

## HIGHER-EDUCATION TAX CREDIT

The “Hope Credit,” which provides a tax subsidy for college tuition costs, was established in 1997.

Its goal, in part, was to enable students who could not otherwise afford to attend college to do so. Yet until now, 3.8 million prospective college students — more than a fifth of all high-school-age children nationwide — could not expect to receive any help from this tax credit because their families’ incomes were too low to qualify for it.

The recently-passed American Recovery and Reinvestment Act of 2009 addresses this issue. It contains a measure to enlarge the Hope credit for students from middle-income families *and* to partially extend this tax credit for the first time to students from lower-income families. Previously, the credit was “non-refundable,” meaning that it could only be used to offset a family’s federal income tax liability; families whose incomes were too low to owe federal income tax could not benefit from the credit. The new credit is “refundable,” meaning that lower-income households that have limited or no federal income tax liability to offset can now receive a partial credit in the form of a tax “refund” of up to 40 percent of qualifying expenses (for a maximum refund of \$1,000).

The law renames the Hope Credit as the American Opportunity Tax Credit. Currently the expansion is temporary, applying to 2009 and 2010, although the President’s budget released February 26 proposes that the expanded credit be made permanent.

For more details on the credit, see <http://www.cbpp.org/1-21-09tax.htm>.

The table shows the number of lower-income students in each state who will gain access to the credit because it is refundable. Based on Census data for 2004-2006, we estimate that about 3.8 million high-school-age children (ages 14-17) nationwide live in lower-income families that, as a result of the credit being made refundable, will now have access to the Hope Credit if their children go to college.

TABLE 1: Students Potentially Helped by Making the Tax Credit Refundable		
State	Number	Margin of Error
Alabama	70,000	±15,000
Alaska	7,000	±2,000
Arizona	75,000	±17,000
Arkansas	44,000	±9,600
California	522,000	±44,800
Colorado	36,000	±11,700
Connecticut	30,000	±9,100
Delaware	8,000	±2,400
D.C.	10,000	±2,300
Florida	195,000	±25,900
Georgia	120,000	±20,000
Hawaii	11,000	±3,100
Idaho	20,000	±4,700
Illinois	156,000	±23,300
Indiana	76,000	±16,000
Iowa	25,000	±7,800

Kansas	33,000	±8,600
Kentucky	72,000	±15,100
Louisiana	77,000	±15,800
Maine	17,000	±4,600
Maryland	53,000	±13,600
Massachusetts	71,000	±15,400
Michigan	121,000	±20,300
Minnesota	41,000	±11,800
Mississippi	63,000	±11,700
Missouri	74,000	±15,800
Montana	12,000	±3,000
Nebraska	17,000	±4,900
Nevada	32,000	±8,200
New Hampshire	9,000	±3,000
New Jersey	77,000	±16,400
New Mexico	36,000	±8,000
New York	295,000	±32,600
North Carolina	118,000	±20,200
North Dakota	6,000	±1,800
Ohio	128,000	±20,600
Oklahoma	53,000	±12,200
Oregon	41,000	±11,400
Pennsylvania	138,000	±21,700
Rhode Island	14,000	±3,600
South Carolina	58,000	±13,800
South Dakota	7,000	±2,000
Tennessee	87,000	±17,100
Texas	346,000	±37,200
Utah	24,000	±6,300
Vermont	5,000	±1,700
Virginia	71,000	±15,500
Washington	67,000	±15,600
West Virginia	27,000	±5,600
Wisconsin	63,000	±14,700
Wyoming	5,000	±1,500
United States	3,762,000	±107,900

Source: CBPP estimates based on data from the 2005-2007 Annual Social and Economic Supplements to the Census Current Population Survey, which cover years 2004-2006. Figures are averages for 2004-2006, based on 2009 tax law.

The estimates refer to numbers of high-school-age children, rather than those of college age, because Census data do not link college-age children living away from home with the incomes of their parents. We take the number of high-school-age students in families with too little tax liability to benefit from a non-refundable education tax credit as an indicator of what the number will be in four years when these same children reach college age. The estimates shown here may be too conservative insofar as they do not take into account any other tax credits or deductions to which families may be entitled, and thus may understate the number of families with insufficient tax liability to benefit from the credit.