

Middle Class Proposal #1

Making College Affordable

To succeed in today's economy, college is a must. But it's a necessity that's priced like a luxury. College costs have risen faster than inflation for each of the past 27 years. A new \$5,000 college tuition tax cut will help families fulfill their dream of sending their kids to school without draining their life savings.

THE PROBLEM

College tuition sticker shock

Parents know that it has never been more essential to send their children to college than it is today. But doing the right thing has never been so costly.

College costs are skyrocketing.

The cost of going to a public university has risen 80% in just the past 10 years.¹ In 2006-2007, the average bill for just one year of tuition, fees, room and board at a public university was \$12,796,² and for private schools, the annual average college bill was \$30,367.³ Among families who save for college, the median total amount saved is about \$10,000—not enough for even one year's bills.⁴

Students are becoming increasingly burdened by debt.

Two out of three college students today are graduating with student debt, versus fewer than half in 1993.⁵ And today's graduates are borrowing much more than students did in the past. In 2000, students who borrowed graduated with an average debt of \$19,200, compared to just \$9,250 in 1993.⁶ This doesn't include borrowing by parents.

While college costs have spiraled higher, the need for a degree has become greater.

The typical college graduate has an annual salary of \$50,900, while the typical high-school graduate's is \$27,400.⁷ This means that, over the course of a career, the typical college graduate will earn \$1 million more than someone with just a high school diploma.⁸ In fact, male high school graduates earn no more today than they did 30 years ago, while salaries for male college graduates have risen 30% in real dollars over the same time period.⁹

Tuition Hikes at Sample Schools

(excluding room and board)

School	Full-Time Tuition		Dollar Increase	Percentage Increase
	'87-'88	'07-'08		
Reed College (OR) ¹⁰	\$10,500	\$36,190	\$25,690	245%
Syracuse University (NY) ¹¹	\$8,710	\$30,470	\$21,760	250%
Georgia Tech (GA) ¹²	\$6,355	\$15,436	\$9,081	143%
Univ. of Mo.-St. Louis (MO) ¹³	\$1,410	\$7,077	\$5,667	402%
Tulsa Community College (OK) ¹⁴	\$531	\$1,725	\$1,194	225%

THE SOLUTION

A generous new college tuition tax cut

Families earning up to \$200,000 should receive a generous new college tuition tax cut in the form of a \$5,000 credit toward the costs of college tuition, fees and books.

Families would get substantially more help than under current law.

This credit would be generous:

- Families would receive a non-refundable credit equal to 50% of the first \$10,000 they pay in college tuition per student.
- The maximum credit would be \$5,000 per student per year for up to four years of post-secondary education.

The proposed credit would help simplify the tax code.

This credit would replace and expand existing education tax credits and deductions, such as the Hope Credit and the Lifetime Learning Credit, which all carry different and potentially confusing rules and eligibility requirements. A single, simple, super-sized credit would ensure that all families with a student in school can generously benefit.

Under current law, families can either opt to *deduct* up to \$4,000 in tuition and fees or apply for either the Hope Credit or the Lifetime Learning Credit. The Hope Credit is capped at \$1,650 per student and is available only for the first two years of post-secondary education. The Lifetime Learning Credit, which is available for all post-secondary expenses, is capped at \$2,000 per return. The Hope and Lifetime Credits also phase out at \$57,000 in adjusted gross income for single filers and \$114,000 for taxpayers filing jointly.¹

¹ See IRS Publication 970: Tax Benefits for Education, available at <http://www.irs.gov/pub/irs-pdf/p970.pdf>.

The proposed credit would be affordable.

This proposal would cost an estimated \$8.8 billion per year in incremental costs (over and above current spending for existing college tuition tax breaks).¹⁵ The incremental five-year cost is estimated to be \$48.6 billion, and the estimated incremental ten-year cost would be \$110.7 billion.

THE ROLLOUT

Ideas for launching and publicizing the college tuition tax cut

- **Hold a press conference** at a local high school with college-bound seniors and their parents or at a local university with college students and their families.
- **Release a short report** documenting the rise in tuition costs at five area colleges and universities from 1987-88 to 2007-08. Include an estimate of what college costs will be in 15 years if prices continue to increase at the current rate and cast the results in terms of what the parents of today's preschoolers will be facing.

CRITIQUES & RESPONSES

The College Tuition Tax Cut

It's too expensive.

This proposal will be fully paid for. For every \$1 in tax breaks that went to the middle-class, people making more than \$1 million a year received \$108.¹⁶ Simply allowing tax giveaways for millionaires to expire will enable as many as 10 million students a year to take full advantage of the college tuition tax credit.¹⁷ For the last eight years, conservatives' tax breaks have made it easier for the wealthiest to send their children to Europe for the summer; it's time for a tax break to help middle income families send their children to college in the fall.

Few investments are more important than ensuring that every young person who aspires to college has the opportunity to attend. A middle class parent sending two kids to a state college faces over \$100,000 in bills. At best, their child is able to borrow money and begin his or her working life \$20,000 in debt. Doing the right thing shouldn't hurt so much.

Moreover, this is the right investment for America. In today's economy, the countries that succeed will be the countries that graduate more young people from college and graduate school. We can't let college costs hold us back from continuing to be the most innovative economy in the world.

More aid will cause college tuition to rise.

This is the reason conservatives cite for wanting to cut college aid. They can't be more wrong. The greatest college aid program in US history—the GI Bill—had no

impact on tuition prices.¹⁸ Moreover, college tuition rates have far outpaced increases in federal student loan funding.¹⁹

Nobody really pays the sticker price.

Going to college shouldn't be like buying a used car. It's true that some of the most prestigious and high-priced universities are starting to give more scholarships and aid to middle income people. That's good. But it's a drop in the bucket; and for most families—the price you pay is the price that is advertised.

APPENDIX

Detailed Comparison of College Tax Credit to Current Law

Under current law, families have three major options for coping with college expenses: a tuition tax deduction, the Hope Credit and the Lifetime Learning Credit. Taxpayers may choose only one of these options. The proposed credit would replace and expand these existing benefits with a single, simple and generous credit.

	Third Way Proposal	Tuition tax deduction	Hope Credit	Lifetime Learning Credit
Maximum benefit available	<ul style="list-style-type: none"> Up to \$5,000 credit per year <u>per student</u> 	<ul style="list-style-type: none"> Up to a \$4,000 deduction <u>per return</u> 	<ul style="list-style-type: none"> Up to \$1,650 credit per <u>eligible student</u> 	<ul style="list-style-type: none"> Up to \$2,000 credit <u>per return</u>
Calculation of credit	<ul style="list-style-type: none"> 50% of qualified expenses up to \$10,000 	—	<ul style="list-style-type: none"> 100% of the first \$1,100 of qualified expenses; plus 50% of the next \$1,100 of qualified expenses 	<ul style="list-style-type: none"> 20% of the first \$10,000 of qualified education expenses
Eligibility limitations	<ul style="list-style-type: none"> Available for the taxpayer, spouse or dependent Available for any post-secondary education Available for four years per student 	<ul style="list-style-type: none"> Available for the taxpayer, spouse or dependent 	<ul style="list-style-type: none"> Available ONLY for 2 years per eligible student; Undergraduates only; Students must be enrolled at least half time 	<ul style="list-style-type: none"> Available for an unlimited number of years; Available for any post-secondary education; Students need not be pursuing a degree
Phase-out	<ul style="list-style-type: none"> \$100,000 for single filers; \$200,000 for taxpayers filing jointly 	<ul style="list-style-type: none"> \$80,000 for single filers; \$160,000 for taxpayers filing jointly 	<ul style="list-style-type: none"> \$57,000 for single filers; \$114,000 for taxpayers filing jointly 	<ul style="list-style-type: none"> \$57,000 for single filers; \$114,000 for taxpayers filing jointly

Endnotes

¹ College Board, "Trends in College Pricing 2006", available at http://www.collegeboard.com/prod_downloads/press/cost06/trends_college_pricing_06.pdf.

² Ibid.

³ Ibid.

⁴ Investment Company Institute, "Profile of Households Saving for College," 2003, available at http://www.ici.org/pdf/rpt_03_college_saving.pdf

⁵ Project on Student Debt, "High Hopes, Big Debts", available at [http://projectonstudentdebt.org/files/File/High_Hopes_Big_Debts\(1\).pdf](http://projectonstudentdebt.org/files/File/High_Hopes_Big_Debts(1).pdf). See also Berkner, L., et al., "2003-04 National Postsecondary Student Aid Study (NPSAS:04) Undergraduate Financial Aid Estimates for 2003-04 by Type of Institution," National Center for Education Statistics, available at <http://nces.ed.gov/fastfacts/display.asp?id=31>.

⁶ Project on Student Debt, "High Hopes, Big Debts", available at http://projectonstudentdebt.org/files/pub/High_Hopes_Big_Debts.pdf. See also National Center for Education Statistics, "The Condition of Education 2004, Indicator 38," available at <http://nces.ed.gov/programs/coe/2004/section5/indicator38.asp>.

⁷ U.S. Census Bureau figures available at http://pubdb3.census.gov/macro/032007/perinc/new03_001.htm.

⁸ Baum, S. and Payea, K., "Education Pays: Update 2005," The College Board., available at http://www.collegeboard.com/prod_downloads/press/cost05/education_pays_05.pdf

⁹ Anne Kim, Adam Solomon, Bernard L. Schwartz, Jim Kessler and Steve Rose, *The New Rules Economy: A Policy Framework for the 21st Century*, Third Way, February 2007.

¹⁰ <http://web.reed.edu/apply/tuition.html>, personal communication with school officials.

¹¹ <http://admissions.syr.edu/faq/facts.cfm?CFID=855589&CFTOKEN=17053217#howmuch>, personal communication with school officials

¹² <http://www.finaid.gatech.edu/costs/budgets/index0708.php>, personal communication with school officials

¹³ http://www.umsl.edu/services/finance/fee_sch.htm, personal communication with school officials

¹⁴ <http://www.tulsacc.edu/page.asp?durki=3584>, personal communication with school officials

¹⁵ Third Way estimate based on the current take-up rate for existing benefits and average college costs.

¹⁶ Greg Leiserson and Jeffrey Rohaly, "The Distribution of the 2001-2006 Tax Cuts: Updated Projections, November 2006," Tax Policy Center, Urban Institute and Brookings Institution. See Table 3 in the Appendix. According to this table, the average millionaire will receive a tax cut of \$130,423 in 2008, while the average person making \$50,000-\$75,000 will receive just \$1,203 in tax relief. This translates into a ratio of 108 to 1.

¹⁷ Allowing the expiration of tax breaks for households earning \$1 million or more per year would net \$54.9 billion per year in savings. Conservatively assuming that every student eligible for the credit is able to take the full amount of \$5,000, the expiration of these tax breaks would pay for 10 million students to take full advantage of the proposed credit.

¹⁸ U.S. Department of Education, National Center for Education Statistics, "Table 320: Average undergraduate tuition and fees and room and board rates charged for full-time students in degree-granting institutions, by type and control of institution: 1964-65 through 2006-07", available at http://nces.ed.gov/programs/digest/d07/tables/dt07_320.asp.

¹⁹ College Board, "Trends in Student Aid 2007," available at http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_aid_07.pdf. The federal student loan maximum has been \$23,000 since 1996.