Senate Committee on Finance
U.S. Senator Orrin Hatch (R-UT), Ranking Member
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Hatch Opening Statement at Finance Committee Hearing on the Role of Education Incentives in the Tax Code

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered the following opening statement at a committee hearing examining the role of education incentives in the tax code:

Thank you, Mr. Chairman.

Today's hearing has a narrow, but very important, focus – the role of education incentives in our tax code.

Traditionally, the federal government has supported millions of individuals seeking higher education through grants and loans. Over the last 20 years, however, federal support for higher education has increasingly relied on incentives in the tax code.

These education tax incentives can generally be classified into one of three categories. The first category includes tax incentives for current expenditures on higher education. These incentives include the Hope, American Opportunity, and Lifetime Learning Credits.

The second category includes tax incentives for student loans, including the deduction for interest paid on student loans.

The third category includes tax incentives for savings for college, which includes qualified tuition plans, usually referred to as 529 plans.

Generally, two reasons have been given for the various education tax incentives. First, college education costs are increasing and are a barrier to entry for those who cannot afford them.

Second, college education is a good investment that produces external benefits. According to the National Center for Education Statistics, the costs of college education for the 2011-12 academic year were estimated to be $14,300 at public institutions and $37,800 at private nonprofit institutions.

Between 2001 and 2011, the costs for undergraduate tuition along with room and board at public institutions rose 40 percent, and the costs at private institutions rose 28 percent, after adjusting for inflation.

The high cost of a college education does indeed create a barrier to entry.

However, some portion of the barrier is alleviated by the U.S. Department of Education's Direct Loan Program, which includes Stafford Loans, Federal Perkins Loans, Federal Work Study, Federal Supplemental Educational Opportunity Grants and things like Pell Grants for lower income students.

In fact, in 2013, the Department of Education disbursed $32.3 billion in Pell Grants to more than 9 million students.

However, at the same time, approximately 71 percent of college seniors have student loan debt with an average of $29,400 per borrower. From 2008 to 2012, debt at graduation increased an average of six percent per year.

As I mentioned, in addition to the cost barrier, there are external benefits related to higher education, many of which benefit not only the individual student in the form of higher wages and mobility, but also society as a whole.

Since these external benefits may not be considered by individual students when considering higher education, individuals may invest less in higher education than is optimal for society. Providing educational tax incentives may induce potential students to enroll in higher education, increasing investment in education, and thereby creating these important external benefits.

A frank conversation about these incentives must also consider whether Congress is encouraging a higher education bubble.

There are many questions that need to be answered in this conversation. For example: Are these incentives encouraging students to take on more debt and degrees than is warranted by the economic and professional gains they are likely to realize? Are there increasing cases in which the private and social benefits are outweighed by the costs?

Also, we need to determine once and for all whether federal subsidization of higher education is good policy and whether a tax subsidy would be provided more efficiently by direct spending.

In 1987, then Secretary of Education William Bennett stated that, in the long run, federal financial aid programs lead to higher tuition as colleges capture some of the federal aid to students.

Some studies have shown some evidence favorable to Secretary Bennett's hypothesis. I would be interested to hear from our witnesses if they believe the Bennett hypothesis applies to federal student aid that comes in the form of education incentives in the tax code. In other words, I'd like to know whether colleges and universities capture the financial benefits of education tax incentives at the expense of eligible students and families.

Finally, I believe we need to consider simplicity, something that is far too often missing in our tax discussions.

One noted tax scholar has written: "The education tax incentives represent the greatest increase in federal funding for higher education since the GI Bill. But no one can tell you what they are, how they work, or how they interact. Planning to pay for college around these tax breaks is essentially impossible for middle-income families."

I think there is a lot of agreement that the education tax incentives are very complex and, at a minimum, should be consolidated and reformed.

We have a very distinguished panel with us today. I look forward to hearing what they have to say.

Thank you, once again, Mr. Chairman.

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