



FOR IMMEDIATE RELEASE

July 25, 2012

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Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding Access to Education and Tax Reform
As prepared for delivery

Benjamin Franklin once said, "An investment in knowledge always pays the best interest."

For more than a century, America has invested in education. This investment has paid ample dividends.

For older generations up to age 64, the United States ranks second in the world in college graduation rates. But for younger generations, the U.S. is slipping. For those ages 25-34, the U.S. has fallen to 16th in the world. And in today's global economy, an education is more important than ever.

In these tough economic times, as job markets get more competitive – this is even more apparent. Yet American families face skyrocketing college costs. Over the past two decades, the price of higher education has grown four times faster than inflation. College costs are growing at twice the pace of medical care.

These rising costs hit low-income families especially hard. A low income family has to spend the equivalent of 72 percent of its income to send their child to college. Compare that to 14 percent for a higher income family.

This debt burden often deters young people from going to college at all. That has harmful ripple effects throughout our economy.

Differences exist even for students with similar high test scores. Students from high income backgrounds were about 32 percent more likely than those with the same test scores but from low income backgrounds to enroll in college.

That means some of our best and brightest students never have the opportunity to develop their talents. This leads to fewer scientific breakthroughs, fewer innovative companies, and a weaker overall economy than we could have.

Since 1954, Congress has provided tax cuts for families with children pursuing a college education. These provisions help families cover past, present and future expenses. The student loan interest deduction provides students a tax deduction for interest paid on a student loan.

The tax code also encourages families to save for future education expenses by providing tax-free savings vehicles. 529 programs and Coverdell accounts allow families to save for college without paying taxes on the earnings. Distributions from these accounts can be used to pay education expenses.

The tax system provides the most tax benefits for current expenses. Under the current tax system, there are provisions that exclude certain financial assistance from income. For example, scholarships and fellowships that cover qualifying education expenses are excluded from the income of the student. The tax code also contains credits and deductions to help students pay for current expenses.

The tax code cannot solve our educational challenges on its own. But it plays an important role. In 2009, taxpayers claimed almost \$30 billion in education tax cuts, making college education more affordable. This equates to about 22 percent of the assistance received through Federal grants and loan assistance.

That same year, we expanded these education tax benefits by passing the American Opportunity Tax Credit. As a result, 4.8 million more lower-income students and families had access to college subsidies. These expansions are critical to ensuring American families can afford college. This is particularly true in my home state of Montana.

Montana has a higher proportion of low-income students than other states. As a result, many Montanans only benefit from tax benefits that are partially refundable, like the American Opportunity Tax Credit. In 2010, Montanans claimed nearly \$105 million in education tax credits and deductions to help offset the cost of college.

But the multitude of education tax benefits can result in complexity and confusion for American families. Under current law, there are eight separate tax expenditures related to higher education. And these benefits use five different definitions of “eligible expenses.” Taxpayers must calculate their taxes using each tax cut to determine which one works best.

Behind me on this chart is an actual IRS questionnaire that families need to fill out to determine if they are eligible for an education tax credit. This is just one page from an 87 page IRS guide for obtaining education tax credits. Based on the complexity of this guide, one would think the IRS expected all of America’s future students to want to major in accounting.

The Government Accountability Office will tell us today how this complexity affects families. They have found that many families often pick the wrong benefit and leave money on the table.

Kelly McNerney is a CPA in Fairfield, Montana. Kelly is a mother of four college-age kids and knows firsthand how complicated these tax benefits can be. Kelly says many families she works with do not realize they can claim tax credits for tuition paid for with student loans. As a result, they get less help than they are eligible for. This can make the difference between being able to send their kids to college or not.

We need to make the system simpler for families. And we should improve these benefits for students. Through tax reform, we need to look at how we can achieve the greatest bang for our buck. Our entire system should work to help, not hinder, the pursuit of an education.

America is losing its competitive edge, but it is not too late. So let us heed the warnings. Let us listen to Benjamin Franklin’s advice that investing in knowledge will pay the best interest. Let us find ways to continue to close the education gaps. Let us ensure this next generation – our children and our grandchildren – have a fair shot at making their futures brighter.

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