

## EITC FUNDERS NETWORK MEETING

### **EDUCATION TAX CREDITS: Lessons from the Field, Future Challenges, and Potential Links to EITC and Workforce Development**

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**Participants:** Irene Skricki, Karen Yeager, Joan Ruff, Marta Kim, Elizabeth Lauer-Basch, Robin McKinney, Shawn Fremstad, Andy Van Kleunen, Vicki Choitz, Mary Dupont, Steve Holt, Robin Brule, Kevin Jordan, Elizabeth Kneebone, John Wancheck, Bob Shireman, Dan Stern, Don Dill, Ami Nagle, David Rothstein, and Bonnie Howard

#### **Opening Remarks – Irene Skricki:**

Casey has been interested in EITC, asset building and workforce development for a number of years. Our workforce development efforts seemed like a good way to connect EITC and asset building with Education Tax Credits. Susan Gewirtz at Casey gave a grant to Future Works to conduct research on these tax credits and they found that the take up rates were low. In August 2005, Casey convened a meeting to talk about where we should go based upon that report's findings. We decided to support research on the tax credits and how efforts to increase take up of education tax credits could be a workforce development tool. Today's meeting is in follow up to those conversations.

Throughout this work, we have been aware of the limitations of these tax credits. Education tax credits are small, not refundable and only reach a small number of people. They are not a viable replacement for other work around workforce development and education, but we thought they might be worth exploring in greater depth. They are already on the books so it makes sense to make sure people are taking advantage of them. Currently, they represent a modest part of overall strategy around tax preparation and workforce, but if these credits were restructured they could be more significant.

#### **Overview of the Education Tax Credits – Vickie Choitz:**

The purpose of this presentation is to share results of the research project and two draft papers on education tax credits and workforce development and to engage in a dialogue about:

- Strategies and tools that to increase uptake of education tax credits,
- Partnerships with community colleges (only education expenses at post secondary institutions are counted),
- Assisting free tax preparation volunteers and coordinators in understanding these credits and connecting filers to them, and
- Policy opportunities to make these beneficial for families.

### *The Research Project:*

The research effort on education tax credits grew out of research in 2003, entitled *Getting Serious from Life Long Learning*. That report found that:

- Adults were unaware of the tax credits
- The biggest beneficiaries were dependent students
- Working adult students benefited the least

That led to a second research project to identify what strategies and tools could increase take up rates among adult working students with a focus on free tax preparation sites and to investigate how the credits could be leveraged as a workforce development tool. Two products came out of this second research project:

- *What are They and How Do I Use Them?: Strategies and Tools to Increase and Improve Filing of the Federal Hope and Lifetime Learning Education Tax Credits by Low Income Filers*
- *A Workforce Development Triad: Federal Education Tax Credits, Community Based Organizations and Community Colleges.*

The Education Tax Credits were initiated in 1997 and include the Hope Scholars and Lifetime Learning Tax Credits. They reach 7.2 million filers each year, connecting them with \$5.2 billion in tax credits.

The Hope Education Tax Credit applies to the 100 percent of the first \$1100 spent on net tuition costs and 50 percent of the next \$1100 spent on tuition with a maximum credit of \$1650. This credit is limited to the first two years of schooling but it can apply to an unlimited number of students on a single tax return.

The Lifetime Learning Tax Credit is much smaller. It applies to 20 percent of the first \$10,000 of net tuition and fees, but it can be claimed for any year of education and at any enrollment intensity. A student does not have to be enrolled in a degree program as long as they are enrolled in an accredited institution. This credit is capped at \$2000 per tax return regardless of the number of students in the household.

Both tax credits are non-refundable (meaning that they do not benefit filers who do not have any tax liability) and they cover only tuition and fees (not books, supplies or room and board which are substantial for college students). They phase out beginning at adjusted gross incomes of \$90,000 for joint filers and \$45,000 for single filers. They were designed to support middle income parents of students and working adult students; they were not designed to benefit low income students, families or workers.

### *Who Benefits?*

Using 2003 IRS data, they looked at three different types of students to measure the use of the tax credits:

- Dependent – typically traditional students who are still claimed on their parents' returns
- Independent full time students – these are frequently graduate students and do not really include working adult students.
- Working adult student

Based upon those criteria, they analyzed the benefits of the two tax credits by group and by income level.

For both education tax credits, low income filers received only about one-third of the benefits, with low income dependents getting a very small percentage. The independent (graduate student) filers also got a small share. For the Hope credit, in 2001, 34 percent went to low income filers with only 5 percent of low income dependents filing for the credit. Working adults received about 22 percent, but the lion's share went to higher income filers. The same pattern was repeated for the Lifetime Learning Tax Credit. Many of the low income dependents are receiving financial aid which prevents them from getting the education tax credits. Many of their parents might not be earning enough to have a tax liability, thereby preventing them from filing for the non-refundable credits. Full time students and dependents received the credit much more frequently than the working adult students.

Using data from the AECF funded National Tax Assistance sites provided by Steve Holt, they compared the average Casey-site filer with the credit claimants. Those who claimed the education tax credits tended to have higher adjusted incomes, be single, younger in age, have no children, and be less likely to receive public benefits or other tax credits – especially the EITC and Child Tax Credit.

Elizabeth Kneebone at the Brookings Institution reviewed take up data on the Education Tax Credits for 2003 in the 100 largest metro areas in the US. She looked at three groups of filers:

- Low income filers who received the EITC and Education Tax Credits (those earning \$15,000 or less AGI)
- Low income filers who did not claim the EITC (those earning \$15,000 or less AGI)
- Upper income filers

In all 100 metro areas, the percentage claiming the Education Tax Credit is higher than the national average. The group of low income filers who received EITC had the lowest percentage of take up. The other low income filers group had the highest percentage take up but, in terms of numbers, the middle and upper income filers claimed the credit most. The table that Elizabeth shared includes a breakdown of all of the metro areas and their take up rates. Miami/Ft. Lauderdale topped the list with 10 percent of their EITC filers claiming Education Tax Credits.

#### *What Opportunities are there for Low Income Families to Benefit?*

The Hope Credit is a benefit if you can attend school at least half time. Low income dependent students who received the Hope Credit received a very small amount because of their student aid (their loan income is not counted against them in determining eligibility, only their grant aid). Because the Pell Grant has lost much of its buying power recently, there is more room for the Education Tax Credits to benefit these low income dependent students.

The Lifetime Learning Tax Credit is good for any enrollment intensity, can be used for credit and non-credit courses at an accredited institution and can be used throughout a person's lifetime. It is a tiny seed but it is important for the workforce development connection.

*Barriers to Low Income Families Benefiting:*

Operational Barriers:

- Lack of awareness - people don't know about the credits
- Filing complexity

Policy Barriers:

- Credits are limited to tuition and required fees only which is not insignificant but room and board, equipment and supplies are the big costs.
- Credits are calculated on *net* tuition and fees
- The Lifetime Learning Credit is small
- Neither credit is refundable

Other Barriers:

- Timing - You don't receive the credit until up to 18 months after you pay the tuition and fees because of the schedule of tax year filing.

*Questions and Discussion:*

*1. Miami did such a good job of claiming these credits. Have you observed any explanation?*

Elizabeth is not sure why they were so successful. It leads her to believe that there is something going on there. The tax campaign is medium size. Miami is a poor city with a very large community college.

*2. There is a much higher rate of non-EITC filers claiming the Education Tax Credits than EITC filers. Why?*

We are not certain what is causing that. EITC is probably knocking out the tax liability for filers so they aren't eligible to claim the Education Tax Credit because it is non-refundable. Another explanation could be that, at free tax preparation sites, the questions relating to the Education Tax Credits come up last – after people have received their other credits and refunds.

*3. How do the Education Tax Credits compare to Pell Grants?*

The Tax Credits are also not designed to serve a low income population. They were designed to fill in the gap for higher income students after the Pell grants are phased out. The people who don't get the Education Tax Credits are usually eligible for Pell grants which can go towards all costs – not just tuition and fees. Pell grants are good for part time students as well. The Pell grant has a different, more complicated formula for determining eligibility. Pell grants require a lot of up front work. You have to file the Free Application for Federal Student Aid (FAFSA) in advance. Determining eligibility for the Education Tax Credits is much more simple; it is tied to what you pay in taxes and what you AGI is. The Tax Credits are a back-in solution though – providing people who did not access financial aid support. There are great opportunities to get more low income people to take advantage of Pell grants. We should really think about whether or not we want to seek to expand Pell grants or focus on expanding the take up of the Education Tax Credits. We could do analysis to determine where to put priority. Susan Dynarski, a professor at Harvard's Kennedy School of Business is suggesting that all higher education grants be run through the tax code.

## **Practitioner Perspective – Vickie Choitz:**

*An overview of tools and processes for filing for and promoting the Education Tax Credit and connecting them to EITC and workforce efforts.*

Strategies for increasing take up for the Education Tax Credits:

- Raise Awareness of credits – especially for low income filers at free tax prep sites.
- Ask the right questions at tax sites
- Make sure volunteers know how to file for the credits

*Raising Awareness of the Filer:* The bread and butter of the free tax preparation sites are EITC and the Child Tax Credit. Most of the sites focus heavily on them. Some, like Central New Mexico Community College, also promote the Education Tax Credits. They know that their audience is predominantly low income college students.

*Ask the Right Questions:* The two-pager that Vickie shared includes questions that prepares could ask to ensure that eligible filers receive the Education Tax Credits. The best place to address this is with the intake forms when filers first come into the tax sites. Colleges are required to send out 1098-T forms to all students who may be eligible for the tax credits. The forms have to include the student and education institution's name and identification numbers. They are not required to include the amount of tuition and fees paid, however, which diminishes their usefulness. Sites cannot rely entirely upon that document to help people file for those credits. The intake form for the Tax Counseling Project at the Center for Economic Progress in Chicago asks on the front page if the filer attended college in 2005. The IRS intake sheet works well for this purpose too.

In order to help a filer file correctly for the Education Tax Credits, they should be asked three key questions:

- Is there an eligible student living in their household?
- Were they attending an eligible institution?
- Did they pay any qualified expenses?

The IRS publications provide guidance around what it means to be an eligible student but there is no real guidance around eligible institutions and there are no worksheets around qualified expenses. To fill that gap, Vicki Choitz created a guide which is included as appendix G in the report. The guide was reviewed by IRS Senior Tax Analyst Don Dill. Bon Secours and Robin piloted its usage last year

*Raise Awareness of the Tax Preparers:* Very little time in the EITC training is devoted to Education Tax Credits. Some volunteer preparers have had only five minutes of instruction on them. The Tax Wise software does not make it easy to apply for the Education Credits either. The Center for Budget and Policy Priorities has created a great outreach kit and flier with information on the Education Credits and links to other asset development programs that workers can connect to.

*Are the Education Tax Credits an Effective Workforce Development Tool?*

Answering this question is not as straightforward as it might seem. Because the credits can only be used on tuition and fees at education institutions, you will have to pull in an education partner

to develop a workforce development component to them. In researching their usefulness they looked across the country for partnerships where a triad of partners – Tax Preparation Sites at Community Based Organizations, Workforce Development-focused Community Based Organizations, and Post-Secondary Education Institutions (normally community colleges) – came together. The second paper Vicki shared outlines three case studies where those three partners worked together.

**Our Money Place, Bon Secours Foundation - Kevin Jordan:**

Our Money Place provides financial services and has also run a free tax site for EITC-eligible filers since 2001. During the last few years they have also provided tax preparation for a fee to those who didn't qualify for the EITC.

*The Education Credits Should be Refundable Credits:*

The biggest barrier to utilization of the Education Tax Credits is that they are non-refundable. If you don't have tax liability, you don't get this credit. In the neighborhoods served by Our Money Place, the average family is a head of household with two children. For those families, the first \$13,700 in income is not taxed. After you get EITC and CTC, the household has to be making a lot of money or have several kids for the Education Tax Credits to apply. More people are coming in with their 1098-T forms and more of the non-EITC eligible families are getting the Education Tax Credits, but Kevin's number one policy recommendation would be to make the Education Tax Credits a refundable credit.

*Make Sure Paid Tax Preparers Are Aware of Education Tax Credits:*

Our Money Place prepares taxes year round so they end up serving a lot of people who have gone to paid preparers. Because many of the paid preparers close their offices shortly after filing season, the filers come to Our Money Place when the IRS alerts them to problems with their return. They have witnessed lots of problems with the Education Tax Credits among these filers. They knew one woman who was in school made too much for EITC and they sent her to a paid preparer to see if they would investigate her eligibility for an Education Tax Credit. Neither the preparer nor the site manager helped her file for the Lifetime Learning Tax Credit, so she came back to Our Money Place and they helped her file for the credit. Paid tax preparers prepare the majority of tax returns. We need to make sure they are doing it right as well.

*Make Sure Tax Preparer Volunteers Are Aware of Education Tax Credits*

In general, people don't understand their tax returns, regardless of their income level. In order for our education efforts to have the largest impact, they should be targeted at the tax preparers. They need to become good at these credits so folks get the credit. But, the bulk of the effort should go towards making sure that all site managers are highly trained and very clear about the Education Tax Credits. The challenge in making all preparers aware of the Education Tax Credits is that they only receive eight hours of training with the majority of that time spent on EITC. The preparers come to the site nervous and with the goal of "getting the red out" of the Tax Wise form, an indication that there are no problems with the tax file. Therefore, the paid site managers need to fill in that gap. Education Tax Credit information needs to be a part of the site manager training. They can help the preparers ask the right questions and can work with the volunteers when a filer answers yes to any of the education related questions.

### *Make Instruction Guides Simple and Useful*

After the tax preparation trainings, preparers come to the sites with stacks of booklets to help them prepare the taxes. Kevin would prefer a set of simple flow charts that could guide the preparers through the process for determining eligibility and filing for the EITC, the Education Tax Credits and dependent care. He feels stacks of paper are not useful because people can't navigate them easily while working with a filer.

### *Use Incentives to Build Up an Experienced Volunteer Base*

Tax preparation takes a while to learn. Sometimes new volunteers don't begin to feel comfortable preparing taxes until half way through the tax season. It is helpful if you can slowly build up a strong volunteer base over time by incentivizing volunteers to come back year after year. This could be done by paying them a stipend. Returning volunteers build quality.

### *Make Sure College Financial Aid Staff Know About Education Tax Credits*

Figure out how to train college financial aid staff about the Education Tax Credits so that they see them as a financial aid opportunity. 1098-T's are required to be mailed out by February 1 but colleges barely meet that deadline. Many filers have already filed their taxes by the time they receive their 1098-T and they aren't sure if the credit would apply to them. We need to get colleges to buy into this by helping them see the value of the workforce development side of it.

### **Central New Mexico Foundation - Robin Brule:**

The goal of Central New Mexico Community College is to help its students graduate. They see that the Education Tax Credits fit into that goal. Initially, the VITA program was created as a part of the college's curriculum so that students could take an accounting class to learn tax preparation and get college credit and real life experience. The students were trained to go out into the community and prepare taxes. When the students sign up for the class, they are required to deliver the service in order to earn the credit. It is a good volunteer model. The curriculum they developed can be implemented in any school any where in the country.

Eighty percent of students were dropping out of school because of financial issues, including child care, transportation and utility bills. The college felt it was devastating to lose so many students for such small amounts of money. They decided to provide VITA service to all of the students in addition to low income people. They also sought private funding to spread the throughout the community, school and the state of New Mexico. They felt that the students were the perfect audience because they weren't taking advantage of the tax credits because they weren't aware of them. They conducted outreach to increase awareness. After talking to Casey staff last year, Robin realized that the Education Tax Credits were another opportunity to get students into the tax sites and connect them with additional supports.

Post cards are mailed out to all 36,000 students enrolled in the school. This year, they will also send postcards to alumni since many of them transfer into four year institutions after leaving the community college. They are now partnering with 15 community colleges and other social service agencies to deliver the services. They are also partnering with the University of New Mexico to deliver services on their campus. This should greatly increase the number of eligible

students who are taking advantage of the Education Tax Credits because of the many graduate programs at UNM.

They are seeking to use the VITA program and the Education Tax Credits as a tool to stabilize students' income so they do not have to drop out because of costs. They also have a Center for Working Families at the school which bundles resources and services for a vulnerable population. When low income filers are receiving tax services, the staff review the tax return to see what other services and public benefits the filer might be eligible for. They have been able to connect students with many other assets and supports which help them stay in school and move through the workforce development process and go on to earn higher incomes.

This year, in partnership with the Center for Economic Progress, they will have students fill out Free Application for Federal Student Aid (FAFSA) while they are having their tax returns prepared. Many students don't know that they are eligible for financial aid or they apply for it only when they are already in a financial crisis situation or after the deadline. They will have financial aid staff on site to help folks with the form while they are getting their taxes done.

Casey challenged the tax effort in New Mexico to deepen in work. They had brought in \$26 million in tax refunds but Casey pressed them to identify opportunities to expand that and to link it to asset building opportunities. In response, they formed an asset building coalition with area CAPs and are now providing financial literacy trainings in the schools. They can pull filers credit reports and are helping 40 students open IDA's.

### *Questions and Discussion*

1. *I am interested in Robin and Kevin's perspective as to whether or not people know about these tax credits? Do they come to the tax sites with the right forms in hand?*

Robin: Most of our filers are not aware of the tax credits that are available to them. As a result, we focus on outreach to raise awareness. Now we have a steady stream of folks coming to take advantage of the services. The best outreach tool has been word of mouth. They mailed out lots of literature about eligibility. Many people were scared, thinking they wouldn't qualify but the educational pieces are encouraging them to take advantage of the credits.

Kevin: People don't know about the tax credits. May say they did not get a 1098-T form. Part of that may be expediency; they are already at the tax site and just want to get their taxes done now. They don't want to go home to get a form. They may say, "I think I paid 500."

2. *In Baltimore, we have had a hard time connecting with local community colleges. The Statewide CASH Campaign has talked to adult education programs and now has a community college partner. What was the real sell for community colleges?*

Robin: We are selling this campaign to other colleges as a strategy for beefing up their accounting/business curriculum. The administrators get on board for the money they receive by getting the kids to take these classes. They were fortunate to have colleges focusing on retention and graduation. All statistics show that community college students are not making it because of money and crisis in their lives. The other sell is that the school pays nothing and stands to get so much.

Bonnie: Another selling point for community colleges is that, by hosting a tax site on campus, it is a good way to attract more community people to the campus who might then decide to take a course. These are populations the community colleges are trying to attract to enroll. People who are initially afraid to sign up for a class will come for tax preparation, become more comfortable there and then sign up for a class.

Steve: Also, many campaigns have located tax sites on community colleges sites. Tucson had the highest percentage of Education Tax Credit filers (7%) but also had lowest median income amount. As they examined the data more closely, it appears that by just being at a community college, it attracted low income folks who were single filers with expenses under Lifetime Learning Tax Credit line. A partnership with a community college can be effective even if it is only the location – without including extensive outreach to students and having tax preparation as a part of the curriculum.

3. *When you say that helping students to fill out the FAFSA was a service at the tax site, how did that work? Is the form electronic?*

Central New Mexico Community College is going to work with the schools financial aid office so that the financial aid coordinators and counselors will be on site with computers. As the students finish their tax return, they can show their return to the counselor who will help them fill the FAFSA out. Most kids don't submit their financial aid applications in time and the community college has to cover the gap – so helping them fill it out ahead of time is of benefit to the college. It is also beneficial because it can help colleges retain students. Many students thought they couldn't qualify for financial aid but they do.

New Mexico is a rural state. In some areas, community colleges are hundreds of miles away. The curriculum that Central New Mexico Community College created can translate to high schools with the students who take the course receiving college credit. They have had great success in high schools with decreasing their high drop out rates. Students who live in low income areas and are now telling their family and friends about the EITC and free tax preparation. These classes help keep these kids in schools and play an important outreach role.

### **Policy Perspective – Vickie Choitz, Mary Dupont, Andy Van Kleunen:**

Several policy barriers have already been mentioned. The Education Tax Credits are:

- Limited to tuition and fees
- Based on net tuition/fees
- Small
- Non-refundable

To address those policy barriers, we have identified several policy recommendations:

- *Expand the definition of qualified expenses for both credits to include room and board, etc. so that they will be in line with current financial aid formula*
- *Increase the percentage of qualified education expenses covered under the Lifetime Learning Tax Credit from 20 percent to 50 percent and cap it at \$2,000. Only students*

enrolled at expensive institutions receive the maximum credit. Many of the low income students who are only spending \$2,000 a year, get next to nothing. If you increase it to 50 percent, you increase the benefit significantly for those going to less expensive schools without creating a windfall for those going to expensive institutions. They are not recommending that the Lifetime Learning Tax Credit be increased to be equal to the Hope Credit (covering 100 percent of the first \$1,100 in expenses) because Gene Sperling felt that asking for less would increase their chance of success.

- *Make both credits refundable*
- *Expand the Lifetime Learning Tax Credit to be “per student” rather than “per return.”* Vickie doesn’t know the history as to why the credit was initially limited to per return rather than per student.

### **Response from Tax Site Managers - Mary Dupont:**

Mary emailed the paper to 19 tax site managers, asking for their feedback. They responded, saying:

- Only 4 percent of their filers claimed an Education Tax Credit.
- They promote all tax breaks as a package deal, including the Education Tax Credit.
- On the intake form, they ask questions about education (using the CEP form as model). If the answer is yes, they ask if there is student loan interest, expenses, loans, etc. They try to promote awareness of this but not many have taken advantage of this.
- Schools should play a role. This hasn’t happened much in Delaware although they do partner with three universities, including Wilmington College which focuses on serving adults returning to school. They did just design a course for students working at the tax sites to be CASH coordinators.
- Employers need to get involved. Employers are always looking for ways to get employees involved in workforce development opportunities and are always requesting payroll staffers to inform workers about EITC. We need to promote awareness among employers of this credit so they take advantage of it with their employees.

### *Policy Issues Identified by the Tax Site Managers*

- They were concerned with the fact that the Education Tax Credits could not be the overall answer for promoting post-secondary education. It must be part of a larger effort that includes scholarships, reimbursements for tuition, tax credits given to employers that offer scholarships, and increases in Pell grants which have been dwindling in recent years.
- States could be approached to offer tax credits. No state has an education tax credit while many have state EITC.

### *Drawbacks Identified by the Tax Site Managers*

- The Education Tax Credit is received so long after the person has had to pay for tuition that its benefits are diminished. There should be some type of way to offset that.
- Dependents who have paid their own tuition cannot claim the credit for themselves. The parents can but not student.
- The credits are not refundable. Site managers felt that, because the tax liability was low after the EITC and Child Tax Credit and because the AGI of people served at the tax site

was \$17,000, the tax liability was too low for the Education Tax Credits to benefit many people.

- The credits should be expanded to include books, room and board, child care, etc.
- The two Education Tax Credits (Hope and Lifetime Learning) could be combined and simplified. They are too complicated which could be causing few to take advantage of them.
- The Education Tax Credits should not be offset by need and merit based financial aid so that it is not punishing students who receive grants. This is another reason it is important to expand the credits to cover more than tuition and fees so that it does not look like students are “double dipping” to get funds from two sources to cover one cost.

David reported that Ohio is pushing for a state EITC and he thinks it would be good to also push for state Education Tax Credits. Greater state investment on the front end is important. Only 2 or 3 percent claimed the Education Tax Credits in Ohio and David thinks that is because the credits come on the back end -- months after the tuition has been paid. Students don't think about it unless they are reminded that they are eligible.

#### **Washington DC Perspective – Andy Van Kleunen:**

The Workforce Alliance works across a variety of public policy issues, including welfare, higher education, trade policy and tax policy. They are on the same page with other meeting attendees regarding the key policy barriers and problems that have been identified (the credits are not large enough, not refundable, don't increase enrollment of low income folks, etc.). Andy shared what he was hearing in policy conversations in DC because the strategies addressed in the papers could be impacted by those conversations.

*How low income working adults/non-traditional students figure into higher education policy –* Federal financial aid and the education tax credits were not designed to help low income part time students. Some improvements have been made to them to increase their benefit to these populations, but it is a long standing, ongoing issue.

*Wrap around support services like those provided at Central New Mexico Community College -* These services are not just focused on education but on the variety of services need to help many low income students succeed. We need to solidify things for people outside of class in order to help them succeed in the classroom. This has not been a focus of federal policy to date. There are programs to help young people transition into college, but services to help students in managing their household and or with tax assistance have not happened yet. Senator Clinton put together a nontraditional student success package which would support creating the capacity to develop programs like in New Mexico. A bill passed last year included increased spending in support services. It wasn't signed into law, but it offers the opportunity for more discussion.

*Partnerships –* This was a clear part of one of the papers and there has been lots of discussion in DC recently about CBOs working with tax assistance programs and community colleges. There is funding and support for tuition and training and funding for infrastructure like One Stop Centers. There is no designated funding for partnerships though. Recently, there has been more emphasis on state programs, local workforce investment boards, etc. He wants to see this

expanded to other folks who have a role in working with folks. You often need third party (philanthropic funder) to move that along because there is rarely public funding there. That is an issue that will be continuing.

*Tax credit policy* – This includes worker tax credit and employer tax credits (claiming deductions for tuition paid for workers). The public sector spends a lot on training but that is mainly targeted to higher level staff. There are opportunities in the tax policy that we could take advantage of moving forward to ensure that these benefit lower income workers as well. This is an issue that is coming up on Congressional radar screens. Most recently, Senator Clinton proposed increasing the Lifetime Learning Tax Credit to 50 percent. Making the credits refundable is also in the bill. Congress is starting to hear what people have been saying. They are also beginning to recognize that EITC and Child Tax Credits should be excluded from income in determining financial aid because that negatively impacts student eligibility for Pell grants.

*Working adult issues* - Community colleges are primarily serving non-traditional students. Policy discussions in the higher education lobby in DC have had resistance to that. They feel the government is under-funding support for traditional students and are nervous about expand to nontraditional students in fear that that would take away from traditional students. Overtime, that may change. In Congress, there is true bipartisan interest in the fact that students can't get into school based under the current structure. Whether or not Congress wants to invest money to address that issue is a question. The Bush administration has taken an intense interest in non-traditional students and Department of Education Secretary Spelling has crated a commission on higher education. Her commission's report includes a lot about the need to serve nontraditional students but does not reference changing the tax code. Between tax credits, loans and grants, people don't really see tax credits as a way to really change enrollment levels – especially among low income folks.

#### *Large Policy Proposals on the Horizon:*

Some proposals are targeted towards the national races in 2008 rather than an expectation of passage but proposals include:

- Senator Clinton was a part of the American Dream Initiative which set a goal of increasing the number of college graduates by 1 million by providing \$150 billion in grants to the states. It would also provide a \$3,000 refundable tax credit for each of four years of study and includes some nontraditional student support act components.
- Sperling has a proposal for a new credit
- House Democrats are talking about doubling the Hope Tax Credit.
- Policies to impact access to higher education are included in the First 100 Hours goals of Congressional Democrats. They want to increase the Pell grant, reestablish deductions around student loans that expired in 2005, and cut student loan interest. They will focus on cutting student loan interest first which is targeted at the middle class. We need to make sure there is a broader discussion about access to higher education in those debates.
- Rep. Rangel will be chair of the House Ways and Means Committee and he has expressed skepticism about tax credits, deductions and even education.
- Democrats are pushing Pay-Go on both expenditures and revenues which would mean that in order to increase expenditures in one area, you have to cut somewhere else or raise taxes. Under the Republicans they used Pay-Go only on the expenditure side, meaning

that they did not have to reduce spending in order to make a tax cut. Extending it to both expenditures and revenues will make it difficult to expand the tax credits. That is a short term reality even though the general discussion is moving in our direction.

If the discussion is only going to focus on tax credits, we won't help most low income folks. Tax credits should be part of larger package including financial aid expansion.

### *Questions and Discussion*

1. *I am glad to hear there are bills and policy visions out there that incorporate what we have been talking about. Which one do you support?*

The position taken by Workforce Alliance is to focus on anything that talks about refundability. Some of what Andy mentioned were legislative proposals while some were white papers on DLC website. Any proposal that does not make the Education Tax Credits refundable and/or that proposes tax credits in lieu of direct aid will not benefit low income folks.

It seems clear that this is on the agenda under college affordability. The challenge is to make it a larger debate so that independent working students benefit and so that it does not just focus on enabling everyone ages 18-24 to enroll in college. Another challenge is to corral this all in a way that sets a theme. Everybody has a different tax idea out there. The challenge will be to pull them together in a package that benefits a larger group of people. Shawn would like to find a way to build a bridge between tax credits and grants in a way that creates a simplified system. They are all for the same purpose. To get a Pell Grant you have to go through much more rigamarole than you do to get a tax credit. We need a more comprehensive rethink of the tax system. Everything needs to be fixed if we want the revenues to add up to the spending. We need to be thinking with a two to ten year horizon instead of with a six month horizon.

2. *Has anyone addressed the issue of how expensive education is today? It is like health care. Students are being exploited because private and public institutions are both ridiculously expensive.*

Yes, but that is not without controversy. This was a big debate in the Higher Education Commission and in DC more broadly. They saw a need for cost control on colleges and universities (in lieu of a discussion about expanding direct aid and other issues) but that brought a lot of response from the higher education community. Historically, the increases in higher education costs are linked to a trend where states are cutting funding to colleges, resulting in tuition having to cover a higher percentage of the operating costs. The federal government has little control over the costs of colleges, so it is difficult to develop policy around that.

One paper on the DLC website looks at cost control and expanding aid through block grants to states to boost enrollment. The federal Hope Tax Credit was modeled after the HOPE scholarship in Georgia which is a merit-based program that provides a free ride to all students who maintain a B average. Georgia created HOPE to universalize access to higher education. That needs to be nationalized whether through tax credits or grants. We are trying to change what qualifies as public education.

3. *If we want 10 percent more of the country to earn bachelor degrees, we don't have that capacity. Is there talk nationally about how to expand capacity to drive down the costs?*

There is a parallel here with the health care debate – is the lack of universal health care a question of spending too much on some treatments or of not being able to afford decent health care for all? There are varying views about how many bachelor degrees we need. We may have the capacity to generate the bachelor degrees we need, but we are not talking about those in between high school and a bachelors. We don't have support for folks in that pipeline.

4. *In New Mexico, there are populations who have a high school diploma but who don't test into college level classes. The state says they don't qualify for funding because they aren't in college level classes. They get absolutely no support and they need it the most!*

Andy agreed. We need to change that conversation. As we move into presidential cycle, that will conversation will increase. Those who are working with broader sets of folks need to stress that higher education is not just four year program for people ages 18-24.

5. *How do tax preparers in VITA programs and at commercial preparers handle the issue of determining if a filer is ineligible for a Pell grant because of a previous felony drug conviction? What is the history behind that rule?*

That provision was added when the Higher Education Act came up for reauthorization in either 1992 or 1996. People had the impression that students were blowing all of their financial aid money on drugs. It was initially added in on the financial aid side but was tacked on to the Hope Tax Credit (but not the Lifetime Learning Tax Credit).

Kevin explained that volunteers at Our Money Place don't ask that question unless it comes up. Whenever people are asked though, they inevitably say no, so Our Money Place just lets the IRS figure it out.

H&R Block asks everyone who has a Pell grant or who is eligible for the Hope Tax Credit. Karen believes they have data on how people respond but she did not have that data with her. Asking those questions is part of the paid preparer due diligence requirement so they have to ask the questions. If the filer says no, they just move on.

Vickie pointed out that the question was not even included in the IRS flow chart.

*Student Loan default rates are highest among students seeking associate degrees and attending proprietary institutions.* David explained that the Department of Education releases an annual report on student loan default rates. They have been touting the fact that the default rates are at an all time low of about 5 percent. But, if you look closely at the breakdown of the numbers, you see that they are around 14 or 15 percent for people who attended associate or proprietary institutions (like University of Phoenix, etc.). Loans for these students are problematic because many of them are taking longer to finish, are having to stop and start school, etc. They are damaging their credit and having their wages garnished.

Irene summarized what she was hearing from the group:

- In terms of seeking policy changes around Education Tax Credits, there seems to be a question as to how much energy the group should put into that. We face the same

challenge in the asset building world – it is easier to focus on providing services through the appropriations side, but the bulk of asset building in this country is done through the tax code. The temptation is to lean that way. We face that dilemma here. It would be best to increase Pell grants, but it is difficult not to also consider the Education Tax Credits. We need to lay the groundwork so that these issues are on people’s radar screens when the topic of higher education is addressed.

- Because of Pay-Go, we can’t expect to get much in the way of tax reform until 2008.
- This becomes a practical matter, then, of how we can continue to increase awareness of the Education Tax Credits through the EITC tax preparation world. She added that Casey would share the papers with its partners in the National Community Tax Coalition.
- The question then remains how to use the Education Tax Credits as a workforce tool and how to ensure that the workforce world knows about them. We need to think about how we can help them understand this so it can be a resource when people are thinking about going back to school.

6. *What is the right strategy? If we know that Pell grants are more important but that tax credits are more winnable, where do we put our efforts?*

It may be false debate to set grants against credits. The question is how can we build up more support for low income students. We shouldn’t do one in lieu of other. It would be more interesting to talk about how to integrate the two. A few years ago, Brookings looked at distributional issues on tax credits and simulated reform issues. They found that to eliminate the Hope and Lifetime Learning Tax Credits and retain Pell grants, distributing them through the tax code, would only cost \$9-12 billion a year. That is not unrealistic. The question is how can we pull all of these issues together so they are not lots of micro policy issues.

Faced with limited resources, we will need to choose. Nobody seems to be working on tax credits, but there are some groups already focused on expanding Pell grants. If the tax bill moves forward, we need to be ready to articulate what we want.

I am worried that there is less of a push to increase Pell grants. Higher education institutions are less involved in the effort to increase Pell grants than normal because they are worried about efforts to increase accountability among higher education institutions. The Higher Education Commission has recommended an increase in Pell grants and the Democrats agree.

There will be a timing issue around the fast track efforts of Democrats. They have indicated an interest in education affordability but word has gotten out that their focus will be on student loan interest reductions. Other issues will probably be pushed off until later. Increasing the Pell grant is on the list, but it is not in the lead. Democrats are already lining up their allies to push this through. Now is the time to put Education Tax Credits on the agenda. We need to make it a campaign issue for 2008

7. *Is there any evidence as to whether or not we need to prepare ourselves for these being pitted against each other? Do we need to be prepared to talk about them as being complimentary?*

We are faced with a “fixed pie” in terms of funding so there is always that tension. In terms of the proposals that are being offered though, they are not competing.

A real question is whether or not tax credits will actually make it easier for people to earn degrees. When we created these tax credits, we ended up having the largest increases in Pell grants. It helped a lot that advocates complained about the fact that the tax credits were not reaching the people at the lower end of the income spectrum, building the case for expanded Pell grants. We were able to demonstrate the impact the tax credits were having on the middle class. Now we are in a different fiscal situation. We could build a lot of excitement and energy around extending the Education Tax Credits and end up not having a real positive impact on low income students.

8. *EITC take up rates are so much higher than Education Tax Credit take up rates. EITC also has a robust community supporting these credits. Could a tactic be to push for an expanded EITC that could cover some education costs?*

There has been serious discussion about expanding the EITC and uses it to focus on asset building. It encourages people to seek higher education in addition to work. That would be a way to get around mortgage refundability. In theory, it could be done. The National Community Tax Coalition voted in its last steering committee meeting to make advocacy work to expand the EITC a priority. They will be seeking to expand the parameters of the EITC to have it benefit childless workers.

9. *Is refund splitting only for home ownership or can it be funneled to support education?*

It can be diverted into any kind of savings account. There are no requirements as to what that savings is used for.

#### **Next Steps – Moving Forward:**

- Steve suggested that the nuts and bolts VITA training could be tweaked to help preparers figure out if there is a tax liability and how they can get rid of that liability to make more people eligible for the Education Tax Credits.
- Someone needs to keep the issue of Education Tax Credits moving. Vicki Choitz had been doing this at Future Works but has moved on to another organization. We need to identify someone or some organization to take the lead in this and convey messages about the credits to community colleges and the higher education community.
- Dr. Bridget Terry Long at the Harvard School of Education really is coming to Washington DC for a Senate Finance Committee hearing on December 5. She is a strong supporter of Education Tax Credits.
- Low hanging fruit is the connection between community colleges and the EITC, the Education Tax Credits and CTC. EITC campaigns could build on what they are doing in New Mexico. We should provide seed money to bring the right people to the table and to coordinate resources. By partnering with community colleges, we know we will connect with people who are eligible for Education Tax Credits.
- Find ways to build awareness of Education Tax Credits with tax preparers. We could develop case scenarios of people at different income levels to help people understand who could benefit from Education Tax Credits.