NATIONAL EDUCATION ASSOCIATION
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Great Public Schools for Every Student

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Senator Chuck Grassley
Co-Chair, Committee on Finance
Tax Reform Working Group on Individual Income Tax
U.S. Senate
Washington, DC 20510

Senator Debbie Stabenow
Co-Chair Committee on Finance
Tax Reform Working Group on Individual Income Tax
U.S. Senate
Washington, DC 20510

Senator Mike Enzi
Co-Chair, Committee on Finance
Tax Reform Working Group on Individual Income Tax
U.S. Senate
Washington, DC 20510

Dear Co-Chairs Grassley, Enzi, and Stabenow:

On behalf of the three million members of the National Education Association (NEA), and the students they serve, we urge you to keep in mind our country's educators, students and their schools as the Senate Finance Committee begins its working group deliberations on comprehensive tax reform. The continued success of our country as the world's innovator depends on the strength of our education system. We must make the necessary investments and ensure a tax code that supports education.

We need an economy that works for everyone — an economy built on the American ideal that everyone deserves a fair shot and an opportunity to succeed, an economy in which those who work hard will be able to provide for themselves and their families. This begins with making sure everyone pays their fair share of taxes, including corporations and the wealthy. It is important that tax reform create a system that continues and enhances this underlying theory of progressivity so that working families can better afford to clothe, feed, shelter, educate and protect their children. We must continue to be able to provide these core necessities to families, many of whom are struggling financially on a daily basis.
The Huntington National Bank Backpack Index for 2014, a measurement of the cost of school supplies from pencils to calculators and school fees, indicated that the cost for a parent to supply their children properly for school increased over the previous year by 11% for elementary school children ($642), 20% for middle school children ($918) and 5% for high school students ($1,284). These costs are staggering and are only getting worse. Many families are simply not able to pay for these things for their children.

Like the families of the children they teach, our nation's educators are also dealing with tight budgetary constraints. Many state budgets have not recovered from the economic collapse that we suffered several years ago, which has resulted in underfunding for our country's schools. Educators are being asked to cover many of these costs by purchasing supplies for their classrooms that would have been supplied by the school or by parents in previous years.

We look forward to working with you on the larger policy issues that are raised by tax reform as well as many of the more targeted issues that directly affect educators, their students, and the schools where they teach. Following are some of the issues that are of particular interest to NEA:

Educator tax deduction
NEA strongly supports the maintenance and enhancement of the educator tax deduction, which helps recognize the financial sacrifices made by teachers and education support professionals. With one in five children living in poverty and school budgets slashed, unless educators reach into their own pockets many students will not have the supplies and instructional materials they need to succeed.

The most recent study by the National School and Equipment Association (NSSEA) estimated that public school educators spent $1.6 billion of their own money during the 2012-2013 school year on classroom supplies and gear. It estimated that 99.5% of public school teachers spent some amount of money out of pocket for their classroom with the average being $485. Roughly 10% of teachers reported spending over $1,000 out of their salary for their classrooms. Many educators are finding that the need to buy supplies for their students has increased during these difficult economic times, as funding cuts lead to shortages in essential materials and more students come to school without basic learning tools. A large majority of educators also spend an average of $15 a month out of their own pockets to feed students.

In a 2010 survey by Office Max, 70% of teachers reported that their schools could not provide all the tools they need to teach their students effectively. Moreover, 82% of teachers think it is their responsibility to ensure students have the best learning experience possible—no matter the price tag—and spend their own money to buy supplies for their students each year. Everyday classroom supplies such as pencils and pens (78%), prizes and incentives (72%), and arts and crafts materials (72%) top the list of purchases teachers make with their own money.

Healthcare Exclusion
NEA strongly supports the tax exclusion for employer-provided healthcare. Over the course of their careers, many public education employees have traded salary increases for the long-term security of a comprehensive health plan. Telling hard-working public school educators that benefits will be cut or that they will pay more taxes would unfairly penalize them. A tax on salaries above a certain amount would also be unfair to experienced educators who, after decades of dedicated service, have climbed to the top of their salary schedules. Limiting or capping the tax exclusion for health benefits could have a disastrous effect on public education by discouraging highly qualified workers from entering or staying in the profession.

A report produced by the actuarial firm Milliman finds that although the excise tax is often referred to as a tax on overgenerous health benefits, it's likely to be a tax driven by other things—including where health plan members live, their age, and their sex. The tax could disproportionately affect women, older employees, and workers in high-cost insurance markets.

Eliminating or capping the tax exclusion would also remove a key incentive for employers to provide coverage. Employers are already preparing to shift health care costs to workers—by cutting benefits or passing the tax liability to employees—even though the law doesn't hold employees responsible for paying the tax. In addition, taxing benefits would encourage younger and healthier workers to pass up employer-sponsored coverage and seek less expensive, less comprehensive coverage. The loss of these workers to employer risk pools would drive up the cost of coverage for older and less healthy workers. It would also increase their tax burden.

School Construction and Renovation

The average school in our country is now over 40 years old and it has been estimated that it would cost over $500 billion for the necessary maintenance, repairs and renovations to these schools. In 2013, the American Society of Civil Engineers gave our nation's schools a "D" on its Report Card on America's infrastructure. As a society, we need to ensure that our children are going to schools that are safe and can provide the proper atmosphere for learning.

Qualified Zone Academy Bonds

NEA supports tax expenditures for the financing mechanism known as Qualified Zone Academy Bonds (QZABs). Investors receive a federal tax credit equal to the amount of interest payable on the bonds, thereby relieving local taxpayers and municipalities of the interest burden. A school that is awarded a QZAB may use the funds to renovate and repair buildings; invest in equipment and up-to-date technology; develop challenging curricula; or train quality educators.

Qualified School Construction Bonds

As part of American Recovery and Reinvestment Act of 2009, Congress created a new tax credit bond that could be used for the construction, rehabilitation, repair of a public school facility or for the acquisition of the land on which such a facility is to be constructed. Over the course of 2009 and 2010, $22 billion in tax credit bonds were issued. Bond holders were eligible for a tax credit in lieu of an interest payment or a direct interest payment from the government. These bonds were highly successful and should be considered during the Committee deliberations on tax policy.

Post-secondary education

NEA believes that anyone who is qualified and interested in post-secondary education should have the opportunity to pursue it, regardless of ability to pay. To that end, NEA supports expansion of the American Opportunity Tax Credit (AOTC). Created as part of the American Recovery and Reinvestment Act, the AOTC—up to $10,000 for four years of college—is critical to increasing access to higher education and making it more affordable, especially for low-income students and families.

NEA also supports expansion of loan forgiveness programs for students who enter education and other public service careers. Spiraling college costs have made it increasingly difficult for students of limited means to afford post-secondary education. Moreover, far too many of today's students rely on loans to attend college. The resulting debt burden often limits career choices and prevents many talented students from pursuing careers in public service, including careers in public education.

Federal deduction for state and local taxes

Eliminating the federal deduction for state and local taxes would undermine equity of opportunity. State and local public spending would decline, and the federal tax burden would shift from low-tax states to high-tax states, exacerbating the inequalities that already exist.

"For example, in 2008, potentially deductible state and local taxes in New York comprised approximately 9.1 percent of total personal income whereas deductible taxes in nearby Delaware accounted for approximately 4.7 percent of total personal income … If the federal government reduces tax rates to maintain revenue neutrality—the base is larger with the elimination of the deductibility allowing for lower rates to yield the same revenue—then the effect is even more pronounced. The higher the state and local tax burden (as a percentage of total income), the lower the new federal tax rate would be under revenue neutrality." (Source: Congressional Research Service, Federal Deductibility of State and Local Taxes, September 2012).

Home mortgage interest deduction
Ending or capping the home mortgage interest deduction could have a detrimental impact on local funding for public education. It is widely believed that the value of this deduction is embedded in home prices. If it were eliminated, the ongoing economic recovery could falter and home prices plummet again. That, in turn, would reduce revenues from property taxes. The implications are profound, especially for K-12 public education:

"The property tax is the financial backbone of local governments and school districts, accounting for nearly three-quarters of total local tax collections. It is the most significant local revenue source for financing K-12 education, police, fire, parks, and other services provided by local governments. In 2010, about 29 percent of total K-12 funding was supported by local property taxes." (Source: Rockefeller Institute, University at Albany, State University of New York, "The Impact of the Great Recession on Local Property Taxes," July 2012).

We thank you for the opportunity to provide you with this critical information concerning education tax deductions and expenditures, and other tax provisions that affect public education and areas of importance to NEA. We look forward to collaborating with you throughout the tax reform process.

Sincerely,

Mary Kusler

Mary Kusler
Director, Government Relations