerged that the only way to do this would be through the tax code. Given the drive to balance the budget, says Marshall S. Smith, the Deputy Education Secretary, proposing big increases in spending on Pell Grants or other aid "wasn't in the cards."

In one of a series of meetings between top Education Department officials and White House aides, Dr. Smith mentioned to Dick Morris, the President's political consultant at the time, that the vast majority of undergraduate students were in their first two years of college. That fact, Mr. Morris says, along with polls showing the public's high respect for the job training provided by community colleges, helped him realize that "for the same amount of money we were putting into the college deduction, we could make the first two years of college free for the vast majority of kids in two-year colleges."

Officials of the Education and Treasury Departments and other agencies began crafting proposals. In November 1995, aides traded memos suggesting that the 1997 budget plan include a $1,600-a-year tax credit for freshmen and sophomores. The proposal racked up big numbers in White House public-opinion polls, Mr. Morris says, and many Administration aides liked it.

Not all of them, though. David A. Longanecker, Assistant Secretary for postsecondary education, acknowledges that he believed that direct grants would give much more help to the neediest students. Top economic advisers in the White House concurred.

Another group, led by George Stephanopoulos, a senior adviser to the President, liked the tax credit but found the timing terrible. Their view, says Mr. Sperling, was that in the midst of a fight over shutting down the government and balancing the budget, "it would be ill-advised if we came out with a new proposal that costs a lot of money."

"George's view carried the day," Mr. Sperling says. The tax credit was not included in the budget plan that Mr. Clinton offered in March 1996.

The idea had legs, though. As the spring progressed, officials of the Education Department, among others, worked quietly on iterations of the tax credit. Meanwhile, the Presidential election campaign was heating up -- and not in Mr. Clinton's favor. Word was growing of the 15-per-cent, across-the-board tax cut that the Republican candidate, Bob Dole, was preparing to introduce, and the Whitewater investigation was back in the newspapers.

Mr. Morris and other advisers thought that Mr. Clinton needed to make a splash. The place to do it, they decided, was a high-profile speech at Princeton University's commencement on June 4, 1996.

From early May until just hours before the speech, aides from Education and Treasury and the Office of Management and Budget worked feverishly to hone the details of the tax-credit proposal. They worked quietly, to shield the plan from the Dole campaign and the news media. "We were not to discuss it with anybody," says Maureen McLaughlin, Deputy Assistant Secretary of Education for policy and planning.

"Anybody" included officials of Washington's higher-education associations, whose advice the Clinton Administration often seeks on policies that affect colleges. They knew nothing about the **Hope Scholarship** until the morning of June 4, when Secretary Riley met with them and told them what the President would announce in his speech that afternoon.

LITTLE ASSISTANCE FOR LOW-INCOME STUDENTS

At Princeton, Mr. Clinton added to his proposed $10,000 deduction, suggesting a credit that would let taxpayers subtract up to $1,500 a year from their federal tax bills for the costs of the first two years of college. The plan, he said, would help "make the 13th and 14th years of education as universal to all Americans as the first 12 are today."

College leaders cheered the President's continuing support for education, but many doubted his tactics. Using the tax code would help middle- and upper-income students recoup college costs, they argued, but would offer little to Americans who could not afford college at all.

That was especially true, they said, because Mr. Clinton's plan would cut the value of a student's tax credit by the amount of other federal financial aid he or she received, and require students to sustain a B average to keep the credit for a second year. Low-income students, on average, have lower grades than wealthier students.

Even though a version of the **Hope Scholarships** had been under study for more than a year, many college officials suspected that the proposal had materialized at the last minute. "In an election year, one should expect that everything that is read, heard, and said is aimed at good politics rather than good policy," Edward M. Elmendorf, vice-president for government relations at the state-college association, said at the time.

In the weeks after Hope's unveiling, the President talked constantly about the tax credit. Apart from Mr. Elmendorf's early jabs, though, higher-education officials on the whole said little about it. Most of them shared his group's concerns about the Clinton proposals and were glad that someone was airing them. But they did not want to undercut the President in campaign season, or to risk blowing a possible $40-billion infusion for higher education. "We couldn't publicly come out and say, 'We're real worried about this,' because that would have shot them in the back," says Terry W. Hartle, senior vice-president for government and public affairs at the

American Council on Education.

The college groups walked a "fine line," Mr. Hartle says, between expressing support for the Administration's goals and "simultaneously trying to wrestle them into making some changes we thought were crucial."

What he sees as savvy politics looked like a sellout to Lawrence E. Gladieux, executive director for policy analysis at the College Board. "Most of the people representing higher ed seemed to figure, "Look, here's a lot of money being put on the table. Let's not say much now -- after the election, we can try to redirect it toward something we want more.' It was a tacit conspiracy to look the other way."

Mr. Gladieux says his two main problems with the plan were that it would not do what Mr. Clinton said it would -- help people go to college who otherwise wouldn't have -- and that it might encourage colleges to raise their tuitions.

After a chance encounter on a street corner near their Washington offices, Mr. Gladieux and Robert D. Reischauer, an economist at the Brookings Institution who had previously headed the Congressional Budget Office under the Democratic majority, decided to co-write a critique of the Hope credit for *The Washington Post*. The September 4 opinion piece, which would be cited often in attacks on the plan, said: "While tuition tax relief may be wildly popular with voters and leave Republicans speechless, it won't achieve the President's worthy objectives for education, won't help those most in need, and will create more problems than it solves."

ENTICEMENTS TO WIN OVER CRITICS

Voters seemed to disagree. Judging from surveys, the Hope credit -- and Mr. Clinton's general support for education -- helped him win re-election. Critics of the tax credit, who had hoped that the President might then ditch the plan, got a jolt when Mr. Clinton, in his first major post-election speech, declared enactment of the credit to be among his top three priorities for a second term.

To prove they were serious about Hope, his aides hustled to get the tax credit into legislative form and intensified their efforts to sell it to college leaders.

It didn't go well.

"We started getting an awful lot of, 'This is nice, but...,'" Dr. Longanecker says. The criticisms echoed those of Mr. Gladieux: that the credit offered little to low-income students, and that it might inflate tuition and grades alike.

The response was frustrating to Administration aides.

"The White House was living under this cloud of having proposed something they thought was their centerpiece in terms of education benefits, but was controversial in the education community itself," says Leon Panetta, Mr. Clinton's chief of staff at the time.

The President's advisers tried to assure college leaders that if they were patient, their qualms would be resolved. The Administration sent signals, for instance, that the B-average requirement would eventually vanish.

What to do about low-income students was a thornier matter: The tax code, by its nature, offers little assistance to poor people, and Treasury Department officials worried that making the tax credit refundable to those who do not earn enough to pay income tax might encourage people to pretend to be students.

In White House discussions, some aides also wondered why low-income students needed the tax credit when they were already getting Pell Grants. The counter-arguments were that federal support for the Pell program had ebbed, and that a 1992 change in federal law had denied eligibility for the grants to many students who were financially independent of their parents. Reversing that change was the top priority of the state-college association, the most vocal foe of Hope among higher-education groups.

In January 1997, the Administration refined its strategy: Make the tax credit non-refundable to those whose incomes are too low to be taxed, thus easing the Treasury Department's concerns, but at the same time help low-income students by proposing a $300 increase in the maximum Pell Grant and a fix of the law on independent students. The changes would provide $1.7-billion more a year for Pell Grants, increasing spending on the program to $35-billion over five years -- about the same as the cost of the Hope tax credit and deduction.

With high expectations, White House aides presented the package at the late-January meeting in the Old Executive Office Building. Yet instead of embracing it, one college lobbyist says, "AASCU pissed all over the deal."

The state-college association applauded the Administration for reaching out to low-income students with the Pell Grants plan. But it wrote to its members that the White House had moved "in the wrong direction" by making the credit non-refundable.

From that point on, the Administration essentially gave up on the group -- a leading voice for public higher education -- and, through an intensive lobbying campaign, focused on winning support elsewhere.

The campaign was aimed primarily at getting supporters to speak up, but Administration aides sometimes tried to clamp down on critics. In late January, for instance, Education Department officials called Donald W. Stewart, president of the College Board, to complain about Mr. Gladieux's critiques. Similar calls were made to other groups over the months that followed.

At the "center of the tree" of the Administration's lobbying campaign, as he describes it, was Barry Munitz, chancellor of the California State University System and chairman of the Board of Directors of the American Council on Education, higher education's main umbrella group. To the Administration, he had the added allure of being the person to whom the presidents of the 23 California State campuses -- members of AASCU all -- reported. If the state-college group's lobbyists would not toe the line, White House aides figured, let's go around them.

The campaign's first payoff came in late February 1997, during the council's annual meeting, in Washington. Mr. Clinton was set to appear, and Dr. Munitz wanted to deliver the endorsement that the President badly wanted.

Dr. Munitz and Mr. Hartle, the council's senior vice-president, spent much of a weekend holed up in a hotel room trying to come up with a resolution on which White House aides and members of the council's board could agree. Dr. Munitz says he told board members that the higher-education groups should "put aside their parochial differences" to rally behind the Administration's tax plan.

"Academics are much more in love with distinctions than with finding common ground. I told them, 'If we don't demonstrate this time that we know how to set aside this love with what we don't agree on, we're going to lose the whole package.'"

On February 24, the President and a team of aides met privately with Dr. Munitz, the council's president, Stanley O. Ikenberry, and others. Mr. Clinton told the college officials that the Administration would work with them to ease their concerns about the tax breaks. That afternoon, Dr. Munitz presented an ebullient President with a resolution that generally endorsed Mr. Clinton's plan. The same day, the American Association of Community Colleges delivered an endorsement of its own. As the playing field shifted to Congress, Administration officials could say, with a straight face, that they had higher education's support for their tuition tax breaks -- with or without support from the recalcitrant state-college association.

IN CONGRESS, ATTACKS AND COMPLAINTS

From then through mid-April, Congressional committees held a set of hearings on the education tax breaks. The proceedings were remarkably similar: Administration officials explained the tax breaks, and economists and lawmakers from both parties ripped them apart. Republicans portrayed the program as too costly and cumbersome, and Democrats said the tax credits would help the wealthy and ignore the poor.

In their own testimony, college lobbyists continued to take different tacks: The education council offered general support, with reservations, while the state-college association welcomed Mr. Clinton's support for education and then blistered his proposals.

The real action, however, was occurring in closed-door meetings, at which Republican Congressional leaders and White House officials were negotiating the framework for a balanced budget.

They completed their work -- sort of -- in early May. On May 2, Mr. Clinton announced that a deal had been struck to set aside $35-billion, of a total of $135-billion in tax relief over five years, for his $1,500 tax credit and $10,000 deduction; to raise the maximum Pell Grant by $300, to $3,000; and to make the grants available to 350,000 independent students.

Almost immediately, however, Republicans disavowed the deal. Members of the Senate and House of Representatives tax-writing committees -- left out of the negotiating process -- said they were not bound by it.

As the parties staked out new bargaining positions, the Administration had the upper hand. Mr. Clinton's popularity was high, and surveys showed that Americans favored his tax cuts, tailored narrowly to help education and the middle class, over the "Republican" tax cuts for Capital gains and estates, which were seen as favoring the wealthy.

On May 18, after two weeks of painstaking negotiation, details of a revised agreement were worked out. It would provide "roughly $35-billion" in tax relief for postsecondary education, "consistent with the objectives" of Mr. Clinton's proposed tax credit and deduction. But at the insistence of G.O.P. lawmakers like Bill Archer, chairman of the House Ways and Means Committee, the language was carefully worded to give Republicans room to propose other tax breaks that would also help people pay for college.

"Under our Constitution," a prickly Mr. Archer said then, "tax bills originate in the House, not the White House."

Throughout May 1997, as the House and Senate tax-writing committees prepared their tax plans, the Clinton Administration turned up its pressure on colleges.

In sometimes heated meetings with college lobbyists, Education Department officials urged the groups to have their member colleges flood Capitol Hill with expressions of support for the Administration's proposals.

College lobbyists were reluctant to do so. Besides having mixed feelings about the Hope plan, they also passionately supported some other tax breaks favored by lawmakers, including deductions for the interest paid on student loans and for the value of educational aid provided by employers.

"Our strategy was to try to support both sides, because we liked some of what each had to offer," says one college lobbyist. "That wasn't enough for the Administration. They thought our job was to help them, and their mantra was: 'It's $35-billion for Hope, and if you want anything else, it should be on top of that.' They were often frustrated that we weren't out there in our cheerleader outfits."

HOPING FOR HELP FROM THE SENATE

On Capitol Hill, Administration aides had essentially written off Mr. Archer and the Ways and Means Committee. They had higher hopes for the Senate Finance Committee, given the bipartisan approach of its G.O.P. chairman, William V. Roth of Delaware. The White House seemed to underestimate, however, the extent to which the Senate panel's Democrats disdained the tax credit and deduction, and how much they resented having been locked out of the negotiations over the outlines of the balanced-budget deal.

In early June, the Senate panel's Democrats stitched together their own package of tax proposals for education. It included deductions for loan interest and employer-paid tuition, a plan to lift the cap on the value of capital-improvement bonds that a private college could have outstanding at any time, and proposals aimed at helping families save for college. It also contained a scaled-back version of the Hope tax credit, and it omitted the President's $10,000 deduction entirely. The price tag was $32-billion.

The White House promptly summoned the committee's nine Democrats to a meeting with Vice-President Gore, who told them that Mr. Clinton's plan was *the* "Democratic" tax proposal, and that the Senate Democrats were to go along.

"The push back by the members was, 'We're elected Senators, and we think these things represent a better policy, and cost less money,'" says a Senate Democratic aide.

Mr. Clinton's advisers knew that they needed to embrace some of the other tax ideas, but feared that giving too much ground now could embolden Congressional leaders to ignore the $1,500 credit and $10,000 deduction entirely.

In a series of calls to reporters in early June, Administration aides said they were altering their own proposals to appease critics, dropping the B-average requirement and agreeing not to subtract a student's federal financial aid from his or her tax credit.

For the first time, they also expressed support for the loan-interest deduction, the lifting of the bond cap, and other priorities of both Republicans and Democrats in Congress. Their backing came with a caveat, however: They would support those measures only if the money for them came from outside the $35-billion that they argued was already reserved for the Hope credit and the deduction. As one Administration official explains, "It made sense to put the Republicans on the hot seat to include the items they had publicly supported, and to put it on their side of the ledger."

Most college lobbyists saw desperation in the move. "The lack of support from the Senate Democrats brought them to a very gutsy place," says one lobbyist. "You're down and feeling attacked. In response, you unveil an even bolder proposal. I thought they were out of their minds."

SURPRISING THREATS TO CHERISHED TAX BREAKS

Officials of the Administration and of colleges alike had expected Mr. Archer, the Ways and Means chairman, to skimp on college tax breaks, and he did just that in the bill he unveiled on June 9. His plan contained about $31-billion in tax breaks for education, which he said met the "roughly $35-billion" standard assured by the budget deal.

His plan omitted Mr. Clinton's $10,000 deduction, instead proposing deductions intended to encourage families to save for college. It included a version of the President's tax credit, although modified to be worth 50 per cent of the first $3,000 that a student spent on college, rather than 100 per cent of the first $1,500. Mr. Archer, convinced by economists' views that the influx of federal tax funds would spur colleges to raise tuitions, felt that forcing students to match every dollar they got from the credit with a dollar of their own would dissuade colleges from increasing fees.

If college officials were disappointed by what was missing from the Archer bill, they were dismayed by what was in it: taxes on the tuition breaks that colleges provide to graduate students and the children of employees, and on the pension assets of Teachers Insurance and Annuity

Association-College Retirement Equities Fund, higher education's main pension company.

Aides to the chairman say he sought to revoke TIAA's tax exemption because the pension fund had become a full-fledged insurance business competing with taxable entities.

Others accused Mr. Archer of having baser motives, arguing that he acted at the behest of VALIC, a pension company that competes with TIAA and is based in his district in Texas. Its parent company, American General Group, contributes heavily to the G.O.P. and gave Mr. Archer $1,000 toward his 1996 re-election campaign.

Hours after Mr. Archer announced his bill, TIAA-CREF executives zoomed into Washington to begin a lobbying campaign that, over the next two months, would involve more than 40 employees and consultants.

From mid-June to late July, the Senate Finance Committee received more than 1,000 letters, faxes, and e-mails about the pension fund -- "more than on any other single issue" in the tax bill, a Senate Democratic aide says.

The only other issue that came close was the proposed tax on tuition waivers for graduate students and research assistants. College officials were shocked that Mr. Archer had taken aim at that benefit. They assumed that the aides who wrote the bill's language had nicked graduate students by mistake, in what they saw as a misguided attempt to rein in benefits for the children of faculty members.

Graduate students, on the other hand, felt that Mr. Archer had gone after them on purpose. They noted that his bill proposed extending -- for undergraduate work, but not for graduate study -- the tax break that allows employees to deduct tuition aid paid by their employers. They also knew that some Republican lawmakers were still angry about the vitriolic fight that graduate students had waged in 1995 to protect their interest payments on student loans.

An aide to Mr. Archer denied at the time that "anybody in Congress is gunning" for graduate students. G.O.P. aides also made clear that the primary targets were the children of college employees, who, they said, did not deserve a break on the high tuition that other students were forced to pay.

"Tuition costs are rising like crazy, and who sets the tuition price? People who work at universities," Kenneth J. Kies, chief of staff of the Joint Committee on Taxation, said in June. "And who are the only people who don't pay tuition? People who work at universities."

Still, aides to Mr. Archer denied that graduate students had been accidental victims. "Most people pay for their own education," said one staff member. "If you're one of the lucky few who gets to be a graduate teaching assistant, the kid sitting next to you might feel like it's unfair."

Graduate students insisted that taxing the tuition waivers of teaching assistants would force many of them out of school. Though it lacked TIAA-CREF's big bucks, the National Association of Graduate-Professional Students unleashed its own e-mail and telephone assault on Congressional offices.

College leaders, for their part, may have reacted lukewarmly to Administration pleas that they lobby for the Hope proposals, but they rallied when the White House asked them to attack Mr. Archer's bill.

At a press conference on the morning of June 11, the day that the Ways and Means panel took up the Archer bill, the heads of three major college associations joined Treasury Secretary Robert E. Rubin and Mr. Riley, the Education Secretary, at a press conference to criticize the measure.

The department solicited statements condemning Mr. Archer's bill from higher-education groups. Even the American Association of State Colleges and Universities provided one, although its leaders were not asked to join the other officials on the dais; Mr. Elmendorf, the group's top lobbyist, stood alone in the back of the room, handing out a statement outlining the association's position.

Compared with the bill passed by the Ways and Means panel on June 12, college officials and Administration aides far preferred the Senate version, released by Mr. Roth, of the Finance Committee, five days later. It contained more money for education tax breaks, including a set of proposals aimed at encouraging saving for college; proposed making permanent the tax deduction on employer-paid tuition, for graduate and undergraduate students alike; and omitted the proposed taxes on TIAA and tuition waivers. Like the House bill, the Senate plan ignored the $10,000 deduction.

The Senate bill sought a compromise on Mr. Clinton's **Hope Scholarship**, though there was "very little support" for it on the Finance Committee, aides say. "Senator Roth thought it would be unrealistic not to do *something*" with the President's proposal, one Republican aide says, because Mr. Clinton was sure to veto any bill without it.

The Senators shared Mr. Archer's concern about tuition inflation but recognized that Mr. Clinton wanted to help community-college students. So they modified the House version of the tax credit, to give two-year students a credit worth 75 per cent of their first $2,000 in college costs.

AN IDEALISTIC MISSION TO CAPITOL HILL

Throughout this period, a band of college lobbyists was canvassing Capitol Hill on what looked like a fool's mission. The group, made up of Barmak Nassirian, of the state-college association; Ivan Frishberg, of the U.S. Public Interest Research Group; and Erica Adelsheimer, of the U.S. Student Association, among others, spent May and June trying to persuade Senators to make the Hope tax credit refundable to low-income students.

They were working against all odds: The Administration had abandoned the idea in January; most House and Senate Republicans were dead-set against it; and the major higher-education groups thought that pushing the idea might put the entire set of college tax breaks at risk by angering both the Administration and Republican leaders.

Proponents of refundability were not dissuaded. Education Trust, which works on behalf of low-income students, amassed data showing that a non-refundable credit would leave up to 40 per cent of the students in some states in the cold. Those figures succeeded in helping the lobbyists sell the idea of a refundable credit to a surprisingly large group of Senators -- as many as 50, they contend. Some, like the liberal Democrat Paul Wellstone of Minnesota, were predictable. But they also swayed Republicans like John Chafee of Rhode Island and Olympia Snowe of Maine.

"There were a lot of people who didn't want to have the criticism made later, when the smoke cleared and people realized who got the tax credit, that this was just a middle-class giveaway," says one Senate Republican staff member.

In late June, as the Senate prepared to vote on the Roth tax plan, Mr. Chafee, with two Democrats, Mr. Wellstone and New Mexico's Jeff Bingaman, agreed to sponsor an

amendment to make the credit refundable. However, they were unable to come up with the $6-billion needed to finance such a change, and on the final vote on the bill, the weary Senators shouted a resounding "No" to the idea.

LAST-MINUTE TWEAKS BY THE ADMINISTRATION

Three days after the Senate vote, as negotiations over the tax bill between the House and the Senate, and between Congress and the White House, were set to begin, the Administration tweaked its education tax breaks yet again.

In a nod to G.O.P. concerns that a dollar-for-dollar credit would inflate tuitions, the White House said its credit would apply to 100 per cent of the first $1,000 a student spent on college, and 50 per cent of the next $1,000.

And in a concession to Congressional Democrats, the White House dumped its widely unpopular $10,000 deduction in favor of a proposal by Representative Charles B. Rangel, of New York, to give students after their second year of college a tax credit, aimed at encouraging "lifelong learning," worth 20 per cent of up to $10,000 in college costs. The Administration plan also formally incorporated Republican proposals to allow students to deduct loan interest and employer-paid tuition. That lifted the total cost of the Administration's education-related tax cuts to $42-billion.

The chief areas of disagreement between House and Senate negotiators on education tax breaks were the House's proposed taxes on tuition waivers and TIAA, and the Senate's desire to make the deduction for employer-paid tuition permanent and to extend it to graduate education.

Mr. Archer compromised first on the tax on graduate assistants. His aides even shifted their rhetoric to say they had never intended to tax graduate-student tuition waivers in the first place. House Republicans then offered to drop the proposed tax on tuition waivers for college employees if the tax on TIAA remained -- a deal that Senators accepted.

Mr. Archer was adamant, however, about not letting graduate students deduct the value of employer-paid tuition, a Senate aide says. A major motivation, the aide and others say, was that one of Mr. Archer's staff members had gone to George Mason University's law school and had been amazed at how many of her classmates were not paying their own way. The aide had paid her tuition in full, because Congress does not pay for its employees' schooling. "The Congressman didn't think it was fair that people who have to work to pay for their grad school don't get a tax break if their employer does not provide educational assistance," a House Republican aide said.

Mr. Archer won that fight, and graduate students lost.

IN THE END, USING 'BRUTE FORCE'

Over the last weekend of July, White House negotiators and Republican Congressional leaders met to hash out the few remaining areas of disagreement over the tax bill. Although Administration officials objected to the tax on TIAA and the omission of graduate students from the deduction on employer-paid tuition, they focused on insuring the survival of the two tax breaks for tuition: the Hope credit and the lifelong-learning credit. They succeeded, and the final tax plan contained a total of

$40-billion in tax breaks for college students and their families.

"The Administration got what it wanted by brute force," says a Senate Republican aide.

Now, college officials are preparing for the **Hope Scholarship** to take effect in January. Already they are fielding questions from students and their families hoping to benefit from the new tax credit.

Most educators agree that the tax breaks are not what they would have chosen if they'd had a real say in the matter.

Some, like the officers of the state-college association, still believe that academe's leaders forsook the interests of too many students in their quest to rake in $40-billion.

That's a minority view, however.

"If getting $40-billion to help people buy the product you make is selling out," says Mr. Hartle, of the American Council on Education, "I hope I have the opportunity to do it again."

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MAKING COLLEGE MORE AFFORDABLE

The Balanced Budget Agreement includes the largest single investment in higher education in 50 years. These tax credits and scholarships build on the Clinton Administration's commitment since 1993 to expand access to higher education for young people as well as for working adults.

Tax Cuts for Higher Education:

HOPE SCHOLARSHIPS FOR 5.8 MILLION STUDENTS. The $1,500 HOPE Scholarship tax credit makes the first two years of college universally available. Families can reduce their taxes by 100% of the first $1,000 of tuition and fees paid (less any grants and scholarships), and 50% of the next $1,000.

LIFETIME LEARNING TAX CREDITS FOR 7.1 MILLION STUDENTS. The need to learn does not end with two or even four years of college. Many adults need to return to school to upgrade their skills, or to get an advanced degree. The Lifetime Learning tax credit helps reduce the financial burden of the third and fourth years of college and promote lifelong career advancement. Taxpayers can reduce their taxes by 20% of tuition and fees (less and grants and scholarships) up to $5,000. After the year 2002, the eligible amount of tuition and fees increases to $10,000.

INCENTIVES FOR SAVINGS. Taxpayers will be allowed to withdraw funds from an IRA, without penalty, to pay their own higher education expenses or those of a child, grandchild, or spouse. In addition, families may open Education IRAs for any child under 18. For each child, they may add $500 per year, and the earnings will accumulate tax-free.

STUDENT LOAN INTEREST. Taxpayers -- including a parent -- in the first five years of repaying a student loan will be able to deduct the interest payment from their taxes (up to $1,000 in 1998, rising to $2,500 in 2001 and beyond).

Expansion and Improvement of Student Aid

LARGER PELL GRANTS FOR NEARLY 4 MILLION STUDENTS. The President's Budget includes the largest increase in Pell Grant scholarships in 20 years. The maximum award will reach $3,000, an increase of $700 since 1993.

CHEAPER AND EASIER STUDENT LOANS. President Clinton and the Congress in 1993 cut student fees and interest rates for all borrowers, expanded the availability of flexible repayment options, and improved service through the Direct Loan Program.

MOVING TOWARD 1 MILLION WORK-STUDY JOBS. With President Clinton's 1998 Budget, the work-study program will be 39% larger than in 1993. More than 700 colleges have committed some of their work-study students to help elementary school children improve their reading skills.

DETAILS ON THE EDUCATION ITEMS IN THE TAX BILL

THE HOPE SCHOLARSHIP AND LIFETIME LEARNING CREDIT

From the beginning, promoting expanded educational opportunity has been the centerpiece of President Clinton's budget and his middle class tax cut proposal. The President has long understood that the economy is changing and that people must have the opportunity to enhance their skills throughout their working lives. This is why the President insisted that, in addition to the HOPE Scholarship for the first two years of college, the tax bill must include a tax cut for lifetime learning. The final tax cut bill enacts the President's proposals:. When fully phased in, 12.9 million students are expected to benefit -- 5.8 million people claiming the HOPE Scholarship, and 7.1 million claiming the Lifetime Learning Credit.

- **$1,500 HOPE Scholarship to make the first two years of college universally available.** For students in the first two years of college (or other eligible post-secondary training), taxpayers will be eligible for a tax credit equal to 100% on the first $1,000 of tuition and fees and 50% on the second $1,000 (the amounts are indexed for inflation after 2001). The credit will be available on a per-student basis for net tuition and fees (less grant aid) paid for college enrollment after December 31, 1997. The credit is phased out for joint filers between $80,000 and $100,000 of income, and for single filers between $40,000 and $50,000 (indexed after 2001). The credit can be claimed in two taxable years (but not beyond the year when the student completes the first two years of college) with respect to any individual enrolled on at least a half-time basis for any portion of the year.

- **Lifetime Learning Credit for College Juniors, Seniors, Graduate Students and working Americans pursuing lifelong learning to upgrade their skills.** For those beyond the first two years of college, or taking classes part-time to improve or upgrade their job skills, the family will receive a 20% tax credit for first $5,000 of tuition and fees through 2002, and for the first $10,000 thereafter. The credit is available for net tuition and fees (less grant aid) paid for post-secondary enrollment after June 30, 1998. The credit is available on a per-taxpayer (family) basis, and is phased out at the same income levels as the HOPE Scholarship.

OTHER TAX CUTS FOR HIGHER EDUCATION

- ***Education Savings Accounts.*** For each child under age 18, families may deposit $500 per year into an Education IRA. Earnings would accumulate tax-free and no taxes will be due upon withdrawal for net post-secondary expenses for tuition, fees, books, equipment, and room and board (generally limited to the posted room and board charges of the institution). The Education IRA is phased out for families with incomes between $150,000 and $160,000, and for single filers between $95,000 and $110,000. A taxpayer who uses tax-free distributions from an Education IRA may not, in the same year, benefit from the HOPE Scholarship or Lifetime Learning Credit.

- ***Student Loan Interest Deduction.*** Allows an above-the-line deduction (the taxpayer does not need to itemize in order to benefit) for interest paid in the first 60 months of repayment on private or government-backed loans post-secondary education and training expenses. The maximum deduction is $1,000 in 1998, $1,500 in 1999, $2,000 in 2000, and $2,500 in 2001 and beyond. It is available to joint filers with income between $60,000 and $75,000, and to single filers with income between $40,000 and $55,000 (indexed after 2002). The deduction is available for loans made before or after enactment of this provision, but only to the extent that the loan is within the first 60 months of repayment. The loan amount eligible for the deduction is limited to net post-secondary expenses for tuition, fees, books, equipment, room, and board (limited to the "cost of attendance" currently used for Federal student aid programs).

- ***IRA Withdrawals.*** Taxpayers may withdraw funds from an IRA, without penalty, for the higher education expenses of the taxpayer, spouse, child, or grandchild. The amount that can be withdrawn without penalty is limited to net post-secondary expenses for tuition, fees, books, equipment, and room and board (generally limited to the posted room and board charges of the institution).

- ***Employer-Provided Education Benefits.*** Extends Section 127 of the tax code for undergraduates for three years (for courses beginning prior to June 1, 2000). This provision allows workers to exclude $5,250 of employer-provided education benefits from their taxable income.

- ***Community Service Loan Forgiveness.*** Excludes from taxable income loan amounts forgiven for borrowers who take community-service jobs addressing unmet needs. (Community service loan forgiveness programs run by government agencies are already exempt; this provision would extend that to nonprofit tax-exempt charitable or educational institutions.)

- ***Expand benefits for pre-paid tuition plans.*** Allows State-sponsored pre-paid tuition plans -- the earnings from which not taxed until the time of withdrawal as a result of last year's tax bill -- to include room and board expenses for students who attend on at least a half-time basis. Withdrawals *are* eligible for the HOPE Scholarship and Lifetime Learning tax credits. .

- ***Repeal Cap on Tax Exempt Bond Issuance by Colleges and Universities.*** Repeals the $150 million bond cap that affects private higher education institutions and certain other charitable institutions. The repeal applies to tax-exempt bonds issued by these institutions to finance new capital expenditures.

TAX PROVISIONS BENEFITING ELEMENTARY AND SECONDARY EDUCATION

- ***Encourage Computer Donations to Schools.*** Allows corporations an enhanced charitable contribution deduction for the donation of up-to-date computer hardware or software to public and private K-12 schools. The equipment or programs cannot be more than two years old. The deduction is allowed in tax years 1998 and 1999.

- ***Bonds for Public School-Business Partnerships.*** Allows states to use Federal tax credits as payments in lieu of interest on bonds for certain expenses -- including facilities renovation -- for school "academies" expected to serve low-income students in empowerment zones and empowerment communities. The academies must have a high-skills curriculum developed in consultation with businesses that have committed assistance (in cash or in kind, on a present value basis) equal to at least 10% of the bond proceeds. The bonds are limited to $400 million in 1998 and $400 million in 1999. They are allocated to States on the basis of population in poverty.

- ***Reduce Costs of School Construction Bonds.*** School districts invest the proceeds from school construction bonds until the funds are needed to pay construction and renovation expenses. When tax-exempt bonds are used, there are strict limits on the amount of interest that the district can earn, requiring them to pay back certain amounts to the IRS. The tax bill would relax those restrictions, allowing school districts to keep more of the interest income and thereby reducing their cost of borrowing.

President Clinton:
Providing Educational Opportunities for the New Century

A Record of Accomplishment

President Clinton has made an unprecedented commitment to education: the President's Budget Agreement with Congress includes the largest increase in our investment in education in 30 years and the largest single boost in college aid since the G.I. Bill in 1945. **The President has set forth a bold plan of action to provide our people with the best education in the world:**

ENSURING THAT EVERY CHILD IN AMERICA CAN LEARN

- **Raising Academic Standards**

  Leading a Crusade for Voluntary National Standards and Tests in the Basic Skills. President Clinton has challenged every state to adopt high national standards, and, by 1999, to test every 4th grade student in reading and 8th grade student in math so that parents, students and teachers can tell if students are meeting national standards. These standards will help students master the basics and represent what all our children must know in order to succeed in the knowledge economy. Fifteen of the nation's largest urban school districts, as well as six states and the Department of Defense Schools have joined the President's effort.

  Goals 2000. The President's National Standards and Testing effort builds upon the success of Goals 2000, President Clinton's education reform initiative enacted in 1994, that helps States establish standards of excellence for all children, and plan and implement steps to raise educational achievement. Communities in every state receive Goals 2000 funds and are using these funds to upgrade the curriculum, improve teaching, increase parental involvement in schools, and make greater use of computers in the classroom.

  Raised Standards for Over Ten Million Low Income Students. The Clinton Administration's Improving America's Schools Act of 1994 overhauled Title I, which provides extra help with basic and advanced skills to disadvantaged students in elementary and secondary schools. As a result of this Act, states now hold low income students to the same high standards set for all other students in the state, and hold schools accountable for the results. More than ten million low income students now benefit from higher expectations and a challenging curriculum geared to higher standards.

- **Attracting and Preparing Tomorrow's Teachers.** President Clinton has proposed a 5-year initiative to attract nearly 35,000 talented people of all backgrounds into teaching at low-income urban and rural schools across the nation, and to dramatically improve the quality of training and preparation given to our future teachers. The President's initiative will help recruit and prepare teachers nationwide to help our neediest students succeed in the 21st century.

- **Helping Every Student to Read Independently and Well by the End of 3rd Grade.** President Clinton launched the America Reads Challenge, a nationwide effort to mobilize a citizen army of a million volunteer tutors to make sure every child can read independently by the end of third grade. The President's Balanced Budget includes a child literacy initiative consistent with these goals.

- **Expanding Head Start to Reach 1 Million Children a Year.** President Clinton has made Head Start an Administration priority. For over 30 years, Head Start has helped low-income families create an environment where their children are ready to learn by taking a comprehensive approach to child development -- improving children's learning skills, health, nutrition, and social competency. Under the Clinton Administration, funding for Head Start has increased 80% to $4 billion in 1997. These additional funds have enabled Head Start to serve 180,000 more children and their families. And President Clinton's Budget Agreement with Congress continues expansion of Head Start toward the President's goal of serving 1 million children in 2002.

Expanding School-To-Work. The Clinton Administration is providing hundreds of thousands of students with school-to-career opportunities, where they experience work-based learning and gain access to pathways from high school to good jobs and post-secondary education. In 1994 and 1995, over 500,000 young people in 1,800 schools throughout the nation, as well as 135,000 employers, participated in school-to-work systems that integrate academic and vocational instruction and provide work-based learning.

PREPARING OUR SCHOOLS FOR THE 21ST CENTURY

- **Connect Every Classroom and Library to the Internet by the Year 2000 and Help all Students Become Technology Literate.**

  Bringing Computers to the Classroom. The President's 1997 Budget Agreement with Congress doubles the funding for America's Technology Literacy Challenge, catalyzing private-public sector partnerships to put the information age at our children's fingertips. The President is committed to helping communities and the private sector ensure that every student is equipped with the computer literacy skills needed for the 21st century. For 1998, the budget proposes $425 million, more than doubling the $200 million that Congress provided in 1997.

  Linking Schools and Libraries to the Internet. The Clinton Administration is implementing a plan to create an "E-Rate," a discounted education rate for telecommunications services so schools and libraries will be able to bring technology into the classroom, set up phone lines and access the Internet at a fraction of the cost. The Federal Communications Commission has already approved a plan to make discounts worth $2.25 billion annually available to our schools and libraries.

- **Expanding School Choice and Accountability in Public Education.** The President has challenged every state to let parents choose the right public school for their children. The Clinton Administration is helping teachers, parents and community groups start charter schools -- innovative public schools that stay open only as long as they produce results and meet the highest standards. The President's proposed budget doubles funding to help start charter schools so that there will be more than 3,000 charter schools at the dawn of the 21st century.

  Expanding Opportunity for Disabled Children. President Clinton signed legislation reauthorizing the Individuals with Disabilities Education Act (IDEA), strengthening and reaffirming our nation's 20-year commitment to disabled children and their parents. The IDEA demonstrates the Administration's commitment to educational opportunity for all, by helping ensure that children with disabilities are included in all facets of community life and are able to become independent and productive citizens.

- **Making Schools Safe, Disciplined and Drug Free.** The Clinton Administration passed the Safe and Drug-Free Schools and Communities Act and successfully fought Republican efforts to cut this program, which supports school security, drug prevention and education programs in 97% of America's school districts. In addition, President Clinton signed the Gun-Free Schools Act and issued a Presidential Directive to enforce "zero tolerance" in our schools -- if a student brings a gun to school, he or she does not come back for a year.

  Reducing Unnecessary Regulations. The Clinton Administration has reduced regulations in its elementary and secondary programs by over two-thirds.

- **Making the 13th and 14th years of education universal.**

Higher education tax cuts. The balanced budget agreement calls for roughly $35 billion in tax cuts to help families pay for college. Congress has enacted the President's $1,500 HOPE Scholarship tuition tax credit, to make the first two years of college universally available. Students beyond the first two years, or part-time students seeking to improve or acquire job skills, can now receive a 20% tax credit for up to $5,000 of tuition and required fees through 2002, and $10,000 thereafter.

The largest Pell Grant increase in 20 years. President Clinton has already increased Pell Grants from $2,300 in 1993 to $2,700 in 1997. These grants will provide a total of 3.8 million low-income students the opportunity to attend college this year. And he plans to do more. The President's Budget Agreement with Congress includes the largest increase in Pell Grants in two decades -- a funding boost of 25%. The maximum award will reach $3,000, $700 more than in 1993. In the 1998 budget alone, an additional 348,000 students will receive grants: 130,000 young people from moderate income families, and 218,000 low income students over the age of 24.

Reforming Student Loans. President Clinton cut student fees and interest rates for all borrowers, and expanded repayment options and improved service thought he Direct Loan Program. More than 2.1 million student and parent borrowers have received direct loans since the program began. Under this Administration, the rate of student loan defaults within the first two years after borrowers leave college has reached an all-time low. The losses from student loan defaults fell from $ 1.7 billion in 1992 to $249 million in 1996 -- an 86% drop.

Expanding Educational Opportunity Through Service. The Clinton Administration has enabled 70,000 volunteers to earn money for college by serving their communities and their country in the AmeriCorps program since the inception of the program.

PRESIDENT CLINTON: A STRONG RECORD OF COMMITMENT TO EDUCATION

A STRONG RECORD OF PROGRESS

a. *Enacted Historic New Initiatives*

- **National Service:** President Clinton created the AmeriCorps program in September 1993 -- to enable young people to earn money for college by serving their communities and their country. More than 45,000 volunteers have worked in schools, hospitals, neighborhoods and parks.

- **Direct Lending Act:** President Clinton reformed the student loan program, making college more affordable for 1.7 million students at 1300 schools participating in the new Direct Lending program in 1994 and 1995. Direct Lending gives students access to flexible repayment options including pay-as-you-earn plans.

- **GOALS 2000:** On March 31, 1994, President Clinton signed Goals 2000 which supports the development of standards of excellence for students and encourages grassroots reforms to improve our schools. 48 states are now using Goals 2000 funds to help raise academic achievement.

- **Gun Free Schools Act.** On October 20, 1994, President Clinton enacted the Gun-Free Schools Act which requires the immediate expulsion for one year of any student who brings a gun to school.

- **School-to-Work.** President Clinton signed the School-to-Work Opportunities Act in May 1994 to help students not immediately bound for 4-year colleges through local partnerships among businesses, schools, community organizations and state and local governments. Already 27 states have received implementation grants, assisting 500,000 students and involving 150,000 businesses.

- **Telecommunications Act.** On February 8, 1996, 1996, President Clinton enacted the Telecommunications Act of 1996 to help ensure that schools, libraries, hospitals and clinics will have affordable access to advanced telecommunications services.

- **Technology Learning Challenge:** President Clinton enacted this program to challenge communities to form local partnerships between schools and private businesses to develop creative new ways to use technology for learning. Federal funds leverage local resources -- each federal dollar is matched by more than three dollars of local and private funds. 19 grants were awarded in 1995. The Clinton Administration has also worked with states to connect schools to the internet through "NetDays." President Clinton participated in NetDay in California on March 9, 1996 -- connecting more than 50 percent of California's schools. Over 25 states now have NetDay operations underway this year.

- **Religious Freedom:** On July 12, 1995, President Clinton helped end 30 years of uncertainty over school prayer and the religious rights of students by directing Attorney General Reno and Secretary of Education Riley to prepare guidelines outlining the many religious rights of students in our nation's public schools.

b. *Strengthened Existing Programs*

- **Safe and Drug Free Schools.** On October 20, 1994, President Clinton reformed and reauthorized the Drug Free Schools Act, to create the Safe and Drug Free Schools program which provides funding for enhanced school security, drug prevention programs and training teachers to deal with violence.

- **Head Start.** On, May 18, 1994 President Clinton signed legislation reauthorizing, improving and expanding Head Start (P.L. 103-252). It the created the Early Head Start program for 0-3 year olds and set aside 25% of real funding increases for improving the quality of all Head Start programs.

- **Title I.** On October 24, 1994, President Clinton signed legislation improving the Title I program as part of the Improving America's Schools Act. Title I provides funding at the local level to improve the skills of children in high-poverty schools, typically providing supplemental instruction in reading and math. This legislation provides greater state and local flexibility in exchange for greater accountability for student performance, and strengthening parental involvement.

c. ***Expanding Opportunities***

- **President Clinton's FY97 Balanced Budget provides <u>$61 Billion More</u> for Education and Training over 7 years than the vetoed Republican budget.**

- **Nearly $1 billion more for Basic and Advanced Skills Training.** President Clinton's balanced budget includes $1 billion more for Title I in 1997 than in 1993.

- **Pell Grants**: President Clinton has consistently supported increases in the minimum Pell Grant, which provides aid to help low income families pay for college. Under President Clinton, the Pell Grant has grown from $2,300 to $2,470. President Clinton's balanced budget includes a major expansion of the Pell Grant program -- increasing the maximum grant 33% between 1995 and 2002.

- **Strong Commitment to National Service**: President Clinton's balanced budget funds 30,000 Americorps members in 1997 -- 5,000 more than this year -- for a total of 100,000 AmeriCorps opportunities over the program's first 4 years.

- **Major Expansion of Head Start:**
  - President Clinton has increased Head Start funding 29% from 1993 to 1996.
  - FY97 budget includes a new commitment to fund 1 million Head Start opportunities for preschool children by 2002.
  - $1.2 billion increase in 1997 over 1993 levels.
  - Supports nearly 800,000 Head Start opportunities in 1997 -- 46,000 more than in 1995.

- **More Assistance For Dislocated Workers:**
  - Double the funding from when President Clinton took office -- $1.3 billion in FY97.
  - Assists an estimated 646,000 dislocated workers in FY97, up from 300,000 in 1993.

- **FY97 Budget Increases funding for other education and training programs that work,** such as: Pell Grants, Safe & Drug Free Schools, Charter Schools, School to Work, and Goals 2000.

PRESIDENT CLINTON:
FIGHTING FOR EXPANDED OPPORTUNITY THROUGH EDUCATION

<u>PREPARE EVERY CHILD TO LEARN AND EQUIP THEM WITH THE SKILLS NEEDED FOR</u>

THE 21ST CENTURY.

- **President Clinton's Balanced Budget provides $57 billion more for Education and Training than the current Republican Budget Resolution.**

- **"America Reads" -- A New American Mission To Make Sure that Every Child Can Read Well by the End of the 3rd Grade.** Today, 40% of 4th graders cannot read as well as they should. President Clinton's new initiative will:

  (1) Offer "Parents as First Teachers Challenge Grants" to support effective and proven efforts that help parents help their children to learn to read;

  (2) Help Mobilize 1 million tutors to provide individual attention to more than 3 million young children before and after school; and

  (3) Major Expansion of Head Start to 1 million children in FY2002.
  - President Clinton has increased Head Start funding 29% from 1993 to 1996.
  - FY97 budget includes a new commitment to fund 1 million Head Start opportunities for preschool children by 2002.
  - $1.2 billion increase in 1997 over 1993 levels.
  - Supports nearly 800,000 Head Start opportunities in 1997 -- 46,000 more than in 1995.

  *President Clinton's new initiative is founded on the notion that parents must be the bedrock of any child literacy effort. This new "America Reads" initiative builds on Clinton Administration efforts to work with the Private Sector in helping parents help our children learn how to read, such as the "Partnership for Family Involvement in Education" and Read*Write*Now.*

- **Technological Literacy for the 21st Century**: On February 15, 1996, President Clinton proposed the creation of a $2 billion, 5-year Technology Literacy Challenge -- the federal government will match state and local dollars to spur efforts to get connections to the Information Superhighway, computers, well-trained teachers and challenging educational software into every classroom in every locality.

- **School Construction Initiative.** President Clinton's new School Construction Initiative provides up to a 50% interest subsidy to school districts repairing existing K-12 schools or building new schools to replace old ones or to accommodate increased enrollments or new demands for 21st century schools. The President's plan provides $5 billion in federal subsidies over the next four years. Given the range of subsidy rates, $5 billion should support $20 billion or more in school construction and renovation.

- **Higher Standards for Students & Teachers**: In his March 27, 1996 speech to the NGA Education Summit President Clinton specifically called for higher tough and meaningful standards for students and teachers. Students should have to pass a test in order to graduate from school to school. States, schools, and teachers unions need to work together to make it tougher for teachers to get licensed and recertified, easier and less costly to get teachers who can't teach out of the classroom, and clearly set rewards for teachers who perform well.

  - **Public School Choice and Charter Schools**: Parents who are dissatisfied with their child's performance or the school's performance should have the opportunity to choose a public school that will do better. To ensure that parents have the opportunity to choose a school for their children, the President has called on all 50 states to enact charter school laws -- public schools, created and managed by parents, teachers and administrators. 21 states currently have laws providing for the creation of charter schools. Charter schools have greater flexibility, but are held accountable for their results through a performance-based contract with a local school board, state or other public institution.

OPEN WIDE THE DOORS OF COLLEGE AND PROVIDE TRAINING TO EVERY SINGLE AMERICAN WHO WANTS IT.

PRESIDENT CLINTON'S PLAN: MAKE AT LEAST 2 YEARS OF COLLEGE AS UNIVERSAL AS HIGH SCHOOL EDUCATION IS TODAY AND USE TARGETED TAX CUTS TO DO IT.

- **America's $1,500 HOPE Scholarships.** On June 4, President Clinton proposed America's HOPE Scholarships to make access to two years of college universal by providing students with a $1,500 refundable tax credit for full-time tuition in their first year of college and another $1,500 credit in their second year if they stay off drugs and earn at least a B average in their first year. Part-time students are eligible for a $750 tax credit. The $1,500 tuition tax credit will pay for more than the full cost of tuition at the national average-priced community colleges.

- **$10,000 Tuition Tax Deduction**: President Clinton's balanced budget contains a tax deduction of up to $10,000 per year for the cost of college tuition and training throughout one's life. The $10,000 tuition tax deduction is available any year a family has education expenses. For joint filers, the deduction would be phased out at incomes between $80,000 and $100,000.

- **Major Pell Grant Expansion.** The Pell Grant is the main federal grant that allows millions of low-income and middle-class families to have access to college. The President's balanced budget builds in a 33% increase in the maximum Pell Grant award from FY1995 to FY2002. In FY97 alone, the President's budget would provide Pell Grants for 3.7 million students.

- **Strong Commitment to National Service**: President Clinton's balanced budget funds 30,000 AmeriCorps members in 1997 -- 6,000 more than this year -- for a total of 100,000 AmeriCorps opportunities over the program's first 4 years.

- **National Service High School Scholarships:** President Clinton called on all high schools to make service part of their basic ethic and to raise $500 to reward a high school student who has done significant work to help his or her community. The federal government would match the $500 to help the student go to college.

- **College Honor Scholarships**: In his State of the Union Address President Clinton called for the creation of the largest-ever merit-based scholarship program, rewarding the top 5% of high school graduates in every school with $1,000 grants toward the cost of college. If this proposal were enacted this year, 128,500 graduating high school seniors would receive a scholarship to help finance their college education.

- **Expand and Transform Work Study**: President Clinton's balanced budget increases the number of students involved in work study from 700,000 to over 1 million students over the next five years.

- **Expand School-To-Work To 50 States.** Help states ensure that high school students not immediately going on to college successfully make the transition from school to work.

- **New GI Bill For America's Workers.** President Clinton has proposed a fundamental reform of the federal job-training system that would provide a $2,600 skill grant for dislocated workers who need one, to return to school or get the training they need. The President's proposal would eliminate more than 70 separate job training programs and replace them with an integrated system that minimizes red tape and maximizes individual choice in each local community.

- The President's proposal would also provide workers access, through networks of One-Stop-Career Centers already under construction in the States, to reliable computerized data on jobs, careers, what skills are in demand, and the success records of training institutions, so that workers can make good choices to improve their futures. States and localities would have flexibility to work in partnership with the private sector to tailor training programs and delivery systems to reflect local conditions and priorities.

PRESIDENT CLINTON CONTINUES THE FIGHT TO REFORM AND IMPROVE OUR SCHOOLS THROUGH COMPETITION, ACCOUNTABILITY, & PARENTAL CHOICE

1993: President Clinton proposed new seed capital to help parents, teachers, businesses, and others start up charter schools to provide more choice, competition and opportunity within public education.

1994: Charter School fund enacted into law in 1994, funding provided in 1995, and this fund is now helping to start up charter schools in 11 states.

1995: September 22, 1995: President Clinton announces awards of grants to provide start-up funds for Charter Schools in 9 states.

1996: President Clinton's balanced budget more than doubles funding to $40 million in 1997, and increases funding over the next 5 years to fund start-up costs for up to 3,000 new charter schools. House Republicans would more than cut in half this funding. Since the President's State of the Union appeal in January for more public school choice, 5 states have now enacted laws authorizing charter schools

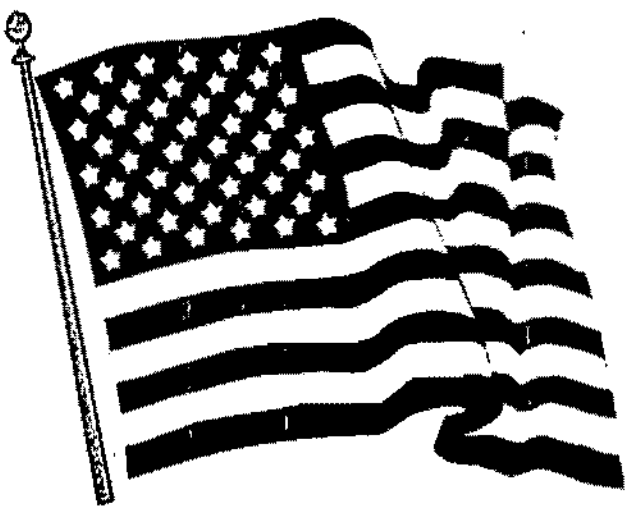
- **School Uniforms**: On February 24, 1996 President Clinton issued guidelines on how schools consider school uniform policies to help reduce violence while promoting discipline and respect.

- **Parental Involvement:** President Clinton strongly believes that parents are and should continue to be their children's 1st and most important teachers. Parents must take active roles in their children's education. The President challenged businesses and schools to be supportive and family-friendly.

  - **Partnership for Family Involvement in Education.** In 1994, Secretary Riley announced this Partnership that has grown to include more than 700 national organizations representing families, schools, communities, businesses, and religious groups to promote family involvement by galvanizing community support for local schools, making workplaces more family friendly, and promoting Read*Write*Now, a volunteer reading program that encourages children to keep up their reading skills during the summer.
  - **Parent-Teacher Compacts.** Using Title 1 funds to foster school-parent compacts to set goals and an agenda for their children's education in half of the nation's schools.
  - **Family and Medical Leave Expansion.** The President proposed expanding the Family and Medical Leave Act to let parents take up to 24 hours a year of unpaid leave to participate in school activities directly related to their child's education advancement, such as to attend parent-teach conferences or visiting a new school.

- **Character Education**: President Clinton is a vigorous proponent of teaching basic American values and citizenship in our schools. The President has hosted two White House Conferences on Character Education and has encouraged the development of character education through the Improving America's Schools Act.

America's HOPE Scholarships



A Tax Cut to Make 14 Years Of Education The Standard For All

June 4, 1996

AMERICA'S HOPE SCHOLARSHIPS
A TAX CUT TO MAKE 14 YEARS OF EDUCATION THE STANDARD FOR ALL
June 4, 1996

PRESIDENT CLINTON ANNOUNCES THE HOPE SCHOLARSHIP PLAN TO MAKE 14 YEARS OF EDUCATION -- AT LEAST TWO YEARS OF COLLEGE -- THE STANDARD FOR ALL AMERICANS. President Clinton's HOPE Scholarship Tax Cut makes clear that 2 years of college should be as universal as high school and builds on his comprehensive program to guarantee that a college education is both accessible and affordable to all Americans at any time in their life. To further this guarantee, the President announced the following proposals:

- **NEW AMERICA'S HOPE SCHOLARSHIP TAX CUT -- Guarantees 2 Years of Tuition at the Average Community College for Any Student Who Earns a B Average.** Modeled on the successful Georgia HOPE Scholarship program, this new proposal provides all students with a $1,500 refundable tax credit for full-time tuition in their first year ($750 for half-time), and another $1,500 in their second year if they work hard, stay off drugs, and earn at least a B average in their first year. This $1,500 tax credit will pay for more than the full cost of tuition at the national average-priced community colleges -- and a downpayment at more expensive four-year schools.

- **$10,000 Tax Deduction for All Education and Training.** The President maintains his $10,000 tax deduction for tuition for college, graduate school, community college, certified training and technical programs. This encourages lifetime investment in higher education.

- **Scholarship Increases (Pell Grants) for Lower-Income Students:** The President announced that his balanced budget plan increases Pell Grants each year. Indeed, the maximum Pell Grant award will increase by 33% from fiscal 1995 to fiscal 2002. The proposed fiscal 1997 increase in the maximum award would be the largest since implementation of the program in the 1970s.

BUILDS ON PRESIDENT'S PLAN FOR GUARANTEED ACCESS TO COLLEGE. The above initiatives build on the President's plan to guarantee that college is both accessible and affordable to every person -- through loans with pay-as-you-can repayment, grants, scholarships, and work study.

- **With the increased Pell Grant program support,** students have access to up to $5,100 in Pell Grants and student loans for their first year in college, and much more in future years.

- **The new Direct Student Loan program** enacted as part of the President's 1993 Economic Plan is allowing millions of students to borrow in a simpler, less bureaucratic way, and to pay back their loans as a share of their income, and part of the savings from Direct Lending will be returned to students in the form of lower interest payments on their loans.

  - **New Direct Loans With Pay-As-You-Can Option:** Will account for 50% of loans
  - **National Service -- AmeriCorps:** 30,000 students earning up to $4,725 for service
  - **Pell Grants:** Provides for 7-year expansion, increasing maximum award to $3,128 in 2002
  - **$10,000 Education Deduction:** 16.5 million students get deduction for their tuition
  - **Work Study Expansion:** Proposes expansion to 1 million participants by FY2002
  - **Honors Scholarships:** Proposes $1,000 scholarship for top 5% of every high school class
  - **IRAs for Education:** Proposal allows penalty-free withdrawals for education
  - **Skill Grants:** Proposed $2,600 Skill Grants to enable dislocated workers to get needed skills

America's HOPE Scholarship Tax Cut

Tuition and Fees at Public Two-Year Institutions

State	Average (1994-95) Tuition	Share of Average Tuition Covered By $1,500 Credit
AK	$1,320	100%
AL	$621	100%
AR	$865	100%
AZ	$727	100%
CA	$363	100%
CO	$1,227	100%
CT	$1,520	99%
DE	$1,266	100%
FL	$1,064	100%
GA	$1,019	100%
HI	$499	100%
IA	$1,696	88%
ID	$990	100%
IL	$1,188	100%
IN	$1,797	83%
KS	$1,014	100%
KY	$1,009	100%
LA	$769	100%
MA	$2,435	62%
MD	$1,857	81%
ME	$2,188	69%
MI	$1,411	100%
MN	$1,965	76%
MO	$1,227	100%
MS	$934	100%
MT	$1,414	100%
NC	$581	100%
ND	$1,666	90%
NE	$1,083	100%
NH	$2,315	65%
NJ	$1,762	85%
NM	$601	100%
NV	$835	100%
NY	$2,142	70%
OH	$2,105	71%
OK	$1,123	100%
OR	$1,328	100%
PA	$1,751	86%
RI	$1,686	89%
SC	$1,022	100%
SD	$2,379	63%
TN	$907	100%
TX	$672	100%
UT	$1,358	100%
VA	$1,382	100%
VT	$2,196	68%
WA	$1,334	100%
WI	$1,721	87%
WV	$1,372	100%
WY	$894	100%

Source: U.S. Department of Education. Estimate of share of tuition and fees covered by the HOPE Scholarship if it has been available in 1994-1995.

BACKGROUND ON HOPE SCHOLARSHIPS

Overview. Currently, millions of Americans have access to college through Pell Grants and the federal student loan program, including the President's Direct Student Loan program, but the average student with loans now graduates $10,000 in debt and many more may not go on to college because they are reluctant to borrow so much money. The annual cost of a public college increased from 9% of the typical family's income in 1979 to 14% in 1994. [Education Department, 1996] *The President's HOPE Scholarship Plan makes it clear that two years of college should be as universal as high school, and builds on his comprehensive program to guarantee that a college education is both accessible and affordable to all Americans at any time in their life.*

- **Guaranteed Average Tuition For Two Years of Community College:** The HOPE Scholarship Plan will ensure that students can get up to a $1,500 refundable tax credit, a Pell Grant, or a combination for tuition in their first year after high school, and another $1,500 in their second year if they work hard, stay off drugs, and earn at least a "B" average. This $1,500 credit is $300 above the national average community college tuition and would make tuition free for 67% of all community college students. It would enable states that set tuition within $300 of the national average *to make community college tuition free for every student.* The credit would be indexed to inflation each year to protect its value.

- **$1,500 For The First Two Years At <u>Any</u> College For Students Who Earn At Least a B Average:** While the HOPE Scholarship tax credit is priced to pay for the full cost of two years of community college tuition for students who earn at least a "B" average in their freshman year, the $1,500 credit can be applied to tuition at any college, from a two-year public community college to a four-year private college. This $1500 tax credit will be a substantial downpayment for parents sending their children to colleges with higher tuition.

- **$750 for Half-Time Students:** The HOPE Scholarship Tax Cut is designed to assist parents and current workers who want to further their education. Those who can only go to school half-time because of their job or parenting obligations, are eligible for a $750 refundable credit per year until they have completed two full years of college. The "B" average requirement also applies to half-time students.

- **Includes 1-Year Certificate Programs:** Students at training and technical programs eligible for Pell Grants under Title IV of the HEA are also eligible HOPE Scholarships.

- **Interaction with the $10,000 Education Tax Deduction:** Students would receive either the HOPE scholarship or the $10,000 tax deduction in any year. Eligible students in their first two years or their parents can choose between either the Hope Scholarship or the deduction. The deduction is up to $10,000 a year per family. The credit is $1,500 per student.

- **Costs:** The HOPE Scholarship Plan is fully paid for within the President's balanced budget plan. The President's initial proposal for a $10,000 deduction cost $35 billion over six years. The new proposal, with the $1,500 tax credit, costs $42.9 billion over 6 years. To offset this increase, the Administration proposes to reduce sales source rule benefits, apply an international departure fee, and auction radio DARS spectrum.

  In addition, the $10,000 deduction is also more targeted by conforming the income limits to match the income limits for the proposed expanded IRAs. The deduction had been phased out for joint filers with income between $100,000 and $120,000, and for single filers with income between $70,000 and $90,000. It will now be phased out for joint filers with income between $80,000 and $100,000, and for single filers with incomes between $50,000 and $70,000. These income limits would apply to the $1,500 tax credit as well as the $10,000 deduction.

- **"B" Average:** To remain eligible for the credit, students must earn at least a "B" average or a 2.75 grade point average in their first year of college or post-secondary school. Based on the National Post-Secondary Student Aid study, more than half of students earn a 2.75 average or better.

- **Students Must Stay Drug-Free:** A student is ineligible if, in accordance with the Drug-Free Post-Secondary Education Act of 1990, he or she has been convicted of committing certain felony offenses involving marijuana, controlled substances, or dangerous drugs.

- **Administration:** Administrative issues such as the timing and delivery of the tax credit will require consultation with colleges to ensure that the plan provides maximum flexibility and efficiency rather than top-down administration. The Treasury Department and Department of Education will work with Members of Congress, Governors, and college presidents and financial aid administrators to design the most flexible and efficient system, and to ensure against excessive and abusive tuition increases.

- **Challenge to States.** The President is challenging states to build on the HOPE Scholarship Plan by following Georgia's lead and making scholarships available for four years of college for students who maintain a "B" average. The President is also challenging the 17 States that set tuition above $1,500 to reduce costs so that with the HOPE Scholarship tax cut, community college will be free for every student.

Paying For America's HOPE Scholarship Tax Cut

Balanced Budget Framework. The President's new America's HOPE Scholarship Tax Cut proposal is completely paid for with specific budget savings so that the President's overall plan continues to reach balance in fiscal year 2002.

Current Education Tax Deduction: $35 Billion FY 1997-2002. The President's current education tax cut -- $10,000 deduction -- costs $35 billion over 6 years (FY 1997-2002) and is paid for within the balanced budget plan that has been certified as reaching balance in 2002 by the Congressional Budget Office.

New Proposal: $42.9 Billion FY 1997-2002. The new combined proposals would be $42.9 billion. The breakout of these costs are as follows:

	FY 1997-2002 Cost
America's HOPE Scholarship Tax Cut	$25.1 Billion
$10,000 Education Tax Deduction	$17.8 Billion
TOTAL COST	**$42.9 Billion**

The additional $7.9 billion in net new costs are paid for with specific savings listed below:

	FY1997-2002 Savings
Reduction of Sales Source Rule Benefits	$3.5 Billion
International Departure Fee	$2.3 Billion
Auction Radio DARS Spectrum	$2.1 Billion
TOTAL SAVINGS	**$7.9 Billion**

NOTE: While the President's new America's HOPE Scholarship Tax Cut has gross costs of $25.1 billion over FY 1997 to 2002, the net increase in the President's overall education tax cut is only $7.9 billion because of savings that take place in the President's $10,000 education tax deduction.

- Most of those savings ($10.7 billion) come from families choosing the HOPE tax credit over the $10,000 education tax deduction.

- The remaining savings ($6.5 billion) come from lowering the phase out income limits for joint filers from $120,000 to $100,000 to conform to the Administration's expanded IRA proposal.

BACKGROUND ON NEW SAVINGS MEASURES

SAVINGS

REDUCTION OF SALES SOURCE RULE BENEFITS **$3.5 Billion**

(FY 1997 - 2002)

Description: The proposal would limit the ability of multinational corporations to decrease their U.S. tax liability inappropriately, by reducing the amount of export sales income that they may treat as derived from foreign sources. Under current law, the sales source rule generally permits multinational corporations that also exports U.S. products to treat half of their export profits as income from sales activities, and therefore as foreign source income, even though the economic activity that produced the export profits may have occurred entirely within the United States. The source of income is relevant to the determination of a U.S. taxpayer's foreign tax credit. By increasing the amount of income treated as foreign source, a taxpayer with "excess" foreign tax credits can increase its utilization of foreign tax credits and therefore pay less U.S. tax on the same income. The sales source rule of present law provides generous tax benefits to U.S. exports that also conduct foreign manufacturing or other high-taxed foreign operations, but provides no benefit at all to U.S. exporters that conduct all their business activities within the United States. The proposal would reduce the percentage of export profits that generally is treated as sales (and thus foreign) income from 50 percent to 25 percent.

The provision would be effective for taxable years beginning after the date of enactment.

SAVINGS

AUCTION RADIO DARS SPECTRUM **$2.1 Billion**

(FY 1997 - 2002)

Description: This savings proposal would auction 25Mhz of spectrum currently reserved for digital audio radio services (DARS) for subscription based wireless services. The FCC had originally allocated 50 Mhz for DARS, which would provide 4 channels of a national, subscription-based radio service. Due to interference problems with Canada, DARS would be allocated 2 channels instead of 4, freeing up 25 Mhz for auction. The revenues of auctioning 25 Mhz of spectrum are estimated at $2.1B by CBO and OMB. These auctions could be done in any year.

SAVINGS

INTERNATIONAL DEPARTURE FEE **$2.3 Billion**

(FY 1997 - 2002)

Description: The President's FY '97 Budget assumes that the currently expired aviation excise taxes, including the $6 per passenger international departure fee, will be reinstated in August, 1996. This offset proposal would increase the per passenger tax form $6 to $16.

BACKGROUND ON PELL GRANT INCREASE

Overview. The Pell Grant is the main federal grant that allows millions of low-income and middle class families to have access to college. Despite the fact that the President's budget contains well over $200 billion in discretionary cuts over 7 years, the President's balanced budget builds in a 33% increase in the maximum Pell Grant award from FY1995 to FY2002.

- **$2 Billion Program Deficit Eliminated.** The projected $2 billion Pell Grant program deficit was eliminated within the first two years of the Clinton Administration.

- **Record Increase in FY1997:** The President's fiscal year 1997 budget calls for funding to support a $2,700 maximum Pell Grant -- nearly a 10% increase over the current level -- which would provide more than 3.7 million students with Pell Grants averaging $1,706 in 1997. This proposed increase in the maximum Pell Grant award would be the largest increase since implementation of the program in the 1970s.

- **President Announces Yearly Pell Grant Increases:** The President's balanced budget contains the following seven-year increase in the maximum Pell Grant awards.

Fiscal Year	Maximum Award
1995	$2,340
1996	$2,470
1997	$2,700
1998	$2,780
1999	$2,863
2000	$2,949
2001	$3,037
2002	$3,128

- **President's 7-Year Pell Grant Increase Could Provide 2.7 Million More Grants Than Republican Budget Resolutions:** Both the House and Senate FY1997 Budget Resolutions freeze the budget authority for the Pell Grant program from FY1997 -FY2002. This means that Republicans would provide 2.7 million fewer Pell grants over 6 years, and deny 191,000 students Pell grants in FY1997 alone compared to the President's balanced budget plan. Under the funding freeze assumed in the Republican resolutions, the maximum Pell grant award would decrease 17%, from $2,470 in FY1996 to $2,055 in FY2002.

  Last year, House Republicans tried to cut the Pell Grant program by $450 million, denying Pell Grants to 380,000 students in 1996 alone.

$10,000 EDUCATION DEDUCTION

- **Breadth of Application**: The $10,000 Education Deduction would be for every taxpayer for the tuition at any education or training program that is at least half-time or related to a worker's career.

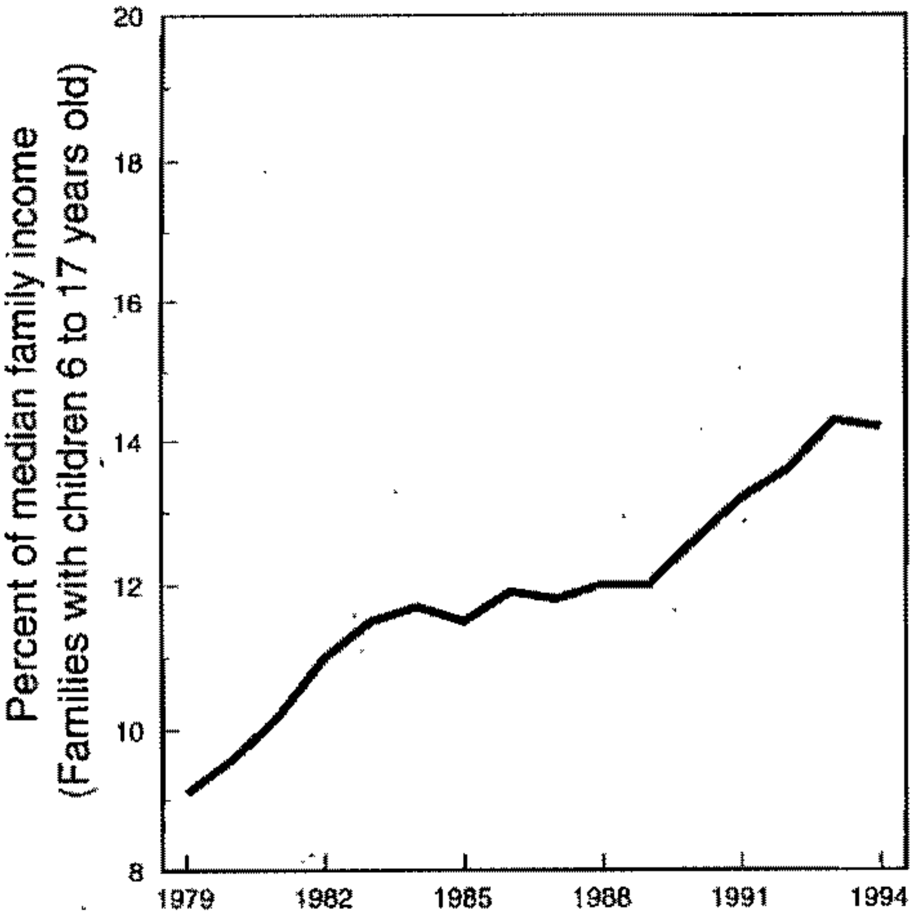
- **Supplements Hope Scholarship Tax Cut**: In any year, students in the 13th and 14th grades would receive either the HOPE Scholarship or the $10,000 tax deduction. Eligible students in their first two years or their parents can choose between either the HOPE Scholarship or the deduction. Students that relied on the $1,500 tax credit in the first two years of college would still be eligible for the $10,000 deduction in the remaining years of college or graduate school or for qualified lifelong learning. Students not eligible for the tax credit would still be eligible for the $10,000 deduction. The deduction is up to $10,000 a year per family. The credit is $1,500 per student.

- **Income Limits**: For joint filers, the deduction would be phased out at incomes between $80,000 and $100,000. For single filers, the deduction would be phased out between $50,000 and $70,000.

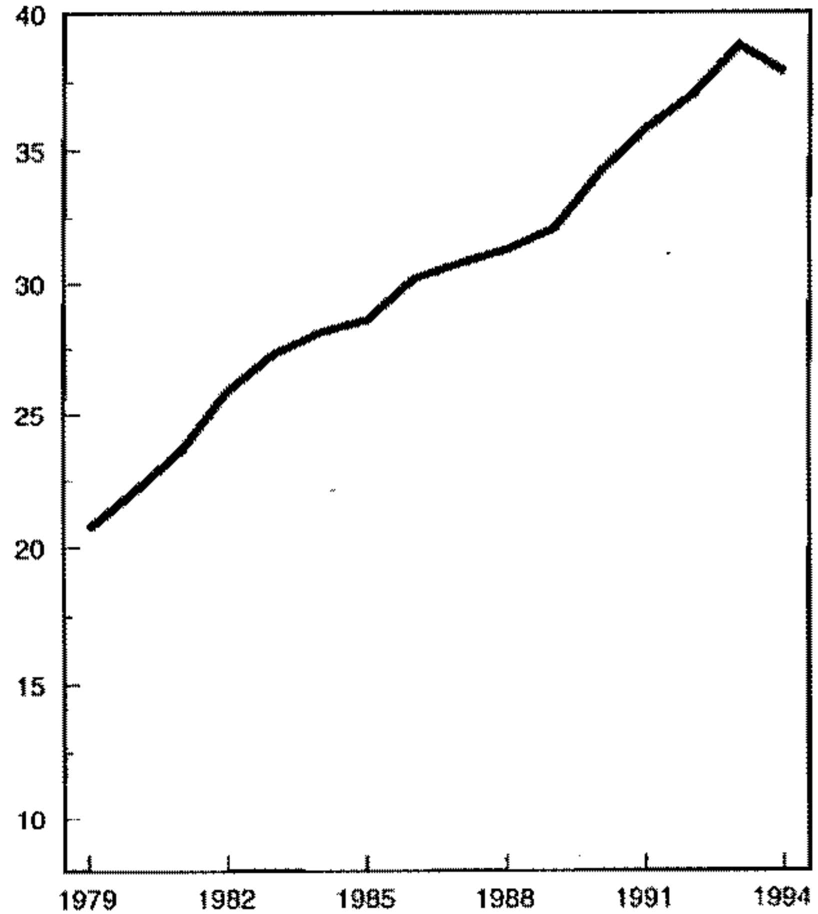
- **Unlimited Number of Years**: While the HOPE Scholarship is for the first two years of college, the $10,000 tax deduction is available any year a family had education expenses. For example, a family of four with an income of $40,000 and five years of tuition expenses totaling $10,000 would receive a $7,500 tax cut over that five-year period.

Cost of College As Percent of Typical Family Income

Public Institutions



Private Institutions



Source: Department of Education, *The Condition of Education 1996*, p 76.

* Includes Calculation of Tuition, Room and Board

America's HOPE Scholarship Tax Cut
Background Materials

GEORGIA HOPE SCHOLARSHIPS

> *"The most far-reaching scholarship program in the nation"*
> -- *Los Angeles Times*, April 5, 1994

PROGRAM DESCRIPTION: The Georgia HOPE program, established by Governor Zell Miller in April 1993, provides full tuition, fees, and books at any in-state public college to any Georgia student who graduates from high school and maintains a B average or better in college.

A TRULY UNIQUE PROGRAM THAT PROVIDES HOPE FOR GEORGIA STUDENTS:

- **Governor Zell Miller**. "Of all the things that I've ever been involved with, It's the one thing that I'm most proud of. We are making college accessible in a way it never has been before in Georgia." [February 12, 1995]

- ***Atlanta Journal Constitution.*** "Where else in America can children know, from elementary school on, that if they work hard and earn a 3.0 average by graduation from high school, they can fulfill the dream of going to college whether their family has money or not? That's the opportunity created by Georgia's HOPE scholarship program. ...It's a marvelous thing, and it is a solemn promise from the state to its young residents. It is not, however, an entitlement requiring no effort. Students must meet the standards to get the scholarships, and they must keep up the struggle to hold onto them once they enter college." [Atlanta Journal Constitution, September 7, 1994]

- **Barry Fullerton, Vice Chancellor, University of Georgia.** "It's an ingenious program. It's a great public policy, and it has benefited thousands of students." [The Courier-Journal, April 9, 1995]

- ***Orlando Sentinel.*** "Imagine a state where every student with a B average gets a full college scholarship. ...Don't have that fanciful an imagination? You don't need one. You just need to look north, to Georgia." [Orlando Sentinel, April 8, 1996]

- ***Atlanta Journal Constitution.*** "It is, quite simply, an effort to help Georgia's young people become well-educated, productive citizens." [Atlanta Journal Constitution, December 16, 1994]

ELIGIBILITY REQUIREMENTS: Students must meet the following requirements:

<u>**2-Year and 4-Year Public Colleges/Universities**</u>

- For a HOPE Scholarship to a 4-year public college, graduating high school students must have a 3.0 cumulative grade point average on a 4.0 scale or an 80 numeric average and obtain a diploma with a State of Georgia College Preparatory Seal. (In order to obtain the college preparatory seal, students must meet and graduate from the required core college preparatory curriculum.)

- For a HOPE Scholarship to a public college, graduating high school students who do not meet the 3.0 grade in the core curriculum, must have a 3.2 cumulative grade average on a 4.0 scale or an 85 numeric average in other curriculum tracks.

- Students who maintain a B average in a 4-year public college and stay off drugs can continue to receive the same level of support for up to four years.

- Students whose college grades fall below 3.0 can requalify a year later if they bring their grades back up above 3.0.

- Students who are not eligible for HOPE scholarships upon graduation of high school, or who enter college later in life, can obtain HOPE scholarships after their sophomore year if they obtain a cumulative 3.0 grade average.

2-Year and 4-Year Private Colleges/Universities

- Students receive $3,000 a year in HOPE money, but only if they have and maintain a B grade average.

Technical Schools and Adult Education Institutes

- All students in a diploma or certificate program at a Georgia technical institute are eligible for HOPE.

Universal Requirements

- All students must stay drug free. A Student is ineligible if, in accordance with the Drug-Free Postsecondary Education Act of 1990, he/she has been convicted for committing certain felony offenses involving marijuana, controlled substances, or dangerous drugs.

KEY FACTS:

- During the first 3 years of the program (1993-1995), nearly 200,000 Georgia students qualified for and received some form of HOPE scholarship.

	HOPE Scholarship Students 1993-1996
University System	60,682
Technical Institutes	74,830
Private Colleges	45,423
GED Recipients	9,066
TOTAL	190,001

- In the 1995-1996 school year, 70 percent of University of Georgia freshman students received a Georgia HOPE scholarship.

- The racial composition of those receiving HOPE scholarships mirrors that of the overall university system (75% white, 20% black).

- 84% of HOPE students who enrolled in public colleges in Fall 1994 were still in college in Fall 1995, versus 74% of all students.

- A 1995 poll by Georgia State University found that 77 percent of Georgia residents who were aware of the program thought it would lead parents to take a more active interest in their children's education.

- Since the start of the program, enrollment in Georgia's technical and adult education institutions has increased 24 percent. Enrollment increased 8 percent in 1995, alone.

ARKANSAS ACADEMIC CHALLENGE SCHOLARSHIPS

> *"We need more of our young people going to college and we need them to succeed and stay in college. This program will help them accomplish that goal."*
> -- Governor Bill Clinton, July 12, 1991

PROGRAM DESCRIPTION: Governor Bill Clinton signed the Arkansas Academic Challenge Scholarships into law on May 5, 1991, creating a guaranteed scholarship plan to promote academic achievement and encourage academically prepared Arkansas high school graduates to enroll in the state's colleges and universities. Through the 1993-1994 school year, the scholarship provided the lesser of $1000 or the annual tuition. For the 1994-1995 school year, the scholarship was increased to provide annually the lesser of $1500 or the annual tuition. The scholarship is renewable for up to 3 more years, provided the student meets the continuing eligibility standards established by the Arkansas Department of Higher Education.

REQUIREMENTS:

- **Income Requirement.** For families with one dependent child, income cannot exceed $30,000 per year. An extra $5,000 of family income is allowed per child.

- **Grade-Based Awards.** Awards are based on the applicant's meeting minimum standards with regard to the ACT composite score, grade point average (GPA) in the pre-collegiate core curriculum.

  * Applicants must have a composite ACT score of 19 and a grade point average of 2.50 on a 4.00 scale, in the precollegiate core curriculum.

  * Applicants not meeting either the grade point average or ACT requirements may still qualify for the Academic Challenge Scholarship if their combined ACT score and grade point average meet satisfactory levels when applied to a selection index (i.e. a student with a 15 ACT would have to achieve a minimum 3.25 GPA; a student with a 26 ACT would only have to have a 2.0 GPA.)

- **All students must stay drug free.** A student is ineligible if, in accordance with the Drug-Free Postsecondary Education Act of 1990, he/she has been convicted for committing certain felony offenses involving marijuana, controlled substances, or dangerous drugs.

- **Students must maintain their grades once in college.** In order to retain their scholarship for an additional year, students keep their grades above state-specified levels.

KEY FACTS:

- In 1987, 32 percent of Arkansas students who took the ACT had completed high school pre-college core curriculum. By 1992, the first year of the Academic Scholarships Program, that percentage rose to 48.

- The number of high school students qualifying for and receiving the Arkansas Achievement Scholarship has increased dramatically each year. In the 1991-1992 school year, there were 1,024 recipients. In the 1994-1995 school year, 5,383 students received awards.

- While Bill Clinton was governor of Arkansas, the percentage of high school students going on to college increased by 50% (from 38.2% in 1982 to 57.3% in 1992). The Arkansas "going rate" has remained steady since 1992.

Bureau of the Census Statistical Brief

More Education Means Higher Career Earnings

Is it worth it to stay in school and earn a higher degree? As data from the Census Bureau's Current Population Survey show, the answer is a resounding yes!

This Brief examines the relationship between education and earnings during the 1992 calendar year; it also demonstrates how the relationship has changed over the last two decades. Additionally, it provides estimates (by level of education) of the total earnings adults are likely to accumulate over the course of their working life.

You'll see that more education means greater earnings over a year's time; over the length of one's working life, these differences become enormous. Moreover, this relationship between earnings and education is now even stronger than it was back in the 1970's.

We're more educated than ever.

In 1993, about four-fifths of American adults aged 25 and over had at least completed high school; over one in five had a Bachelor's degree or higher. Both figures are all-time highs.

Professional degree holders have the highest earnings.

Adults aged 18 and over who worked sometime during 1992 earned an average of $23,227 that year. But this average masked the fact that the more education they received, the more money they made. (See graph below.) Earnings ranged from $12,809 for high school dropouts to $74,560 for those with professional degrees (such as M.D.'s and J.D's).

Earnings differences compound over one's lifetime.

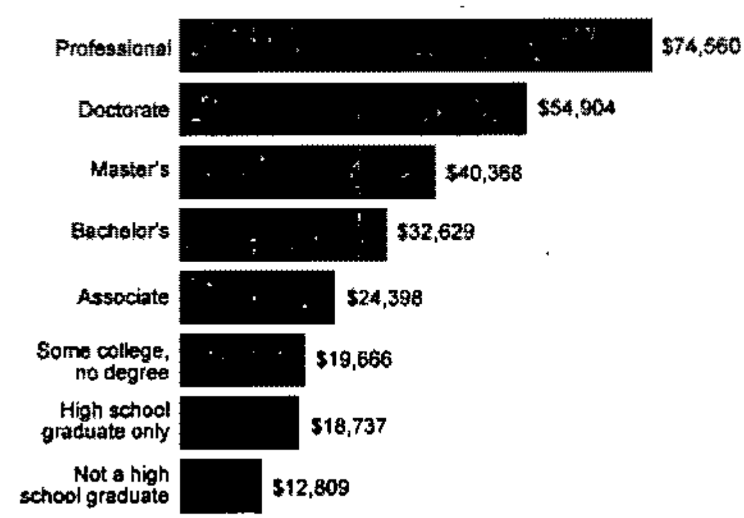
Using 1992 data, we estimated the earnings a person would accrue over a typical "worklife." Here's how we did it. First, we defined a worklife as lasting from ages 25 to 64 — a 40-year period. Then we began our calculations.

We started with high school dropouts. We took the 1992 mean earnings figure for persons of this group who were aged 25 to 34 and multiplied it by 10. The same thing was done for those aged 35-44, 45-54, and 55-64. Then, the four 10-year totals were added up. The result was an estimated lifetime earnings total for high school dropouts. This process was then repeated for each of the other seven educational levels.

These estimates dramatically illustrate the large earnings differences

Education Continues to be the Ticket to Higher Earnings

Mean annual earnings for persons aged 18 and over, by level of education: 1992



SB/94-17
Issued August 1994

U.S. Department of Commerce
Economics and Statistics Administration
BUREAU OF THE CENSUS

that develop between educational levels over the long term. As the graph below shows —

- High school dropouts would make (in 1992 dollars) around \$600,000 during their lifetime.

- Completing high school would mean about another \$200,000.

- Persons who attended some college (but did not earn a degree) might expect lifetime earnings in the \$1 million range.

- You could tack on nearly another one-half million dollars for holders of a Bachelor's degree.

- Doctorate and professional degree holders would do even better, at just over \$2 million and \$3 million, respectively.

Lifetime differences may become even more striking in the future.

These estimates of lifetime earnings assume that 1992 earnings levels will stay in effect throughout one's worklife. But the reality is that the value of the dollar continually changes. And recent history shows that the value of higher levels of education has risen faster than that of lower levels. When we compare 1975 and 1992 figures, we see that average earnings —

- Doubled for high school dropouts (from \$6,014 to \$12,809).

- Rose 2.5 times for those who were high school graduates only (from \$7,536 to \$18,737).

- Nearly tripled for holders of Bachelor's degrees (from \$11,574 to \$32,629).

- Tripled for those who held advanced degrees (from \$15,619 to \$48,653).

Keep in mind that in 1992 the consumer price index (which measures yearly changes in the value of the dollar) was 140, 2.5 times what it was in 1975. This means that the earnings of high school dropouts did not even keep up with inflation, and high school graduates just barely managed to keep pace. Real wages rose only for persons with education beyond the high school level. If these patterns continue, lifetime earnings differences between low and high levels of education will become even more dramatic than current levels indicate.

More information:

Several Census Bureau reports have information on the relationship between earnings and education. These include —

- *Educational Attainment in the United States: March 1993 and 1992,* Current Population Reports, Series P20-476. Stock No. 803-005-00077-0. \$8.50.

- *What's It Worth? Educational Background and Economic Status: Spring 1990,* Current Population Reports, Series P70-32. Stock No. 803-044-00020-1. \$3.50.

- *Money Income of Households, Families, and Persons in the United States: 1992,* Current Population Reports, Series P60-184. Stock No. 803-005-30031-5. \$19.

- *Education in the United States,* Series 1990, CP-3-4. Stock No. 003-024-08742-1. \$41.

To order any of these publications, call the U.S. Government Printing Office (202-512-1800).

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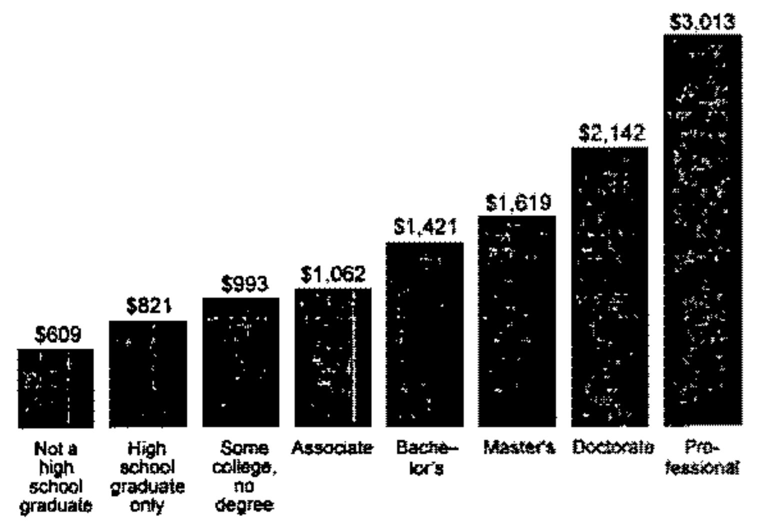
This Brief is one of a series that presents information of current policy interest. It may include data from businesses, households, or other sources. All statistics are subject to sampling variability, as well as survey design flaws, respondent classification errors, and data processing mistakes. The Census Bureau has taken steps to minimize errors, and analytical statements have been tested and meet statistical standards. However, because of methodological differences, use caution when comparing these data with data from other sources.

Go to College, Make a \$Million

Estimates of worklife earnings, by level of education: 1992
(In thousands of dollars)



ECONOMIC RETURNS TO INVESTMENTS IN EDUCATION AND TRAINING

- Empirical studies indicate that each additional year of formal schooling is associated with a 6 to 12 percent increase in annual earnings later in life. [Kane and Rouse, 1995; Ashenfelter and Krueger 1994; Angrist and Krueger, 1991]

- This earnings benefit is not limited to education at four-year colleges; it also accrues from attendance at community colleges. [Thomas Kane and Cecilia Rouse, Labor Market Returns to Two and Four-Year College: Is a Credit a Credit and Do Degrees Matter American Economic Review, Vol. 85, No. 3, 1995.]

- The wage premium for better-educated workers has expanded dramatically over the past fifteen years. In 1979, full-time male workers aged 25 and over with at least a bachelors degree earned on average 49 percent more per year than comparable workers with only a high school degree. By 1993, the difference had nearly doubled, to 89 percent. [Economic Report of the President 1996, page 191.]

- Economists have long argued over whether education causes higher earnings, or whether those with better earnings prospects -- for example, because of greater innate ability -- simply consume more education. Recent analyses of compulsory schooling laws (which force students to consume more education regardless of their innate ability) and wage differentials between twins (who should have similar levels of innate ability) strongly suggest that schooling actually leads to higher earnings. [Joshua Angrist and Alan Krueger, Does Compulsory School Attendance Affect Schooling and Earnings; Quarterly Journal of Economics, November 1991; Orley Ashenfelter and Alan Krueger, Estimates of the Economic Returns to Schooling from a New Sample of Twins, American Economic Review, December 1994.]

- A college graduate is 43 percent more likely to be working in a job with a pension plan than a high school graduate and a college graduate is 27 percent more likely to have a job with health care coverage than a high school graduate. [Based on data from the Bureau of Labor Statistics, various years, Current Population Survey.]

- Since the early 1980s, high skill jobs are growing the fastest. Jobs requiring high skill levels grew by 32% over the period 1984-1994 while jobs requiring low skill levels grew by only 7%. [Based on data from the Bureau of Labor Statistics, various years, Current Population Survey.]

- Job displacement studies show that better-educated workers are less likely to lose their jobs than less-educated workers, although this advantage has declined over time. If better-educated workers do lose their jobs, they are more likely to find new jobs (which are more likely to be full-time), and they tend to suffer smaller proportional earnings losses than less-educated workers. [Henry S. Farber, The Changing Face of Job Loss in the United States, 1981-1993, Department of Economics, Princeton University, March 12, 1996.]

- Training workers also has significant payoffs. According to academic research conducted by Lisa Lynch before she became Chief Economist at the Labor Department, a year of either on-the-job training or formal training for workers raises wages by about as much as a year of college education. [Lisa Lynch, Private Sector Training and the Earnings of Young Workers, American Economic Review, Vol. 82, No. 1, 1992.]

- Other studies conclude that firm-provided training seems most effective when combined with other innovative workplace practices. [U.S. Department of Labor, High Performance Work Practices and Firm Performance, 1993; David Levine, Reinventing the Workplace: How Business and Employees Can Both Win (Washington: Brookings, 1993).]

- Education and training boost economic growth. Data from the Bureau of Labor Statistics suggest that the rise in the average educational attainment of the workforce accounted for one-fifth of the annual growth in productivity between 1963 and 1992. [Economic Report of the President 1996, pages 191-2.]

- International evidence reveals that, all else equal, those nations with the highest school enrollment rates in the early 1960s tended to enjoy the most robust growth in subsequent decades. [N. Gregory Mankiw, David Romer, and David Weil, A Contribution to the Empirics of Economic Growth, Quarterly Journal of Economics, Volume 107, May 1992.]