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U.S. Senate Panel Discusses Combining Tuition Tax Credits and Federal Financial Aid

By [PAUL FAIN](#)

Washington

Members of the U.S. Senate Finance Committee showed strong interest during a hearing on Tuesday in a witness's proposal to combine tuition tax credits, an expired income-tax deduction, and the Pell Grant into a refundable "super credit" that would simplify higher-education tax incentives and assist students from middle- and lower-income families.

In opening the hearing, Sen. Charles E. Grassley, an Iowa Republican and departing chairman of the committee, said the response by many colleges to higher-education tax breaks had been a "bad triple play" of tuition increases, expanding endowments, and high salaries for college presidents. Discussion of tax incentives to help needy students dominated the hearing, however. And as promised, the hearing featured talk of a possible crackdown on tax write-offs for donations related to certain college sports and for donors seeking to ensure the admission of wealthy and legacy students by elite universities.

Susan M. Dynarski, an associate professor of public policy at Harvard University's John F. Kennedy School of Government, suggested the "super credit," which sparked a series of questions from Sen. Max S. Baucus, the Montana Democrat who next month will become the committee's chairman. Mr. Baucus promised to focus on college affordability and student access when he takes control of the committee's agenda.

"I'm going to spend a lot of time on this subject because it's so important for our country," Mr. Baucus said.

Ms. Dynarski has written extensively about how to simplify and "refocus" education tax incentives, argued that current tax breaks do "just about nothing" for students from lower-income families, most of whom attend less-expensive public colleges.

For example, she said that nearly half of families do not receive the full benefit of tax breaks like the Hope and Lifetime Learning credits because their income and thus their tax liability is too low. Furthermore, Ms. Dynarski said, 80 percent of students are excluded from receiving the full Lifetime Learning credit because the full benefit doesn't kick in until the annual student expense on tuition and fees reaches \$10,000.

She also said that the tuition tax deduction, which expired last year, was most valuable to families in higher tax brackets, with the majority of benefits going to households with incomes of over \$100,000.

Ms. Dynarski proposed merging the Hope and Lifetime Learning credits into a single, refundable tax credit for tuition, fees, room, and board, and said the credit should be granted upon enrollment instead of when taxes are due, a year or more later. She also suggested combining the federal Pell Grant into the new tax credit, which would then be administered by the Internal Revenue Service.

"We want to deliver a simple message to students that college will be affordable," Ms. Dynarski said.

Both Republican and Democratic senators, as well as the other speakers at the hearing, expressed interest in Ms. Dynarski's suggestions. In particular, there was unanimous support for simplifying education-related tax breaks.

Michael Brostek, director of tax issues for the U.S. Government Accountability Office, submitted detailed [written testimony](#) which made the case for enhanced Congressional oversight over the coordination of student-aid programs and the effectiveness of those programs. He criticized the complexity of education tax provisions during the hearing, saying that "hundreds of thousands of taxpayers failed to claim tax benefits that they were entitled to."

One Democrat, Sen. Charles E. Schumer of New York, said he would introduce legislation next year to consolidate the Hope and Lifetime Learning credits and the tuition deduction, assuming that the expired deduction provision is extended next year. He said that 10 million taxpayers receive one of the three benefits each year, which he hopes to combine into "one single, streamlined, easy-to-understand credit."

Officials with the National Association of Independent Colleges and Universities said in an interview that they strongly supported extension of the tuition tax deduction and were open to looking at ways to simplify higher-education tax incentives, such as combining the Hope and Lifetime Learning credits. They said the inclusion of federal financial aid into such a credit, however, would cross too many boundaries between budgets and congressional committees to be feasible.

"You'd have to rewrite all the budget rules," said Sarah A. Flanagan, vice president of government relations for the association. "That's not going to happen."

Other topics discussed during the hearing included:

- Congressional inquiries into whether athletics donors should be allowed to write off gifts for season tickets and luxury boxes. James J. Duderstadt, a former president of the University of Michigan and a witness at the hearing, criticized tax incentives relating to intercollegiate athletics that have "drifted rather far from the tax-exempt purposes of education and scholarship." In particular, he said "tax policy to some degree is fueling an arms race in stadium construction, coaching salaries, and indeed even in student exploitation in big-time sports programs such as college football and basketball." After the hearing, a Republican committee staff member said the panel's bipartisan leaders plan to call on the Internal Revenue Service to crack down on donor abuses in college sports.
- Efforts by elite institutions to admit affluent and legacy students. The hearing included the testimony of Daniel Golden, a deputy bureau chief of *The Wall Street Journal* and author of *The Price of Admission*, which makes the case that elite universities give preference in admissions to wealthy students. Mr. Golden said that in some cases, the admissions and development offices at Harvard had worked together to try to admit students with connections to donors and potential donors. During the hearing, Mr. Grassley said such donations should not be tax exempt, as they included a personal benefit, and that he would work with the IRS to review the issue.

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