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Calendar No. 989

95TH CONGRESS }
2d Session }

SENATE

} REPORT
No. 95-1066

TUITION TAX RELIEF ACT OF 1978

AUGUST 4 (legislative day, MAY 17), 1978.—Ordered to be printed

Mr. MOYNIHAN, from the Committee on Finance,
submitted the following

REPORT

[To accompany H.R. 12050]

The Committee on Finance, to which was referred the bill (H.R. 12050) to provide a Federal income tax credit for tuition, having considered same, reports favorably with an amendment and recommends that the bill as amended do pass.

ERRATA

On page 10, after the third paragraph, insert the following paragraphs:

Relationship of credit to other educational assistance programs

The committee intends that the educational expenses credit provide individuals with additional educational assistance and not affect their eligibility for, nor the amount of the assistance to which they are entitled, under any other program. Therefore, the bill specifically provides that any reduction in tax liability enjoyed by any individual as a result of claiming a credit for educational expenses is not to be taken into account as income or receipts in determining the individual's eligibility (or any other individual's eligibility) for benefits or assistance, or the amount or extent of benefits or assistance, under any Federal educational assistance program or under any State or local educational assistance program which is financed in whole or in part with Federal funds.

Examination of books and records

The bill contains a provision to give assurance that there will be no unnecessary interference with the activities of a church or convention or association of churches where a school is operated, supervised or controlled in conjunction with it. As a result, the bill provides that the books and records of a school operated in conjunction with a church may be examined by the Internal Revenue Service only to the extent necessary to determine that the school is an eligible educational institution. In all other respects, the burden then is upon the taxpayer to prove that he is eligible for the tax credit. It is his responsibility, for example, to establish the amount paid and that this amount was paid for tuition, in the same manner as is provided under present law, in verifying charitable contribution deductions.

Judicial review

The committee believes that the provisions of this bill are valid legislation under the Constitution. The bill will benefit a broader class of beneficiaries than any legislation of this type on which the Supreme Court has ruled so far. However, in order to resolve expeditiously any questions which may arise concerning its constitutionality, the bill provides for the expeditious disposition of legal proceedings brought with respect to any provision of the credit or with respect to any other provision of the Internal Revenue Code which relates to the credit. Expeditious review will reduce the administrative problems and the costs which would arise inevitably for both taxpayers and the Internal Revenue Service if the validity of any provision of the credit is in doubt when it becomes effective, or if any provision is determined to be invalid after it has become effective.

The bill therefore provides that if any judicial proceeding is brought in a U.S. district court concerning the constitutional validity of any provision of the tuition tax credit, the district court shall immediately certify all questions involving the constitutionality of that provision to the United States Court of Appeals for the circuit involved. The Court of Appeals shall hear the matter sitting en banc.

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AUGUST 4 (legislative day, MAY 17), 1978.—Ordered to be printed

Mr. MOYNIHAN, from the Committee on Finance,
submitted the following

R E P O R T

[To accompany H.R. 12050]

The Committee on Finance, to which was referred the bill (H.R. 12050) to provide a Federal income tax credit for tuition, having considered same, reports favorably with an amendment and recommends that the bill as amended do pass.

House bill.—H.R. 12050, as it passed the House, would provide a Federal income tax credit for tuition for elementary, secondary and postsecondary education.

Committee bill.—The committee amendment strikes all after the enacting clause, and inserts in lieu thereof the committee's decisions with respect to Federal income tax credits for educational expenses. The amendment is shown in italic in the bill as reported.

I. SUMMARY

The bill provides a tax credit for certain educational expenses paid by an individual for himself, his spouse, or his dependents. The benefits provided by the bill will become effective in two stages. Beginning August 1, 1978, individuals will be entitled to claim a credit in an amount equal to 50 percent of tuition and fees, with a maximum credit of \$250 per student for expenses in an undergraduate college or a postsecondary vocational school. On October 1, 1980, the credit will be expanded to cover tuition and fees for elementary and secondary schools (including vocational secondary schools) and for half-time undergraduate students. In addition, the maximum credit will be increased to \$500 for postsecondary educational expenses on October 1, 1980.

II. EXPLANATION OF THE BILL

Present law

Present law provides no tax credit, deduction, or other tax benefit for personal education expenses. However, there are a number of provisions in present law which provide indirect tax benefits to students, their families, or to other individuals and institutions involved in education.

In certain cases, taxpayers are entitled to a personal exemption for a dependent, which they otherwise could not claim, because the dependent is a student. Generally, a taxpayer may claim a \$750 personal exemption deduction for each dependent who has less than \$750 gross income for the taxable year. However, the gross income limitation does not apply if the dependent is the taxpayer's child and is under the age of 19 or is a student (sec. 151).

Individuals generally may exclude from income amounts received as scholarships and fellowships (sec. 117). The exclusion also covers incidental amounts received to cover expenses for travel, research, clerical help, and equipment when they are expended for these purposes. The exclusion for scholarships and fellowship grants is restricted to educational grants by relatively disinterested grantors who do not require any significant consideration (e.g., promises of future services) from the recipient. Similarly, the Internal Revenue Service regards tuition postponement to be a loan and therefore not includible as income to the student (Rev. Rul. 72-2, 1972-1 C.B. 19).

Educational expenses which qualify as trade or business expenses under section 162 may be deducted. Expenditures made by an individual for his own education generally are deductible if they are for education which (1) maintains or improves skills required by the individual's employment or other trade or business, or (2) meets the express requirements of the individual's employer or the requirements of applicable law or regulations imposed as a condition to the retention by the individual of an established employment relationship, status, or rate of compensation. These types of education are commonly called "job-related education."

Other provisions which benefit education in general and sometimes students in particular include the exclusion from income of gifts (sec. 102), which may comprise a large portion of a student's support, and the charitable contribution deduction for contributions to educational institutions (sec. 170). Several provisions, such as the exclusion of interest on State and municipal bonds (sec. 103) and the deduction for State and local taxes (sec. 164) indirectly assist publicly-supported educational institutions by easing the financial burden on State and local governments.

Reasons for change

The committee is concerned about the increase in costs of postsecondary education. Tuition costs for both public and private postsecondary institutions have increased rapidly in recent years and are expected to continue to increase.¹ The overall cost of a private college education rose 119 percent between 1964 and 1976. The cost of attending a public university increased by 99 percent during the same period. These escalating costs are making it increasingly difficult for many parents to provide their dependents with a college education. The committee believes that families who do not qualify for financial aid, or who receive small amounts of aid, and who cannot keep up with the increase in educational expenses need assistance to meet the increased cost of a college education. The committee also believes that the tax credit approach is preferable to an expanded system of need-based aid. A tax credit involves no significant administrative burden and has no impact on the personal privacy of taxpayers.

In addition to the rising costs of postsecondary education, the cost of nonpublic elementary and secondary education has increased substantially in recent years, and enrollment in nonpublic schools has dropped sharply, from 6.3 million private school students in 1965 to 5.3 million in 1976, a decrease of 16 percent, while public school enrollment has increased 5 percent.² At the same time, the cost of public schools is rising substantially, and taxes keep increasing to meet this cost. The committee believes that nonpublic school parents who must pay for the increased costs of both public and nonpublic schools, even though they relieve the public schools of the cost of educating their children, also should receive tax relief for their children's educational expenses. The committee also feels that nonpublic schools represent an integral part of American society, reflecting the diversity of the country, and providing citizens with important opportunities to obtain the education they deem best suited to individual needs and family values. In providing a tuition credit which would be worth, on average, \$170 per private elementary or secondary school student, the committee believes that it is helping families to obtain such education. By assisting citizens to select and pay for such education, the tax relief provided by this bill is intended to reinforce and sustain the Nation's historic pattern of diverse educational offerings in both the public and the nonpublic sectors.

More than 16 million students are potential beneficiaries of this legislation. At the present time there are approximately 11.3 million persons enrolled in tuition-charging postsecondary institutions and approximately 5 million more in tuition-charging elementary and secondary schools.³ It is estimated that approximately 75 percent of the

¹ According to a study by the Congressional Research Service tuition and fees in public and private postsecondary institutions increased more than 93 percent between 1967 and 1976, while the median income of families with college-age children rose 78.8 percent. Memorandum to Senator Moynihan, dated July 28, 1978, from John Karr, economic analyst.

² Source: "Projections of Education Statistics to 1985-86," table 4, National Center for Education Statistics (GPO, 1977).

³ Source: "Projections of Education Statistics to 1985-86," National Center for Education Statistics (GPO, 1977).

benefit from this legislation will accrue to postsecondary students and their families, while about 25 percent will accrue to those in elementary and secondary schools.

Explanation of provisions

Statement of policy

The bill contains a statement of policy. This statement provides that it is to be the policy of the United States to foster educational opportunity, diversity, and choice for all Americans. It states further that Federal legislation should recognize the heavy financial burden now borne by individuals and families who must pay tuition to obtain the education that best serves their needs and aspirations—whether at the primary, secondary, or postsecondary level—and should provide some relief. Such relief shall be available only to persons enrolled in bona fide educational institutions which fully comply with all applicable Federal and State laws and requirements, including civil rights provisions. The bill also states that the Congress finds that without such assistance the diversity and pluralism that constitute important strengths of the American education system will be diminished. The Congress finds that this assistance can appropriately be provided through the income tax structure with a minimum of complexity and governmental interference in the lives of individuals and families. In this policy statement, the Congress further finds that the provision of such assistance in this manner fully complies with all provisions of the Constitution; that it does not constitute excessive governmental entanglement with religion; that it is wholly secular in purpose and that such assistance will neither advance nor hinder religion. The primary purpose of this Act is to enhance equality of educational opportunity for all Americans at the schools and colleges of their choice.

General provisions

The bill provides a tax credit for certain educational expenses paid by an individual for himself, his spouse, or his dependents (as defined in sec. 152).⁴

The benefits provided by the bill take effect in two stages. Effective August 1, 1978, a credit will be allowed for 50 percent of the amount paid for educational expenses incurred on or after that date with a maximum credit of \$250 with respect to the expenses of any eligible individual who is a full-time college undergraduate or postsecondary vocational school student. On October 1, 1980, the credit will be expanded to cover students in private elementary and secondary schools (including vocational secondary schools) and half-time undergraduate students. In addition, the maximum credit with respect to postsecondary educational expenses for any individual will be increased to \$500 on October 1, 1980, for education furnished on or after that date. No credit will be allowed at any time for graduate school or for recreational courses.

⁴ Under section 152, the term "dependent" means certain individuals who are related to the taxpayer (or are members of his household) and who receive over half of their annual support from him.

In any taxable year where payments are made for an eligible individual's postsecondary educational expenses incurred both before October 1, 1980, and after September 30, 1980, the maximum credit for that individual's expenses is \$500, but only \$500 of the amount paid for education furnished before October 1, 1980, may be taken into account in computing the credit.

In prescribing regulations for determining the allocation of expenses to the two 1980 credit periods, it is the intention of the committee that the Internal Revenue Service adopt rules which permit taxpayers to claim a reasonable allocation based on approximate, rather than precise, allocations where approximations would make computations easier for taxpayers. For example, if tuition is paid for a 12-week program which is conducted for five weeks before and seven weeks after October 1, 1980, the credit would be allowed for one-half of the tuition for the program.

If, for example, a taxpayer pays \$600 on January 1, 1980, for postsecondary education furnished between January and May 1980, and \$2,000 on August 1, 1980, for education furnished between August and December 1980, the computation of the credit generally would be as follows. For the first part of the year, he will have paid \$2,600 but will be subject to a ceiling of \$500 for eligible expenses. Thus, for that part of 1980, the taxpayer is entitled to the maximum \$250 credit. For the second part of 1980 (October 1–December 31, 1980), the taxpayer would have incurred expenses for education furnished between October and December. By allocating the \$2,000 paid in August over the period with respect to which the related education was furnished, the taxpayer is entitled to treat three-fifths of the \$2,000, that is \$1,200, as eligible expenses for the second part of 1980. In determining his credit for the second part of 1980, the taxpayer must reduce the \$1,000 ceiling on expenses by \$500, the amount of expenses taken into account for the first part of the year. ($\$1,000 - \$500 = \$500$). Because the taxpayer's expenses for the second part of 1980 exceed the ceiling, his credit for the second part of the year would be \$250. His total credit for 1980 would be \$500.

No educational expenses paid or incurred for education furnished before October 1, 1980, at private secondary or elementary schools (including vocational secondary schools) may be taken into account in claiming a credit. No credit may be claimed for any regular public school tuition. No amount may be taken into account for purposes of determining withholding exemptions before October 1, 1980, if such amount is allowable as a tuition tax credit on or after that date.

The credit will be allowed for educational expenses paid for postsecondary education only if the expenses are related to courses of instruction for which credit is allowable toward a baccalaureate or associate degree by an institution of higher education or toward a certificate of required course work at a postsecondary vocational school.

A credit is allowed only once for each taxable year with respect to the educational expenses of any one individual. An individual may not claim any credit for his educational expenses if the individual himself is a dependent of another taxpayer. Thus, a student whose parents are entitled to claim a personal exemption for him may not claim a credit for his own educational expenses; however, the student's parents may claim a credit only for educational expenses which they have paid for the student. A taxpayer may claim a credit for a spouse's educational

expenses only if the taxpayer may claim a personal exemption for his spouse or if the taxpayer files a joint return with his spouse.

Offsets

Any amounts taken into account as educational expenses of a student in determining a credit must be reduced by educational assistance which is not required to be included in gross income either by the student or by the individual claiming the credit. Thus, the expenses against which the 50-percent credit applies must be reduced (1) by scholarships or fellowship grants excludible from gross income under section 117; (2) any educational assistance received pursuant to chapter 32, 34, or 35 of title 38 of the United States Code (relating to Veterans' benefits); and (3) by any other educational assistance or payment for educational expenses, which is not includible in gross income by any U.S. law (for example, amounts received under the Armed Forces Health Professions Scholarship Program through calendar year 1979). However, no offset is required for a gift, bequest, devise, or inheritance within the meaning of section 102(a) of the Internal Revenue Code. Thus, for example, grandparents' gifts to grandchildren would not be offsets.

This reduction for tax-free assistance reduces the amount of expenses eligible for the credit prior to the application of the maximum dollar limitation on the amount of educational expenses which qualify for the credit.

Also, the amount of the credit which otherwise would be allowable for any taxable year must be reduced by any amounts received, with respect to any individual for any taxable year, under subpart 1 or 2 of part A of title IV of the Higher Education Act of 1965 or any successor statute. Therefore, amounts received under the Basic Educational Opportunity Grant Program (BEOG) or the Supplemental Educational Opportunity Grant Program (SEOG) will reduce the credit available to the recipient of funds from these programs. These amounts, however, will not reduce the amount of educational expenses which may be taken into account by a student in determining his or her credit.

Reductions for tax-free assistance are to be matched against the educational expenses for which the assistance is granted. Thus, if a taxpayer pays educational expenses in 1982 and claims a credit for that year, any educational assistance received in 1983 relating to the expenses paid in 1982 is to reduce the amount of expenses which may be taken into account in computing the credit for 1982. If amounts received as scholarships or fellowships, other educational assistance or payments excludible from income, or educational assistance pursuant to chapter 32, 34, or 35 of title 38 of the U.S. Code are apportioned by the grantor or donor between the educational expenses eligible for the credit and other expenses which may not be taken into account in determining the credit, such apportionment must be disregarded and all such tax-free amounts are to be applied in reducing tuition and fees, that is, educational expenses eligible for the credit.

Disallowance of expenses as deduction or credit

An individual may claim no deduction or credit under any other section of the Code for any educational expenses which he has taken into account in determining the amount of an educational expense

credit which he claims. However, a taxpayer may elect not to claim an educational expense credit and may claim any other deduction or credit to which he is entitled with regard to the educational expenses. Thus, for example, a calendar year taxpayer who incurs job-related postsecondary educational expenses of \$1,000 in 1983 must choose between claiming an educational tax credit of \$500 (under the new credit added by this amendment) or a trade or business expense deduction of \$1,000 (sec. 162). If a calendar year taxpayer incurs job-related postsecondary educational expenses of \$2,000 in 1982, he may claim an educational expense credit of \$500 *and* a trade or business expense deduction of \$1,000; or the taxpayer may elect not to claim any educational expense credit and may deduct the full \$2,000 of educational expenses as trade or business expenses.

Definitions

The term "educational expenses" (that is, expenses taken into account in determining a credit) means tuition and fees required for a student's enrollment or attendance at an eligible educational institution. The term includes the normal annual, semester, course, or credit charges assessed by educational institutions as well as such required miscellaneous charges as registration fees and required course fees, for example, laboratory fees which are required for registration in courses involving laboratory work. Expenses which may not be counted in determining a credit include any amount paid, directly or indirectly, for books, supplies, and equipment for courses of instruction, or for meals, lodging, transportation, or similar personal, living, or family expenses.

Eligible educational expenses for elementary and secondary schools are limited to tuition and fees for grades one through twelve. No credit is allowed with respect to expenses paid or incurred for education below the first grade level or for attendance at a kindergarten or nursery.

The bill provides a special definition of the term "full-time student" for purposes of the "full-time student" limitation applicable prior to October 1, 1980.⁵ The term means any student who, during any four calendar months during a calendar year in which the taxable year of the taxpayer begins, is a full-time student at an eligible educational institution.

A "half-time student" means any individual who, during any four calendar months during the calendar year in which the taxable year of the taxpayer begins is a half-time student at an eligible institution under regulations which are consistent with regulations prescribed by the Commissioner of Education to define a "half-time student."

Before October 1, 1980, an "eligible education institution" is an institution of higher education (but not including a graduate school) or a postsecondary vocational school in the 50 States and the District of Columbia. On October 1, 1980, the term broadens to include secondary schools and elementary schools, including vocational high schools.

In order to qualify as eligible education institutions, secondary and elementary schools must be privately operated and must meet two requirements. First, such schools must be operated in accordance with

⁵ The definition of full-time student for purposes of the credit for educational expenses differs from the definition of student in section 151(e)(4) (relating to deductions for personal exemptions), which provides a 5-month rule.

applicable state law. Second, privately operated schools also must qualify for tax-exempt status under section 501(c)(3) of the Internal Revenue Code. Schools which discriminate on the basis of race are denied tax-exempt status under case law interpreting section 501(c)(3).

In Revenue Ruling 71-447, 1971-2 C.B. 230, the Internal Revenue Service held that a private school that does not have a racially non-discriminatory policy as to students does not qualify for exemption under section 501(c)(3). A "racially nondiscriminatory policy as to students" is defined as meaning that the school admits the students of any race to all the rights, privileges, programs, and activities generally accorded or made available to students at that school and that the school does not discriminate on the basis of race in administration of its educational policies, admissions policies, scholarship and loan programs, and athletic and other school-administered programs.

In Revenue Procedure 75-50, 1975-2 C.B. 587, the Internal Revenue Service set forth the guidelines and recordkeeping requirements for determining whether private schools that are applying for recognition of exemption from Federal income tax under section 501(c)(3), or are presently recognized as exempt from tax, have racially nondiscriminatory policies.

In general, these guidelines are as follows:

(1) A school must include a statement in its charter, bylaws, or other governing instrument, or in a resolution of its governing body, that it has a racially nondiscriminatory policy as to students and therefore does not discriminate against applicants and students on the basis of race, color, and national or ethnic origin.

(2) Every school must include a statement of its racially nondiscriminatory policy as to students in all its brochures and catalogues dealing with student admissions, programs, and scholarships.

(3) The school must make its racially nondiscriminatory policy known to all segments of the general community served by the school.

(4) A school must be able to show that all of its programs and facilities are operated in a racially nondiscriminatory manner.

(5) As a general rule, all scholarships or other comparable benefits procurable for use at any given school must be offered on a racially nondiscriminatory basis. Their availability on this basis must be known throughout the general community being served by the school and should be referred to in the publicity necessary to satisfy the third requirement in order for that school to be considered racially nondiscriminatory as to students.

An individual authorized to take official action on behalf of a school that claims to be racially nondiscriminatory as to students must certify annually, under penalties of perjury, on an Internal Revenue form to be issued, that to the best of his knowledge and belief the school has satisfied the requirements listed above.

The existence of a racially discriminatory policy with respect to employment of faculty and administrative staff is indicative of a racially discriminatory policy as to students. Conversely, the absence of racial discrimination in employment of faculty and administrative staff is indicative of a racially nondiscriminatory policy as to students.

Failure to comply with the guidelines set forth in Revenue Procedure 75-50 ordinarily will result in the proposed revocation of the exempt status of a school.

The terms "elementary school" and "secondary school" include facilities which offer education for individuals who are physically or mentally handicapped (including emotionally handicapped individuals) as a substitute for public elementary or secondary education, whether or not the facilities are privately operated.

Report to the Congress

The bill requires the Attorney General and the Secretaries of the Departments of the Treasury, and of Health, Education and Welfare, to report jointly to the Congress on the effectiveness of the Internal Revenue Service's enforcement of policies against racial and other discrimination in private education. The report is to contain any suggestions which these officials may have to enhance enforcement of these policies. The first report must be submitted by June 1, 1980. An additional report must be filed by June 1, 1982.

An appeal from a decision of the Court of Appeals is to be brought directly to the U.S. Supreme Court within 20 days after the decision of the appellate court is entered. The bill indicates the committee's intention that the Court of Appeals and the Supreme Court of the United States advance on their dockets and expedite to the greatest extent possible the disposition of any challenge to the constitutionality of any provision of the tax credit for educational expenses.

Separability

The bill specifically provides that a judicial decision holding any provision of the educational expenses credit (or any other Code section relating to this credit) or the application of any provision of the credit to any person or in any circumstances to be invalid shall not affect the remainder of the credit provisions nor the application of the other provisions to other persons or circumstances.

Effective date

The bill applies to amounts paid after July 31, 1978 (in taxable years ending after that date) for educational expenses incurred after that date. No change in withholding exemptions may be made prior to October 1, 1980, for any amount allowable as a tuition tax credit on or after that date.

III. COSTS OF CARRYING OUT THE BILL AND VOTE OF THE COMMITTEE IN REPORTING H.R. 12050, AS AMENDED

Budget Effect

In compliance with section 252 (a) of the Legislative Reorganization Act of 1970, the following statement is made relative to the costs incurred in carrying out H.R. 12050, as amended by the committee. The committee estimates that the credit allowed by this bill will decrease budget receipts by \$25 million in fiscal year 1978; by \$578 million in fiscal year 1979, by \$997 million in fiscal year 1980, by \$1,848 million in fiscal year 1981, by \$2,820 million in fiscal year 1982, and by \$2,888 million in fiscal year 1983.

The Treasury Department agrees with this statement.

Vote of the Committee

In compliance with section 133 of the Legislative Reorganization Act of 1946, the following statement is made relative to the vote by the committee. The bill was ordered favorably reported by a voice vote after the following rollcall vote on the amendment in the nature of a substitute: In favor (15): Messrs. Long, Talmadge, Ribicoff, Nelson, Gravel, Hathaway, Matsunaga, Moynihan, Curtis, Hansen, Dole, Packwood, Roth, Laxalt, and Danforth; opposed (1) Bentsen.

IV. REGULATORY IMPACT OF THE BILL AND OTHER MATTERS TO BE DISCUSSED UNDER SENATE RULES

Regulatory Impact

Pursuant to rule XXIX of the Standing Rules of the Senate, as amended by S. Res. 4 (February 4, 1977), the committee makes the following statement concerning the regulatory impact that might be incurred in carrying out the provisions of this bill.

A. Numbers of individuals and businesses who would be regulated.—The bill does not regulate individuals or businesses but generally provides tax relief to a large number of individuals.

B. Economic impact of regulation on persons affected.—The tax relief provided by this bill will reduce the cost of certain educational activities and thereby assist both students and their families to undertake and continue education.

C. Impact on personal privacy.—The bill has minimal impact on the personal privacy of taxpayers.

D. Determination of the amount of paperwork.—The bill will require additional tax computations and in some cases an additional tax form for individuals who elect it. Most of this paper work will require only the assembly of information which is already in the taxpayer's records. The time to assemble such information will vary with taxpayers but in no case should it be more than negligible. There will be no expense associated with claiming the relief provided by this bill.

Budget Impact of the Bill

In accordance with section 403 of the Budget Act, the committee advises that the Director of the Congressional Budget Office has examined H.R. 12050, as amended by the committee, and has submitted a statement that the bill, as amended, will provide new tax expenditures of \$21 million in fiscal year 1978, \$491 million in fiscal year 1979, \$804 million in fiscal year 1980, \$1,895 million in fiscal year 1981, \$2,646 million in fiscal year 1982, and \$2,761 million in 1983.

The following report was received from the Congressional Budget Office:

AUGUST 4, 1978.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In accordance with Sections 308(a) and 403 of the Budget Act, the Congressional Budget Office has examined H.R. 12050, as amended by the Senate Finance Committee on August 3, 1978. H.R. 12050 would provide a nonrefundable tuition tax credit. From August 1, 1978 to October 1, 1980, the tax credit would allow a taxpayer to reduce his taxes by an amount equal to 50 percent of tuition

and fees paid by the taxpayer in any year, up to a maximum credit of \$250 per student. The credit could be claimed only for undergraduate or vocational education students enrolled full-time or at least one-half time. On October 1, 1980, the credit maximum would be raised to \$500 for postsecondary education students, and taxpayers with tuition expenses for elementary and secondary education would become eligible for a credit of up to \$250. The credit would be reduced by the amount of any need-based federal aid (Basic Grants or Supplemental Grants). Other forms of financial aid would reduce the amount of tuition and fees eligible for the credit.

The bill would not provide any new budget authority. The bill would provide a new tax expenditure in the following amounts (in millions of dollars) :

<i>Fiscal Year</i>	<i>Total Costs</i>
1978 -----	21
1979 -----	491
1980 -----	804
1981 -----	1, 895
1982 -----	2, 646
1983 -----	2, 761

The Congressional Budget Office estimates that the costs incurred in carrying out the bill would be the same as the amounts shown as the increase in tax expenditures.

These estimates were derived from the Congressional Budget Office's tuition tax credit simulation model. An explanation of the simulation technique used by the Congresssional Budget Office to generate estimates of tuition tax credits is available upon request.

Sincerely,

Alice M. Rivlin,
Director.

The Congressional Budget Office estimates differ from the estimates made by the committee because of differences in assumptions made in the Revenue estimating processes. Although the Congressional Budget Office has highly detailed, computerized education information, the committee is relying on the tax data used in making its estimates.

In compliance with section 308(a) (2) of the Budget Act with respect to taxes expenditures, and after consultation with the Director of the Congressional Budget Office, the committee states that the bill would provide new and increased tax expenditures. The tax expenditures for fiscal years 1978-83 are the same as the amounts stated in Part III in the discussion of the bill's "Budget Effect."

V. CHANGES IN EXISTING LAW

In the opinion of the committee, it is necessary in order to expedite the business of the Senate, to dispense with the requirements of subsection 4 of rule XXIX of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill, as reported).

(14)

