Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

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HOUSE AND SENATE RECOVERY PACKAGES WOULD IMPROVE HIGHER-EDUCATION TAX CREDITS

Chye-Ching Huang, Robert Greenstein, and Gillian Brunet

The economic recovery package passed by the House last week[1] contains a measure that both would extend the Hope tax credit to nearly 4 million low-income students and make the credit more valuable to millions of middle-income students. The Senate Finance Committee has included a similar proposal in its economic recovery package.

The House measure would increase the credit's maximum size from $1,800 to $2,500, allow it to be claimed for a maximum of four years instead of the current maximum of two years, enable students from families with that do not earn enough to owe income tax to qualify for a credit of up to $1,000, and somewhat broaden the education-related expenses that the credit can offset. The Senate proposal is similar, except that low-income students could qualify for a credit of up to $750, rather than $1,000. These changes would help make college affordable, or more affordable, for millions of low- and moderate-income students.

Helping low- and moderate-income students afford college is particularly important during a recession. When the labor market is weak and many individuals are unable to find work, one of the best long-term investments the nation can make is in upgrading the skills of its workforce. The more people who go to college during the downturn and improve their skills, the better positioned the nation will be when the economy rebounds.

KEY FINDINGS

- The House economic recovery package would help make college affordable, or more affordable, for millions of low- and moderate-income students by strengthening the Hope Tax Credit. This would also help boost U.S. competitiveness by enabling workers to obtain education and skills to improve their productivity. The Senate Finance Committee package is similar.
- Currently, education tax credits are not available to the students who most need them to afford college: those with low or moderate incomes. The House and Senate packages would extend the Hope Credit to 3.8 million low-income students by making it partially refundable.
- The package also would expand the maximum credit from $1,800 to $2,500 and modestly broaden the education-related expenses it can offset. This would help millions of students from moderate- and middle-income families who already qualify for the credit.
- These improvements are particularly important given the current recession. When the labor market is weak, one of the best long-term investments the nation can make is upgrading the skills of its workforce. The more people who go to college and improve their skills, the better positioned the nation will be when the economy begins to rebound.
- The modest increase in Pell Grants in the House and Senate packages are not a substitute for improving the Hope Credit. Even with the Pell Grant increase, the large majority of low-income students will have substantial unmet financial need.

[1] H.R. 1., American Recovery and Reinvestment Act of 2009.

The Existing Tax Credits

There are two federal tax credits for higher education expenses: the Hope Credit and the Lifetime Learning Credit. The Hope Credit is worth up to $1,800 and can be used to offset tuition and fees that students incur in their first two years of postsecondary education. The Lifetime Learning Credit is worth up to $2,000 and can be used to offset tuition and fees incurred at any stage of postsecondary education. (For a description of the credits and a brief discussion of other federal tax benefits for higher education, see the box on page 3.) The House and Senate recovery packages would significantly improve the Hope Credit by lowering a major obstacle that low- and moderate-income students face in trying to claim it.

Credit Currently Does the Least for Those Who Need It Most

The most basic reason the Hope Credit is not available to most low-income students — or many moderate-income students either — is that it *is not refundable.* If a credit is non-refundable, it is available only to the extent that it can be used to reduce income tax liability. A non-refundable credit thus has no value for households whose incomes are too low to owe federal income taxes. In contrast, if a credit is *refundable*, a taxpayer can receive a tax refund for the amount by which the credit exceeds his or her income tax liability. Thus, refundable credits offer the same benefits to low- and moderate income taxpayers as to middle- and upper-income taxpayers; non-refundable credits do not.[2]

In 2009, a married couple with one child in college and another child under age 17 would need an income of at least $26,000 to benefit at all from either the Hope Credit or the Lifetime Learning Credit; this is *more than twice* full time minimum wage earnings. The family would need to earn $43,567 to receive the full $1,800 credit (see Table 1).

Table 1: Income Required to Receive Hope Credit in 2009

	Income to Receive Partial Credit	Income to Receive Full Credit
Independent (e.g., non-traditional age) student with no children	$9,350	$24,133
Married couple with one child in college and one child under age 17	$26,000	$43,567

Source: CBPP calculations

Indeed, about 38 percent of all households[3] — and almost half of all families with children — have incomes too low to owe federal income tax.[4] Very few of these households are able to benefit in full from either the Hope or the Lifetime Learning Credit, and most are not able to benefit at all.[5]

[2] Deductions, such as the higher education deduction, are similar to non-refundable credits in that they are generally of no value to low-income households. But deductions also are of greater value to upper-income than to middle-income households, since their value depends on the taxpayer's marginal tax bracket. For example, a $1,000 deduction is worth $150 to a taxpayer in the 15 percent tax bracket but $350 to a taxpayer in the 35 percent tax bracket.

[3] Urban-Brookings Tax Policy Center. It should be noted that many of these filers do have positive net federal tax liability, taking into account taxes such as the payroll tax.

[4] Estimate of percentage of families with children with no income tax liability a 2006 estimate from Lily L. Badchelder, Fred T. Goldberg, Jr., and Peter R. Orszag, "Reforming Tax Incentives Into Uniform Refundable Credits," Brookings Institution Policy Brief No. 156, August 2006.

The Current Higher Education Tax Benefits

There are two federal tax credits for higher education expenses, both enacted in 1997.

The **Hope Credit** is a nonrefundable credit against income taxes of up to $1,800 in 2009 (the credit amount is indexed for inflation). Taxpayers may claim a $1 credit for each dollar of qualifying tuition and fees up to $1,200 and a 50-cent credit for each dollar of qualifying expenses between $1,200 and $2,400. Thus, a filer must have at least $2,400 in qualifying expenses to receive the maximum credit in 2009.

To qualify for the credit, students must be enrolled at least half time in the first two years of a postsecondary education program leading to a recognized education credential. A household can claim the credit for each eligible student. Since the credit is largely unavailable to low-income households and phases out for upper-income households (it is unavailable to married filers with incomes above $120,000 and single filers with incomes above $60,000 in 2009), its benefits are concentrated among middle-income households.

The **Lifetime Learning Credit** is a nonrefundable credit against income taxes of up to $2,000. Taxpayers may claim a 20-cent credit for each dollar of qualifying expenses up to $10,000; thus, a filer must have at least $10,000 in qualifying expenses to receive the maximum credit. The credit is available for tuition and fees incurred by students enrolled in some form of higher education (including less-than-half-time students and students beyond their first two years of postsecondary education). A household may claim only one Lifetime Learning Credit per tax return and must choose between the Hope Credit and the Lifetime Learning Credit. Like the Hope Credit, the Lifetime Learning Credit is generally unavailable to low-income households and phases out for upper-income households, so the distribution of its benefits is similar.

The federal tax code includes other significant tax benefits for higher education, some of which are notably more skewed to upper-income students. The **deduction for qualified tuition and related expenses,** enacted in 2001 and scheduled to expire at the end of 2009, provides an above-the-line deduction (that is, one available to taxpayers who do not itemize their deductions) of up to $4,000 for qualifying tuition and fees. Since deductions are worth more to taxpayers in higher tax brackets, and since taxpayers must choose between the tuition deduction and one of the credits, about half the benefits of the deduction go to households with incomes between $100,000 and $200,000. (The deduction phases out, but at higher income levels than the Hope and Lifetime Learning Credits.)* In addition, the tax-preferred saving accounts for higher education, **Section 529 plans,** and **Coverdell education savings accounts** — which were significantly expanded in 2001 and 2006 — primarily benefit upper-income households.**

* Leonard E. Burman *et al.*, "The Distributional Consequences of Federal Assistance for Higher Education: The Intersection of Tax and Spending Programs," Urban Institute-Brookings Institution Tax Policy Center Discussion Paper No. 26, August 2005.

** Susan Dynarski, "Who Benefits from the Education Saving Incentives? Income, Educational Expectations, and the Value of the 529 and Coverdell," *National Tax Journal*, June 2004.

As a result, the education tax credits do the least for the very students that need them most — the same students who are most likely not to enroll in or complete higher education because they have difficulty affording it. Moreover, other education tax benefits, particularly Section 529 plans and Coverdell education savings accounts, are even more skewed toward households in the top tax brackets. (See the box on page 3.)

[5] Households with no federal income tax liability can sometimes benefit from a nonrefundable credit if they have *pre-credit* tax liability (i.e. positive income tax liability before the Child Tax Credit and the Earned Income Tax Credit). However, few of these families would have sufficient pre-credit tax liability to receive the full benefits of the Hope or Lifetime Learning Credit.

The House recovery package would increase the maximum Hope Credit to $2,500 and make *40 percent* of the credit refundable (i.e., allow families without income tax liability to claim up to $1,000 of the credit as a refund).[6] This would make about 3.8 million low- and moderate-income high-school students eligible for the Hope Credit — students who cannot currently expect to benefit at all from the credit because their families' incomes are too low.[7]

Table 2: Income Required to Benefit in 2009 From the Improved Hope Credit in the House Economic Recovery Package*

	Income to Receive Partial Credit	Income to Receive Full Credit
Independent (e.g., non-traditional age) student with no children	$0	$22,133
Married couple with one child in college and one child under age 17	$0	$41,000

Source: CBPP calculations

Assumes that the student has at least $4,000 of qualifying expenses. See footnote 8 for further detail.

The Senate proposal also would increase the maximum Hope Credit to $2,500 but would make *30 percent* of the credit refundable, allowing families without income tax liability to claim up to $750 as a refund, rather than up to $1,000. Like the House package, the Senate proposal would allow about 3.8 million low- and moderate-income high-school students to receive the Hope Credit.

Table 3: Income Required to Benefit in 2009 From the Improved Hope Credit in the Senate Economic Recovery Package*

	Income to Receive Partial Credit	Income to Receive Full Credit
Independent (e.g., non-traditional age) student with no children	$0	$23,800
Married couple with one child in college and one child under age 17	$0	$43,233

Source: CBPP calculations

Assumes that the student has at least $4,000 of qualifying expenses. See footnote 8 for further detail.

For example, currently a family earning $30,000 that has one child in college could qualify for a Hope Credit of only $400, the amount of its federal income tax liability. Under the House proposal, that family could qualify for $1,400 if it had sufficient qualifying education expenses: it could receive $400 as a credit against its tax liability plus $1,000 as a refund. Under the Senate proposal, the family could qualify for up to $1,150 ($400 against its tax liability plus $750 as a refund).[8]

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[6] A filer with no income tax liability and $1,000 of qualifying education expenses would be able to claim a $400 refundable credit. A filer with no income tax liability and enough qualifying expenses to be eligible for the full credit ($4,000 in qualifying expenses) would be able to claim a $1,000 refundable credit.

[7] Arloc Sherman and Chye-Ching Huang, "House Recovery Package Would Give 3.8 Million Low- and Moderate-Income Students — Thousands in Every State — Access to Higher Education Tax Credit," Center on Budget and Policy Priorities, January 21, 2009, http://www.cbpp.org/1-21-09tax.htm.

[8] These examples, and the table above, assume that the student has qualifying expenses of at least $4,000. A student with no income tax liability and $4,000 of qualifying expenses would qualify for a $1,000 credit ($4,000 in qualifying expenses to be eligible for the full $2,500 credit; 40% of $2,500 equals a $1,000 refundable credit in the House package, while 30% of $2,500 equals a $750 credit under the Senate proposal), while a student with no income tax liability and $1,000 of qualifying expenses would qualify for $400 of the credit ($1,000 x 40% refundable) in the House package and $300 of the credit ($1,000 x 30% refundable) in the Senate. Low- and moderate-income students with qualifying

Under both the House and Senate packages, low-income students could not receive the full $1,000 of the credit available as a refund ($750 in the Senate) unless they had at least $4,000 in qualifying education expenses. For example, a community college student with no income tax liability and $1,500 in qualifying expenses would be eligible for a refundable credit of $600 under the House bill and $450 under the Senate measure.

Package Would Allow Credit to Offset Some Education Costs Other Than Tuition

A key reason that many moderate-income students do not benefit from the Hope Credit — or the Lifetime Learning Credit — is the credits' narrow definition of qualifying expenses. Under current law, students can only claim the credits for what they pay in tuition and fees, minus any governmental or institutional grants. They cannot count expenses incurred for room and board, books and supplies, or transportation.

This means that many low- and moderate-income students will not be eligible for the full benefits of the current credits even if they are refundable. To benefit in full from the Hope Credit in 2003-2004, a student needed $2,000 in claimable tuition and fees; for the full Lifetime Learning Credit, he or she needed $10,000. Many low- and moderate-income students attend community colleges (where tuition and fees averaged $2,000 for a full-time, full-year student in 2003-2004, according to data from the National Center for Education Statistics) or public four-year colleges and universities (where tuition and fees averaged about $5,200 for full-time, full-year student). After taking into account grants, about half of all community college and public university students from families with incomes below $32,000 had no net tuition expenses in 2003-2004, while most others paid relatively modest amounts out of pocket. [9]

But these same low- and moderate-income students had substantial *non-tuition* educational expenses not covered by governmental and institutional grants, such as room, board, books, and supplies. Community college students from families with incomes below $20,000 had an average of $4,800 in uncovered non-tuition educational expenses in 2003-2004, according to NCES data. Those at four-year public colleges and universities faced average non-tuition costs of $7,800. Under current law, *none* of these non-tuition expenses count toward the higher education tax credits.

Strikingly, room, board, books, and supplies *are* considered qualifying expenses for Section 529 and Coverdell Education Saving Accounts — tax incentives that primarily benefit high-income households (see the box on page 3). Thus, education-related expenses other than tuition are

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expenses of less than $4,000 (for example, community college students with relatively low tuition and fees) would be eligible for significantly less than the maximum portion of the credit that would be refundable ($1,000 in the House package and $750 in the Senate package).

[9] Data are from the 2003-2004 National Postsecondary Student Aid Study. Figures here are for undergraduate students who are dependents of their parents (and are classified into income groups based on their parents' incomes), but the figures for low-income independent students (generally students who are over age 24, are married, have dependents, or are enrolled in a graduate or professional program) are similar. See National Center for Education Statistics, "Student Financing of Undergraduate Education: 2003-2004," U.S. Department of Education, August 2006, http://nces.gov/pubs 2006/2006186.pdf.

countable toward the tax incentives that primarily benefit upper-income households, but not toward the tax incentives that primarily benefit middle-income households.[10]

The House and Senate packages would modestly broaden the qualifying expenses for the Hope and the Lifetime Learning credits to allow the cost of course materials to be claimed, in addition to tuition and fees. This would bring the types of expenses allowed for these credits modestly more in line with the expenses allowed under the tax-preferred higher education accounts for households at higher income levels. Allowing course material costs to be claimed against the Hope and Lifetime Learning credits would allow more low- and moderate-income students to benefit from the tax credits and also increase the value of the credits for many middle-income students.

The recovery packages would, however, leave a large disparity between the expenses allowed under the tax-preferred education accounts for more affluent households and the expenses allowed under the tax credits, because of the continued exclusion of room and board costs under the tax credits. Moreover, another provision in the Senate package would enlarge the disparity by expanding the definition of qualifying expenses for section 529 education savings accounts to include computer technology and equipment. Such expenses do not count under the Hope and Lifetime Learning credits.

House and Senate Pell Grant Increases No Substitute for Improving Education Tax Credits

Expanding and improving Pell Grants, the most important source of federal higher-education assistance available to low-income students, is *not* a substitute for making the education tax credits available to these students.

The House recovery package would increase the maximum Pell Grant by $500 for the 2009-2010 and 2010-2011 school years (to $5,350 for 2009-2010[11]). The Senate package would increase the maximum Pell Grant by less — by $281 for 2009-2010 and $400 for 2010-2011.

Although the importance of these increases (especially in the House package) should not be understated, Pell Grants would remain far from adequate by themselves. Even after taking the proposed increases in Pell Grants into account, along with other forms of aid, the overwhelming majority of low-income college students would continue to have significant unmet financial need.

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[10] For further discussion of these issues, see Susan Dynarski and Judith Scott-Clayton, "Simplify and Focus the Education Tax Incentives," *Tax Notes*, June 12, 2006, http://www.americanprogress.org/kf/dynarski.pdf.

[11] For future years, we assume passage of the House recovery package as well as an underlying discretionary increase for fiscal year 2009 as implied in the House Appropriations Committee's press release from January 15, 2009. We also assume that due to funding shortages (created by an increased number of Pell Grant recipients in the economic downturn), the mandatory component of the grant will be reduced for 2010-2011 to match the level for 2009-2010. Under the same assumptions, the Senate proposal would allow a maximum grant of $5,131 for 2009-2010.

Table 4: Undergraduates With Unmet Financial Need, 2003-2004		
	Percent of Students With Unmet Need	Average Unmet Need Among Those With Unmet Need, in 2009 dollars
Students From Families With Incomes Below $20,000 Attending:		
Community College	87%	$5,260
Public Four-Year College or University	80%	$7,020
Students From Families With Incomes Between $20,000 & $40,000 Attending:		
Community College	71%	$4,090
Public Four-Year College or University	70%	$6,430

Source: National Center for Education Statistics
Figures are for dependent students, classified according to their parents' income.

An NCES study compared the amount of financial aid — including Pell Grants, institutional grants, subsidized study loans, work study, and other aid — received by students enrolled in college in 2003-2004 with the amount of aid required to meet these students' financial need, as calculated under federal financial aid formulas.[12] It found that the average low- or moderate-income college student faced thousands of dollars of unmet need.

In 2003-2004, for example, 87 percent of community college students, and 80 percent of four-year public university students, from families with incomes below $20,000 had unmet need, averaging thousands of dollars per student with unmet need. (See Table 4.) Students from families with slightly higher incomes ($20,000 - $40,000) had significant unmet need as well. (In contrast, the percentage of middle-income students with unmet need was notably lower, and fewer than 10 percent of public university students from families with incomes above $100,000 had any unmet need.)

Even assuming the level of unmet need has been growing at the same rate as inflation (which is unlikely because college costs have been rising much more rapidly than overall inflation), the Pell Grant increases included in the House and Senate economic recovery packages would make only a modest dent in the levels of unmet need faced by low-income students, leaving most with thousands of dollars in unmet need.

Table 5: Pell Grant Changes Since 2003-2004, Adjusted for Inflation, And Including the Increase in the House Package			
	Maximum Grant	Maximum Grant, 2009 Dollars	Change Relative to 2003-2004, Adjusted for Inflation
2003-2004	$4,050	$4,706	NA
2004-2005	$4,050	$4,600	-$138
2005-2006	$4,050	$4,431	-$307
2006-2007	$4,050	$4,320	-$418
2007-2008	$4,310	$4,432	-$305
2008-2009	$4,731	$4,763	$26
2009-2010*	$5,350	$5,350	$612
2010-2011*	$5,350	$5,258	$521

*Assumes the increase included in the House recovery package

Before taking into account the Pell Grant increases enacted since 2003-2004 and the Pell increases included in the House and Senate packages, the average student with unmet need whose family made less than $20,000 per year would have $5,260 of unmet need in the

[12] More technically, unmet need is equal to the estimated student budget minus the forms of aid listed above, minus the expected family contribution, as calculated under federal financial aid formulas. Figures are from the 2003-2004 National Postsecondary Student Aid Study. Figures here are for undergraduate students who are dependents of their parents (and are classified into income groups based on their parents' incomes), but the figures for low-income independent students are similar. See National Center for Education Statistics, "Student Financing of Undergraduate Education: 2003-2004," U.S. Department of Education, August 2006, http://nces.gov/pubs2006/2006186.pdf.

2009-2010 school year if he or she were attending a community college and $7,020 of unmet need if he or she were attending a public four-year college or university. (These figures assume that unmet needs have grown since 2003-2004 at the general inflation rate.) The Pell Grant increases enacted since 2003-2004 and those proposed in the House and Senate packages are modest compared to these levels of unmet need. Even with the Pell Grant increase contained in the House recovery package, the total increase in the maximum Pell Grant since the 2003-2004 school year would be only $612 in inflation-adjusted terms, far below the levels of unmet financial need that many low-income students face. (See Table 5.)

Students for whom financial aid does not meet the need are often left with untenable options. Many support themselves by working long hours. Research has found, however, that working more than 15-20 hours a week while in school significantly reduces the likelihood that students will complete college and may threaten their academic performance.[13] Some students also may incur massive debt; others are likely deterred from enrolling in college in the first place.

Importantly, even if higher education tax credits were made fully refundable, students could *not* claim them against tuition payments already covered by Pell Grants or other grant aid. Thus, the credits would *not* provide a double benefit but rather would help to fill the gap left by Pell Grants and other assistance.

Education Tax Credit Improvements Would Help the Economy

Extending education tax credits to low-and moderate-income students, and thereby giving them incentives already available to students at higher income levels to get more education, is particularly important during a recession. When the labor market is weak and many individuals are unable to find work, one of the best long-term investments the nation can make is in upgrading the skills of its workforce. The more people who go to college during the downturn and improve their skills, the better positioned the nation will be when the economy begins to rebound.

During times of high unemployment and underemployment (where people work part time because they cannot find a full-time job), more parents struggle to afford tuition and have incomes too low to qualify for the education tax credits, and more students are unable to find part-time work to help finance their study. The current non-refundability of the education tax credits has the perverse effect of making study and "up-skilling" less affordable for low- and moderate-income families at the same time that finding work is more difficult.

There is also a real danger that as the financial crisis continues to strain colleges' and universities' finances, they will have to increase tuition or reduce financial aid, ballooning the levels of unmet financial need. University endowments have been hard hit by the financial crisis, especially as many have invested heavily in private equity funds, which have fared badly.[14] In addition, many states will reduce funding for public colleges and universities as they struggle to balance their budgets; 26 states

[13] See for example Jonathon M. Orszag, Peter R. Orszag, and Diane M. Whitmore, "Learning and Earning: Working in College," UPromise Inc., August 2001, http://www.upromise.com/corp/pressroom/research/learnearn.html.

[14] See Geraldine Fabrikant, "Harvard Endowment Loses 22%," *New York Times,* December 3, 2008, and Claire Cain Miller and Geraldine Fabrikant, "Beyond the Ivied Halls, Endowments Suffer," *New York Times,* November 25, 2008. A According to the *Washington Post*, colleges and universities in the United States have lost an average of 23 percent on their endowment investments since the summer: Susan Kinzie, "Market Losses Tighten Screws On Colleges," *Washington Post*, January 27, 2009.

Reasons to Expand Access to the Hope and Lifetime Learning Credits

The higher education tax credits have two key rationales. First, they are supposed to ease the economic burden that higher education costs — which have been rising rapidly for the past several decades — impose on students and their families. As discussed in this paper, many low- and moderate-income students will face significant unmet financial need even with the Pell Grant improvements in the House recovery package. Expanding access to higher-education tax credits could reduce this burden.

Second, higher-education tax credits are intended to encourage and enable students who would not otherwise attend or complete college to do so. Studies have found that price subsidies can significantly impact college enrollment decisions; a number of studies have estimated that a $1,000 reduction in the cost of college can increase enrollment by three to four percentage points, a significant gain.[a] Yet a major study of the Hope and Lifetime Learning Credits by Harvard Professor Bridget Terry Long found no evidence that they had increased college enrollment.[b] Long commented that this result was perhaps unsurprising, since the credits were largely unavailable to "marginal" students: that is, students who are deciding whether or not to attend college.

Common sense suggests that many of these "marginal" students come from low- or moderate-income families. Only about half of high-school graduates from families in the bottom fifth of the income scale went directly to college in 2006, compared with more than 60 percent of those in the middle three fifths of the income scale and about 80 percent of those in the top fifth. This suggests that low- and moderate-income students are more likely to be deciding whether or not to attend college, and that their decisions very likely are influenced by cost considerations.[c]

As the Congressional Research Service has noted, studies consistently find that "lower-income students [are] more sensitive to changes in tuition and aid than students from middle- and upper-income families."[d] Given this fact, the unavailability of the higher education tax benefits to low-income students represents a significant missed opportunity to encourage college enrollment.

[a] Some 67 percent of all 2004 high school graduates enrolled in college the following year. A well-structured $1,000 subsidy could potentially boost that to 70 or 71 percent. For a review of this literature, see Bridget Terry Long, "The Impact of Federal Tax Credits for Higher Education Expenses," National Bureau of Economic Research Working Paper No. 9553, March 2003.

[b] Bridget Terry Long, "The Impact of Federal Tax Credits for Higher Education Expenses."

[c] Note that a lower percentage of low-income students graduate from high school, so the discrepancies among all students, including non-high school graduates, are even greater. National Center for Education Statistics, "The Condition of Education 2008," U.S. Department of Education, June 2008, http://nces.ed.gov/pubs2008/2008031.pdf .

[d] Pamela J. Jackson, "Higher Education Tax Credits: An Economic Analysis," Congressional Research Service, updated February 20, 2007, http://opencrs.cdt.org/rpts/RL32507_20070220.pdf.

have already cut funding for public colleges and universities and/or imposed large tuition increases.[15] Low- and moderate-income students are ill-equipped to absorb these cost increases.

When unemployment is high and families are struggling, the combination of higher tuition and lower financial aid will make it harder for many students to attend college. Making higher education tax credits refundable can offset some of the strain on these students and their families.

[15] For further discussion, see Nicholas Johnson, Phil Oliff, and Jeremy Koulish, "Most States Are Cutting Education," Center on Budget and Policy Priorities, December 17, 2008, http://www.cbpp.org/12-17-08sfp.htm.

Conclusion

Making federal tax credits for higher education available to low- and moderate-income students is important to achieving the credits' fundamental goal of promoting college enrollment. It is also a matter of equity: low- and moderate-income students struggle with significant college expenses, even with governmental and school-based aid, and should be able to avail themselves of the assistance Congress has provided through the tax code.

Both the House and Senate packages would take an important step toward making education tax credits available to lower-income students, although the House package is stronger. These changes also would benefit many moderate- and middle-income students who already qualify for the Hope Credit by increasing the credit and somewhat expanding the list of qualifying expenses.