

Office of the President

Testimony for the Record  
Submitted to the  
United States Senate Committee on Finance  
Hearing on Education Tax Incentives and Tax Reform  
July 25, 2012

August 9, 2012

On behalf of the higher education associations listed below, which represent approximately 4,300 two- and four-year public and private non-profit colleges and universities, I am submitting this written testimony for the record of the July 25, 2012 Hearing on Education Tax Incentives and Tax Reform. We appreciate the opportunity to submit our views to the committee on several tax provisions which are important to college students and their families as well as on the issue of college costs which was also discussed during the hearing.

I. Higher Education Tax Provisions:

We strongly support the American Opportunity Tax Credit (AOTC), the above-the-line deduction for qualified tuition and related expenses (tuition deduction), the Employer-provided Educational Assistance (Sec. 127) benefits, the expanded Student Loan Interest Deduction (SLID), and the expanded Coverdell Education Savings Accounts (ESAs). It is essential that these tax provisions be extended this year to help make higher education accessible to millions of Americans and to ensure our nation will have the educated citizenry the future requires.

Set to expire at the end of 2012, the AOTC significantly enhances and broadens the permanent Hope Scholarship Credit by increasing the credit from \$1,800 to \$2,500, expanding eligible expenses, making it available for four rather than only two years of college, increasing the income phase-out thresholds, and making the credit partially refundable. Since its enactment, there has been a significant increase in the use of the AOTC across income levels, particularly for middle class students and their families. According to a recent U.S. Government Accountability Office study, in 2009, more than 9 million tax filers claimed the AOTC, receiving \$16 billion in tax benefits. Almost 65 percent of these benefits went to middle-income families with incomes above \$40,000.

In addition, Sec. 127 will expire in its entirety this year. Originally enacted in 1978, Sec. 127 allows employers to offer up to \$5,250 in tuition assistance to employees annually. These funds offer tax benefits to both employers and student employees. According to the most recent available Department of Education data, the nearly 1 million American workers who used this tuition assistance in the 2007-08 academic year had average annual employment earnings of \$42,711.

This provision has been an important means of building and adding to the competencies of the work force, and is a critical tool to help our nation accelerate its economic engine. The top majors among recipients of tax-free tuition include science, technology, engineering and mathematics. More than 35 percent of degrees pursued by employees using education assistance are master's degrees. It is essential that Sec. 127 be extended as soon as possible to provide certainty to employers and student employees as they make plans for the coming year and beyond.

Also scheduled to expire this year are improvements originally made to SLID and Coverdell ESAs in the Economic Growth and Tax Relief Reconciliation Act of 2001. If not extended, SLID will be drastically limited by reduced income thresholds and a five-year limit and Coverdell ESAs will revert to allowing only \$500 in tax-free annual contributions (currently \$2,000). During this challenging economic time which has led to reduced home equity values for many families, it is particularly important to maintain mechanisms, such as the enhanced Coverdell ESAs, to incentivize college savings.

The tuition deduction allows students or parents to deduct up to \$4,000 in eligible higher education expenses from their taxable income. Like the AOTC, the tuition deduction enhances access to higher education by helping to reduce the cost of attending college. The tuition deduction is particularly beneficial to graduate students who are ineligible for the AOTC.

It is broadly acknowledged, however, that the current set of higher education tax credits and the tuition deduction are overly complicated and difficult for taxpayers to correctly use.<sup>1</sup> These provisions include the AOTC, the Hope Scholarship Credit, the Lifetime Learning Tax Credit, and the tuition deduction, which are intended to enhance access to postsecondary education. We have long supported legislative efforts to consolidate and simplify these tax incentives in order to maximize their impact and enhance access to higher education. We strongly support reform of the current tax credits and tuition deduction to create a simpler, consolidated higher education tax credit that provides assistance towards a baccalaureate degree, post-baccalaureate education and lifelong learning. We would welcome the opportunity to work with the committee on such an effort during overall tax reform.

It is for this reason that we strongly support legislation introduced in this Congress by Sen. Charles E. Schumer (D-NY), the "American Opportunity Tax Credit Permanence and Consolidation Act of 2012" (S. 3267), which will make a number of important reforms to the AOTC and Lifetime Learning Credit benefiting families across income categories. The bill significantly improves the current AOTC and Lifetime Learning Credit by consolidating them into one simplified, permanent AOTC that will provide up to \$3,000 per year in tax relief. In addition, the act incorporates the expanded eligible expenses of the current AOTC, increases income phase-out thresholds and replaces current limits on the number of years a student can utilize the AOTC with a \$15,000 lifetime cap. Moreover, in steps that will particularly benefit low- and moderate-income students, the act maintains

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<sup>1</sup> See GAO Report to the Committee on Finance, U.S. Senate, *Higher Education – Improved Tax Information Could Help Families Pay for College* (May 2012); GAO Testimony before Subcommittee on Select Revenue Measures, Committee on Ways and Means, U.S. House of Representatives, *Multiple Higher Education Tax Incentives Create Opportunities for Taxpayers to Make Costly Mistakes* (May 1, 2008).

the 40 percent partial refundability of the current AOTC and better coordinates the interaction of the credit with the Pell Grant, making postsecondary education more affordable.

## II. College Costs:

The condition of our economy has elevated the cost of attendance and avenues of access to higher education to sources of genuine anxiety for many American families. While these concerns are understandable, there are also a number of misperceptions about the true cost of attendance that have fueled this dynamic:

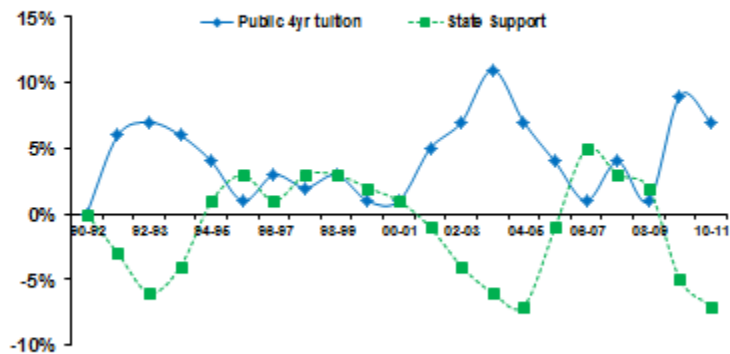
- According to the College Board in 2001, two-thirds of full-time students attended four year institutions with a published tuition price less than \$15,000. In addition, 45 percent of all undergraduates attended community colleges, where the average published tuition for a full-time student is \$2,963.
- Analysis of data reveals that the net price of attendance—the actual cost after incorporating financial aid or tuition discounts, as opposed to the “sticker” price—remains within reach of many students and families, particularly at community colleges. According to the College Board in 2011, students at public four-year schools were paying a net price of \$2,490 per year on average.
- Over the five years from 2006–07 to 2011–12, after taking into account grants and education tax benefits, the estimated average net tuition (adjusted for inflation) decreased at community colleges and private, nonprofit four-year colleges by \$840 and \$550, respectively. The average net tuition increased by just \$170 at public four-year campuses after inflation, compared with the \$1,800 increase in published tuition.
- The total amount of institutionally provided student financial aid has more than doubled over the last 10 years, increasing faster than the rate of increase in tuition. Indeed, the investment by colleges and universities in student aid has increased over the last decade from \$20.5 billion to \$38.1 billion in 2011.

Among multiple reasons for rising college costs, there are four particularly strong drivers:

- **State Appropriations**

For public institutions, which enroll 80 percent of all students, the single largest factor in driving up college costs is declining state support. In the last 20 years, states have systematically reduced spending on higher education, resulting in increased tuition at public institutions to offset the reduced state revenue. Indeed, there is a direct and inverse relationship between the level of state appropriations and the level of tuition increases, as illustrated in the chart below. For example, at many institutions, a 1 percent decrease in state appropriations may result in a 3-5 percent increase in tuition.

**Annual Percent Change in Public 4 Year Tuition and State Support  
(1990-91 to 2010-11; inflation adjusted)**



In 2010, state and local support for general higher education operations fell to a 25-year low in inflation-adjusted terms, while full time equivalent enrollment increased by 61 percent. Over the decade from 1998–99 to 2008–09, state appropriations as a share of institutional revenues per student dropped from 49 percent to 34 percent at public research institutions, 56 percent to 43 percent at state colleges and 64 percent to 57 percent at community colleges. As a result of declining state support, the share of total institutional revenue from tuition rose from 25 percent to 32 percent at public research institutions, 33 percent to 43 percent at state colleges and 22 percent to 27 percent at community colleges. The increases were insufficient to offset declining state support. Between 2007–08 and 2010–11, state appropriations for higher education per student declined by 18 percent in real terms, the largest three-year decline in 30 years.

Private colleges and universities face a different set of circumstances. Few independent institutions receive significant amounts of state support for their operating budgets. Some states provide financial aid that helps students attend these institutions. When state financial aid is reduced as a result of budget cuts, colleges must use even more of their own funds to fill the gap.

- **Technology and Knowledge Creation**

With the rapidly changing nature of information technology, the technological expectations and requirements of students, faculty and staff are rising. Beyond initial costs for IT infrastructure, a significant investment of institutional resources goes to the creating and upgrading of technology-enhanced instruction and research media, student services and faculty and staff training. Today’s college students expect institutions to provide information and technological services that allow them to access instructional resources and campus services anywhere and anytime. This is evidenced by the rising use of wireless classrooms, lecture capture and podcasting, mobile apps and e-portfolios, for example. No one wants colleges and universities to be equipped with scientific and technological resources from 2000 as they try to meet the needs of students in 2012 and beyond.

Moreover, knowledge in most scientific disciplines doubles every seven to 10 years. Whole new fields of science—such as nanotechnology—have emerged from obscure specialties to essential fields of study that can be found at most institutions. Over the past three decades, the annual volume of paper and electronic subscriptions at academic libraries grew sharply from less than 4,700 to more than 25,000.

- **Government Regulation**

The persistent growth of federal, state and local regulation creates costs for colleges and universities that institutions cannot control but must consider every year in their budgets as they determine tuition. While some of this regulation may be necessary, a substantial share is burdensome, duplicative and contrary to campus mission. Given the range of their activities, colleges and universities are among the most heavily regulated entities in America. In addition to being regulated by state and local governments, higher education is the only industry regulated by every federal agency. According to Sen. Lamar Alexander (R-TN), in 2005, there were more than 7,000 federal regulations governing colleges and universities.

Regulations impose a heavy toll on colleges and universities in the form of additional staff, increased staff development and training, additional paperwork, creation of computer systems and software to support record-keeping requirements, and higher legal fees. These regulations, in turn, increase operating costs.

- **Work Force**

Higher education is among the most labor- and skill-intensive sectors of the economy, with college graduates comprising almost 70 percent of its employees. Higher education institutions typically spend 60 percent or more of their budgets on human resource costs. In recent years, institutions had sharp increases in benefit expenses that now comprise nearly 25 percent of total human resource costs. Colleges and universities compete with the private sector to hire outstanding individuals—such as engineers, biologists, chemists, doctors and lawyers—for faculty positions.

Efforts to increase productivity or reduce academic personnel costs by increasing class sizes or hiring fewer full-time faculty can have a direct, detrimental impact on academic quality and are very unpopular with students and faculty. Further, student demands for increased non-instructional academic support services (e.g. counseling, health services and campus security) also drive up human resource costs.

### III. Federal Financial Aid and Efforts to Control College Costs

During the hearing, some of the witnesses raised the so-called Bennett hypothesis, which claims that increases in federal student aid drive increases in tuition. A landmark federal study on college costs conducted by the Department of Education in 1998 found that increases in federal

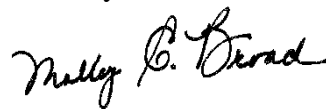
financial aid had absolutely no impact on tuition at any type of institution, public or non-profit private.<sup>2</sup> More recent extensive analysis of the issue by economists Robert Archibald and David Feldman not only found no relationship between Pell Grants and increases in tuition at public universities but a reverse effect at private institutions: Increases in the Pell Grant generally *reduced* private sector tuitions.<sup>3</sup> The bottom line is there is no empirical data that suggests federal aid significantly drives up college prices.

Colleges and universities have taken a wide range of steps to contain and cut costs as well as help students pay for education. On the cost containment side, these steps have included: layoffs, pay or hiring freezes; improving administrative efficiency; reducing course offerings, enrollments, or full-time faculty; eliminating academic departments; and imposing budget cutbacks and reallocating resources to pay for other institutional needs. On the affordability side, these steps have included: increasing institutional financial aid, imposing tuition freezes, adopting fixed-tuition guarantees, initiating accelerated degree completion, instituting curriculum innovation, and reducing textbook costs.

#### IV. Conclusion:

We strongly support extensions of the American Opportunity Tax Credit, the above-the-line deduction for qualified tuition and related expenses, the Employer-provided Educational Assistance benefits, the expanded Student Loan Interest Deduction, and the expanded Coverdell Education Savings Accounts. These tax provisions enhance access to higher education by providing needed support to students or their families, and all of them should be extended this year. We also, however, support efforts to simplify and consolidate several of the higher education tax credits and deductions to make them easier to use and therefore more effective. We thank the committee for the opportunity to submit this statement for the hearing record and for considering our views.

Sincerely,



Molly Corbett Broad  
President

MCB/lw

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<sup>2</sup> Wellman, Jane V. 2008. *Cost, Prices, and Affordability: A Background Paper for the Secretary's Commission on the Future of Higher Education*.

<sup>3</sup> Archibald, Robert B., and David H. Feldman. 2011. *Why Does College Cost So Much?* New York, NY: Oxford University Press.

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On behalf of:

American Association of Community Colleges

American Association of State Colleges and Universities

American Council on Education

Association of American Universities

Association of Community College Trustees

Association of Jesuit Colleges and Universities

Association of Public and Land-grant Universities

Council of Graduate Schools

Hispanic Association of Colleges and Universities (HACU)

National Association of College and University Business Officers

National Association of Independent Colleges and Universities

National Association of Student Financial Aid Administrators