

**Clinton's Tuition Tax Breaks:
Bad Tax Policy, Worse Education Policy**

by

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More than any other president since Lyndon Johnson, Bill Clinton has linked his presidency to strengthening and broadening American education. The President has argued persuasively that the nation needs to increase its investment in education to spur economic growth, expand opportunity and reduce growing income disparities. He has certainly earned the right to try to make education work for him as an issue in his reelection campaign, and that's clearly what he plans to do.

Unfortunately, one way the President has chosen to pursue his goals for education is by competing with the GOP on tax cuts. The centerpiece of his education agenda--tax breaks for families paying college tuition--would be bad tax policy and worse education policy. 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.

Under the President's plan, families could choose to deduct up to \$10,000 in tuition from their taxable income or take a tax credit (a direct offset against federal income tax) of \$1,500 for the first year of undergraduate education or training. The credit would be available for a second year if the student maintains a B average. The vast majority of taxpayers who incur tuition expenses--joint filers with incomes up to \$100,000 and single filers up to \$70,000--would be eligible for these tax breaks. But before the nation invests the \$43 billion that the administration says this plan will cost over the next six years, the public should demand that policy makers answer these questions:

Will tuition tax credits and deductions boost postsecondary enrollment? Not significantly. Most of the benefits would go to families of students who would have attended college anyway. For them, it will be a windfall. That won't lift the country's net investment in education or widen opportunities for higher education. For families who don't have quite enough to send their child to college, the tax relief may come too late to make a difference. While those families could adjust their payroll withholding, most won't. Thus any relief would be realized in year-end tax refunds, long after families needed the money to pay the tuition.

Will they help moderate- and low-income students who have the most difficulty meeting tuition costs? A tax deduction would be of no use to those without taxable income. On the other hand, the proposed \$1,500 tax credit--because it would be "refundable"--would benefit even students and families that owe no taxes. But nearly 4 million low-income students would be largely excluded from the tax credit because they now receive Pell Grants which, under the Clinton plan, would be subtracted from their tax-credit eligibility.

Will the plan lead to greater federal intrusion into higher education? The Internal Revenue Service would have to certify the amount of tuition students actually paid, the size of their Pell Grants and whether they maintained B averages. This could impose complex regulatory burdens on universities and further complicate the tax code. Its no wonder the Treasury Department has long resisted proposals for tuition tax breaks.

Will the program encourage still higher tuition levels and more grade inflation? While the tuition spiral may be moderating slightly, college price increases have averaged more than twice the rate of inflation during the 1990s. With the vast majority of students receiving tax relief, colleges might have less incentive to hold down their tuition increases. Grades, which have been rising almost as rapidly as tuition, might get an extra boost too if professors hesitate to deny their students the B needed to renew the tax credit.

If more than \$40 billion in new resources really can be found to expand access to higher education, is this the best way to invest it? A far better alternative to tuition tax schemes is need-based student financial aid. The existing aid programs, imperfect as they may be, are a much more effective way to equalize educational opportunity and increase enrollment rates. Over \$40 billion could go a long way to restoring the purchasing power of Pell Grants and other proven programs, whose benefits inflation has eroded by as much as 50 percent during the last 15 years. Unlike tuition tax cuts, expanded need-based aid would not drag the IRS into the process of delivering educational benefits. Need-based aid also is less likely to increase inflationary pressure on college prices because such aid goes to only a portion of the college-going population.

Economists have long argued that the tax code shouldn't be used if the same objective could be met through a direct-expenditure program. Tax incentives for college savings might make sense; parents seem to need more encouragement to put money away for their children's education. But tax relief for current tuition expenditures fails the test.

Maybe Clinton's tuition tax-relief plan, like the Republican across-the-board tax-cut proposals, can be chalked up to election-year pandering that will be forgotten after November. But some campaign themes, repeated often enough, make it into the policy stream. That was the case in 1992 when candidate Clinton dwelled on ideas that, as President, he has since turned into constructive initiatives: student loan reform and community service. If reelected, President Clinton again may stick with his campaign mantra. This time, it's tuition tax breaks. This time, he shouldn't.