Millennial Higher Ed Tax Agenda

YOUNG YI INVINCIBLES

As Congress considers a tax reform package, it should protect, simplify, and expand investments in higher education access for young people provided through the tax code. The current system contains overlapping higher education tax credits that could be simplified, as well as tax penalties for low-income students and borrowers that should be removed. Additionally, essential deductions for many students should be protected or expanded to ensure the overall level of higher education investment does not decline. Overall, tax reform must not be a backdoor to cutting valuable higher education provisions, which millions of young people rely on. To create a tax code that is more responsive to the needs of students and borrowers in America today, YI recommends:

- **Any changes to existing higher education tax provisions should not result in a net reduction in overall investment.**
    - Simplification should not be used as an excuse to cut access to funding that makes higher education more accessible and affordable.
- **Combining the three current higher education tax credits**, the American Opportunity Tax Credit, Lifetime Learning Credit, and Hope Scholarship Credit (now defunct, but still written into law), **into one primary tax credit, an improved and expanded American Opportunity Tax Credit (AOTC)**, which is currently the largest and most frequently used higher education tax credit.[1] Congress should also:
    - Make the AOTC fully refundable to better support students and families working to defer college costs.[2]
    - Replace the current 4-year limit with a lifetime cap on total amount claimed, benefiting older students and those working while enrolled.[3]
    - Make the AOTC advanceable, meaning existing prior tax information would be used to add the credit into a student's financial aid package up front.[4] This would protect families from paying tuition and waiting months for reimbursement.

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[1] "How Governments Support Higher Education Through the Tax Code," Pew Charitable Trusts, February 2017, http://www.pewtrusts.org/~/media/assets/2017/02/how-governments-support-higher-education-through-tax-code.pdf.

[2] "Higher Education Tax Reform: A Shared Agenda for Increasing College Affordability, Access, and Success," The Reimaging Aid Design and Delivery Consortium for Higher Education Tax Reform, November 2013, http://www.clasp.org/sites/default/files/public/resources-and-publications/publication-1/2014.06.20-Consortium-for-Higher-Ed-Tax-Reform-FINAL.pdf.

[3] Ibid.

    - Preserve access to the credit for individuals paying their taxes using an Individual Taxpayer Identification Number, ensuring that low-income working immigrant parents and their children can maintain access to these financial supports.
- **Making all student loan forgiveness tax-free.**
    - Taxing forgiven debt defeats the purpose of forgiveness. Borrowers still paying their loans after 20 years likely cannot afford the tax liability on forgiven debt.
    - Making forgiveness tax-free also simplifies the student loan system and avoids further complicating borrower tax returns.
- **Making Pell Grants tax-free.**
    - A majority of the cost of attending a 2-year university comes from indirect expenses like food, housing, transportation, and childcare.[5] Taxing essential expenses covered by Pell inefficiently takes financial aid back from low-income students with little disposable income.
    - Making Pell Grants totally tax-free also simplifies the tax filing process for Pell recipients, freeing them from tracking expenses while studying for their degree.
- **Preserving the student loan interest deduction.**
    - The student loan interest deduction was claimed by over 12 million borrowers last year.[6] With the average public college undergraduate leaving school with $30,000 in debt,[7] eliminating financial assistance for those making payments makes it harder for borrowers to pay back their loans.
- **Maintaining the non-taxable status of graduate student tuition waivers.**
    - The average annual salary for a graduate research assistant is less than $30,000.[8] Young Invincibles estimates that both African-American students and students earning below $50,000 disproportionately benefit from the tuition waiver.[9] Forcing students doing valuable research to pay taxes on money they never receive would be a severe financial hardship that may result in fewer people pursuing education in fields our 21st century economy needs to thrive.

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[4] "Higher Education Tax Reform: A Shared Agenda for Increasing College Affordability, Access, and Success," The Reimaging Aid Design and Delivery Consortium for Higher Education Tax Reform, November 2013, http://www.clasp.org/sites/default/files/public/resources-and-publications/publication-1/2014.06.20-Consortium-for-Higher-Ed-Tax-Reform-FINAL.pdf.

[5] Duy Pham, "A Common-Sense Change for Low-Income Students: Excluding Pell as Taxable Income," Center for Law and Social Policy, July 18, 2016, https://www.clasp.org/blog/common-sense-change-low-income-students-excluding-pell-taxable-income.

[6] Kelli B. Grant, "Student loan interest deduction is on the chopping block," CNBC, November 2, 2017, https://www.cnbc.com/2017/11/02/student-loan-interest-deduction-is-on-the-chopping-block.html.

[7] Katie Lobosco, "Students are graduating with $30,000 in loans", CNN Money, October 18, 2016, http://money.cnn.com/2016/10/18/pf/college/average-student-loan-debt/index.html.

[8] Jen Kirby, "The GOP tax bill could be a disaster for PhD students," Vox, November 7, 2017, https://www.vox.com/policy-and-politics/2017/11/7/16612288/gop-tax-bill-graduate-students.

[9] U.S. Department of Education, National Center for Education Statistics, 2011-12 National Postsecondary Student Aid Study (NPSAS:12).