

# TAX REFORM AND HIGHER EDUCATION

## What Students, Families, and Institutions Need to Know

### Talking Points: American Opportunity Tax Credit & Lifetime Learning Credit

- The higher education community strongly supports reform of the current American Opportunity Tax Credit (AOTC), the Hope Scholarship Credit, the Lifetime Learning Credit (LLC), and the tuition deduction, which are overly complex and difficult for students and their families to fully utilize. A consolidated credit would simplify the higher education tax benefits while retaining positive aspects of the present credits and deduction in order to help current and future low- and middle-income traditional and nontraditional students attain an associate or bachelor's degree, graduate education, or lifelong learning.
- **Nontraditional Students:** Any efforts to consolidate the AOTC and LLC should ensure that a reformed AOTC works well for both traditional and non-traditional undergraduates, particularly low- and middle-income students. The AOTC is currently limited to four years of undergraduate education. This framework relies on outdated assumptions about the typical student in higher education. Today, nearly fifty percent of undergraduates and three-quarters of all students are adult learners (ages 23 or older), with a quarter over age 30, a proportion that will likely continue to grow. Fifty percent of all students attend part-time, which inevitably increases time to completion. While the median time to degree for all bachelor's degree recipients is 4.3 years, for adult students (between ages 24-29) the median time to degree is 6.6 years.

A reformed, consolidated credit should preserve current benefits for as many students as possible while also taking into account the more complex demographic profile of today's students. The number of these nontraditional students will increase in the future, and any legislation that creates a permanent, consolidated credit should address their needs.

- **Graduate Students and Lifelong Learners:** Any credit that consolidates the AOTC and the LLC should provide benefits to graduate students and lifelong learners, many of whom are low-income and need assistance in pursuing advanced degrees or additional skill development that employers and our economy need. According to the U.S. Department of Education, in 2011-12, a quarter of all graduate students earned less than \$11,000, and half earned less than \$32,000. During that same year, there were 1.3 million master's degree students—nearly three-quarters of all graduate students—and approximately thirty-one percent received no financial aid.
- Recent data modeled by the Tax Policy Center (TPC) demonstrates that the LLC is serving students with low and moderate incomes. In 2016, TPC estimates that approximately 3.2 million students with incomes at or below \$75,000 utilized the LLC, including 2 million with incomes of \$40,000 or less. We need to preserve tax benefits that enhance access for such students.

#### Principles for Reform and Consolidation

- **Preserve and enhance key elements of AOTC/LLC:** A consolidated credit should be permanent, indexed to inflation, include the AOTC's eligible expenses, maintain the AOTC's partial refundability of \$1,000 or 40 percent, and preserve the AOTC's phase out for individuals between \$80,000 to \$90,000 (\$160,000 to \$180,000 for joint filers).
- **Consolidate the AOTC and LLC into a two-part AOTC:** To simplify the AOTC and LLC, a consolidated AOTC could consist of two parts: 1) the current AOTC, partially refundable, eligible

for students enrolled at least half-time, and limited to four years; 2) a non-refundable credit of \$2,000 (like the LLC) but as with the AOTC, it would cover 100% of the first \$2,000 of the AOTC's eligible expenses. This would simplify the LLC but also create greater parity for students beyond their first four years of college and lifetime learners.

In addition, the AOTC part two would provide a benefit for graduate students who have suffered from recent decisions by policymakers to end graduate-student eligibility for federal subsidized loans and require them to pay higher interest rates on student loans than undergraduates, a troubling pattern of increasing the cost of education for students pursuing advanced degrees.

- **Pell Grant Interaction Fix:** A consolidated AOTC should better coordinate the interaction of the AOTC with the Pell grant and exclude the Pell grant from taxable income. Currently, the AOTC eligibility formula sharply limits the size of the tax credit received by needy students at the lowest cost schools. As a result, many of the lowest-income students do not receive any benefit from the current AOTC.