



American Institute of CPAs
1455 Pennsylvania Avenue, NW
Washington, DC 20004-1081

July 26, 2013

The Honorable Max Baucus, Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Marco Rubio
United States Senate
284 Russell Senate Office Building
Washington, DC 20510

The Honorable Orrin G. Hatch
Ranking Member
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

RE: S. 1090 and H.R. 2253, Higher Education and Skills Obtainment Act: AICPA Recommendations for Further Simplification of Higher Education Tax Incentives

Dear Chairman Baucus, Ranking Member Hatch, and Senator Rubio:

The American Institute of Certified Public Accountants (AICPA) has long been an advocate for sound tax policy that promotes simplification and fairness of the tax law, as well as ease in compliance with and administration of that law. To further this mission, we encourage Congress to revise existing education provisions in order to simplify the tax incentives for higher education and help taxpayers meet current higher education expenses. The AICPA appreciates the opportunity to provide comments regarding further simplification of higher education tax incentives. These comments were developed by the AICPA Individual & Self-Employed Tax Technical Resource Panel, and approved by the AICPA Tax Executive Committee.

The AICPA is the world's largest member association representing the accounting profession, with nearly 386,000 members in 128 countries and a 125-year heritage of serving the public interest. Our members advise clients on federal, state and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses.

Present Law

The Internal Revenue Code (IRC or "Code") includes several education incentives that can be divided into two general categories:

- (1) those incentives that are intended to help taxpayers meet current higher education expenses; and
- (2) those incentives that encourage taxpayers to save for future higher education expenses.

The first category includes provisions that may be divided into three main subcategories: (1) exclusions from taxable income such as scholarships (section ¹ 117), employer-provided education assistance (section 127) and working fringe benefit (section 132); (2) deductions including the student loan interest deduction (section 221) and the tuition and fees deduction (section 222); and (3) credits including the Hope Credit (for tax years 2009 through 2017, referred to as the American Opportunity Tax Credit) and Lifetime Learning Credit (section 25A).

The second category, intended to fund future education, includes educational savings bonds (section 135), qualified tuition programs (section 529), and Coverdell Education Savings Accounts (section 530).

S. 1090 and H.R. 2253 (113th Congress) Analysis

S. 1090 and H.R. 2253 are similar proposals and are referred to here as S. 1090. S. 1090 proposes to replace the existing education credits at section 25A with a single credit covering the first four years of post-secondary education. Through 2017 and prior to any change by S. 1090, section 25A provides for the American Opportunity Tax Credit and the Lifetime Learning Credit. Under present law, after 2017, the American Opportunity Tax Credit expires and the Hope Scholarship Credit returns. S. 1090 would replace these credits with the “Higher Education and Skills Obtainment Credit.”

S. 1090 modifies the phase-out mechanism, but otherwise mostly retains the special rules of section 25A. S. 1090 would repeal section 222, a temporary provision that allows a limited deduction for certain tuition and fees.

The attached tables provide (1) a summary of current education incentives; (2) details on the S. 1090 revision of section 25A; and (3) a comparison of S. 1090 and the AICPA proposal described next.

AICPA Education Tax Incentives Proposal

The AICPA recommends that tax benefits for higher education should be simplified and harmonized.² Specifically, we recommend the following changes for the existing education provisions that provide a benefit to higher education tuition and related expenses:

¹ All section references in this letter are to the Internal Revenue Code of 1986, as amended, or the Treasury regulations promulgated there under, unless otherwise specified.

² The AICPA submitted testimony to the Senate Finance Committee hearing on Education Tax Incentives and Tax Reform on July 25, 2012; available at: <http://www.aicpa.org/Advocacy/Tax/Individuals/DownloadableDocuments/senate-finance-submission-hearing-education-tax-incentives.pdf>.

1. Replace tax incentives (i.e., Hope Credit, American Opportunity Tax Credit, and Lifetime Learning Credit) intended to help taxpayers meet current higher education expenses with one new or revised credit. Combining features of these incentives into one credit would simplify the tax benefits and remove duplicative provisions relating to higher education expenses.
 - a. The credit should be on a “per student” rather than a “per taxpayer” basis, offering a potentially larger tax benefit per family.
 - b. The credit should be available for any year of post-secondary education, including graduate-level and professional degree courses.
 - c. The credit should be available only to students meeting the definition of “student” under section 25A(b)(3).
 - d. The tax return reporting requirement should continue including the social security number (SSN) or other taxpayer identification numbers (TIN) of the student associated with the expenses claimed with respect to the credit taken for the tax year. Accordingly, amounts claimed over time could be tracked by the student’s identification number. These changes may result in improved compliance and enforcement.
 - e. The credit should be 100% refundable and phased-out for high-income taxpayers if Congress deems a phase-out necessary. The phase-out limitations should be consistent with any other education-related incentive.
 - f. The credit should be claimed on the parent’s return as long as the child is a qualifying dependent of the parent.
2. Repeal the student loan interest deduction (section 221) and the tuition and fees deduction (section 222) to relieve taxpayer confusion by reducing the number of provisions. The purpose of this recommendation is to simplify the Code without discussion of the total amount of education incentives for taxpayers.
3. Repeal educational savings bonds (section 135) and merge Coverdell Education Savings Accounts (section 530) into qualified tuition programs (section 529) by allowing the transfer of savings from Coverdell accounts into section 529 accounts. Education benefits will be further harmonized with the reduction and combination of these savings tools. Provisions should also allow owners of existing section 135 savings bonds to roll their accounts into a new combined section 529/530 savings plan. Since no more section 135 bonds would be issued, these provisions will help taxpayers to properly transition into the merge of the education savings accounts.
4. Create a uniform definition of “qualified higher education expenses” (QHEE) for all education-related tax provisions. Specifically, QHEE should include tuition, books, fees, supplies and equipment.
5. If it is determined that phase-outs are necessary, all education-related tax provisions should have the same AGI limitations. The concern for excessively high marginal rates resulting from coordinating phase-out provisions should be alleviated by substituting one credit for the

several benefits that exist today. In addition, any remaining concerns could be addressed by widening the phase-out range, which would still permit coordination that could simplify matters for taxpayers and improve their understanding of eligibility.

Analysis

For many taxpayers, analysis and application of the education tax incentives are too cumbersome compared with the benefits received. The Government Accountability Office (GAO) analyzed 2009 data for tax returns with information on education expenses and found that about 14% of filers (1.5 million of nearly 11 million eligible taxpayers) failed to claim a credit or deduction for which they were eligible. On average, these filers lost a tax benefit of \$466 (GAO 12-560 Report to the Senate Finance Committee). Further, according to GAO research, although the number of taxpayers using the educational tax credits is growing quickly, the complexity of the tax provisions prevents hundreds of thousands of taxpayers from claiming tax benefits to which they are entitled or which would be most advantageous to them. Finally, there is evidence that the structure of the provisions prevents low-income taxpayers from getting the tax benefit that Congress envisioned.

Another study performed by the GAO reported³ that although the economic downturn of previous years may have reduced income available for education savings, “even among those families who considered saving for education a priority, fewer than 1 in 10 had a 529 plan (or Coverdell).” Therefore, merging the section 530 Coverdell accounts into the section 529 plan is an effective way to promote wider use of the tax benefit and an efficient method to simplify the education benefits available to taxpayers.

The complexity and interaction among the various provisions is a recurring theme. At the Spring 2008 House Ways and Means hearing on higher education tax incentives, Karen Gilbreath Sowell, then Treasury’s deputy assistant secretary for tax policy, commented that “with more than ten million families claiming tax benefits to help finance higher education each year, Congress must ensure that these benefits work as intended” and that “the complexity of the education tax incentives increases record-keeping and reporting burden on taxpayers and makes it difficult for the IRS to monitor compliance.”

For example, eligibility for one of the two education credits depends on numerous factors, including the academic year in which the child is in school, the timing of tuition payments, the nature and timing of other eligible expenditures, and the adjusted gross income level of the parents (or possibly the student). Further, in a given year, a parent may be entitled to different credits for different children, while in subsequent years credits may be available for one child but not another. Both types of credits are dependent on the income levels of the parents or the child attempting to claim them. Further complicating the statutory scheme, the Code precludes use of the Lifetime or Hope (American Opportunity Tax) Credit if the child also receives tax benefits

³ The GAO Report to the Chairman, Committee on Finance, U.S. Senate on “Higher Education: A Small Percentage of Families Save in 529 Plans” is available at: <http://www.gao.gov/assets/660/650759.pdf>.

from education savings accounts. Although the child can elect out of such benefits, this decision also entails additional analysis.

An additional complicating factor is the phase-out of eligibility based on various AGI levels in six of the nine provisions. This complication requires taxpayers to make numerous calculations to determine eligibility for the various incentives. Since there are so many individual tests that must be satisfied for each benefit, taxpayers may inadvertently lose the benefits of a particular incentive because they either do not understand the provision or because they pay tuition or other qualifying expenses during the wrong tax year.

In addition to the complexity described above, there is evidence that erroneous application of education credits contributes to the “Tax Gap.” A report issued by the Treasury Inspector General for Tax Administration (TIGTA) in 2011 states that education credits of approximately \$3.2 billion (\$1.6 billion in refundable credits and \$1.6 billion in nonrefundable credits) appear to be erroneous.⁴ Over four years, erroneous education credits could potentially reach \$12.8 billion.⁵

In terms of tax policy, the numerous tax incentives to assist with college expenses are not the only way the federal government provides assistance to college students and their families. Through the Department of Education, the federal government assists low-income individuals through various scholarship and grant programs. We encourage Congress to consider all of these programs together to determine if the desired goals are being met in an effective and efficient manner. Consideration should be given to where assistance can best be provided through the tax law (such as incentives to save for future college expenses) versus grant and scholarship programs while the student is in college (where assistance is needed at the start of the school year rather than when the tax return is filed). Consideration should also be given to identifying the targeted income group to whom the federal government should be providing financial assistance for higher education expenses. When assessing whether this goal is met, aid distributed through scholarships, grants or tax provisions should be considered. Although the low- to middle-income families are the desired beneficiaries of most education tax provisions, they are also the ones with lower marginal tax rates which cause them to ultimately benefit the least from the provisions. For example, families with lower tax liability may not receive the benefits of the non-refundable portion of tax credits and to the extent that any proposed tax deductions are itemized deductions, lower income taxpayers are less likely to receive the benefits because they frequently do not itemize. Finally, a determination needs to be made as to which levels of education should yield a tax benefit to taxpayers. All of the education provisions generally cover post-secondary education only. However, the Coverdell Education Savings Account (section 530) also covers elementary and secondary education.

⁴ Treasury Inspector General for Tax Administration Report 2011-41-083, Billions of Dollars in Education Credits Appear to Be Erroneous (September 16, 2011).

⁵ *Id.*

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Conclusion/Recommendation

Education-related tax provisions should be simplified as suggested above so that taxpayers better understand the rules and can comply with them in a cost-efficient manner. Such simplification would also improve the transparency and visibility of such tax provisions and allow the monitoring of compliance with the provisions. Simplification of the education-related tax provisions would increase the benefits going to the targeted taxpayers, lower the cost of administering the tax system, and reduce the “Tax Gap.”

We appreciate your consideration of our comments and we applaud the sponsors of S. 1090 for moving in the direction of simplification of the numerous tax provisions for higher education expenses and savings. The AICPA believes further simplification and benefit can be achieved with the AICPA proposals outlined in this letter and the attached charts. If you have any questions regarding this submission, please feel free to contact me at (304) 522-2553 or jporter@portercpa.com; Jonathan Horn, Chair, AICPA Individual & Self-Employed Tax Technical Resource Panel, at (212) 744-1447, or jmhcpa@verizon.net; or Amy Wang, AICPA Technical Manager – Taxation, at (202) 434-9264, or awang@aicpa.org.

Respectfully submitted,



Jeffrey A. Porter, CPA
Chair, AICPA Tax Executive Committee

| Education Incentives – Exclusions | | | | |
|--|---|---|---|---|
| Code § | Provision | Summary | Qualified Education Expenses Definition | AGI Phase-Out |
| 117 | Exclusion for scholarships | Excludes scholarships from income to the extent it covers qualified education expenses for degree-seeking undergraduate students | Tuition, books, supplies, and equipment; but not room and board | None |
| 127 | Exclusion for employer-provided education | The employee excludes from income up to \$5,250 of employer-provided qualified education expenses under educational assistance program | Tuition and fees for undergraduate and graduate courses; books, supplies, and equipment; but not room and board; does not have to be for work-related courses | None |
| Education Incentives – Deductions | | | | |
| Reg. 1.162-5 | Expenses for education | The education must not prepare student for a new job or meet the minimum requirements for a job. Thus, undergraduate education does not qualify. Continuing education courses of a CPA or other licensed professional are examples of qualifying education. | Tuition, fees, materials and possibly some travel and transportation expenses. Self-employed individuals may deduct on Schedule C if related to the business. | None |
| 221 | Student loan interest deduction | For AGI deduction of up to \$2,500 for interest paid on qualifying student loan | Tuition, fees, books, supplies, equipment, room and board, transportation, other necessary expenses | S: \$60,000 - \$75,000 MAGI MFJ: \$125,000 - \$155,000 MAGI MFS: No deduction |

| Code § | Provision | Summary | Qualified Education Expenses Definition | AGI Phase-Out |
|--------|---|------------------------------------|---|---|
| 222 | Qualified tuition and fees deduction (expires 12/31/13) | For AGI deduction of up to \$4,000 | Tuition, fees; but not room and board Student-activity fees and expenses for course-related books, supplies, and equipment are included in QHEE only if the fees and expenses must be paid to the institution as a condition of enrollment | S, HOH: If AGI is not more than \$65,000, may deduct \$4,000; if between \$65,000 and \$80,000, may deduct \$2,000 MFJ: If AGI is not more than \$130,000, may deduct \$4,000; if between \$130,000 and \$160,000, may deduct \$2,000 MFS: No deduction |

Education Incentives – Credits

| Code § | Provision | Summary | Qualified Education Expenses Definition | AGI Phase-Out |
|--------|---|--|---|--|
| 25A | American Opportunity Tax Credit (for tax years 2009 through 2017) Hope Credit after 2017 | Credit of up to \$2,500 per student: 100% of first \$2,000; 25% of next \$2,000 Must be enrolled at least half-time 40% of modified credit is refundable (but not for child subject to section 1(g) “Kiddie Tax”) If parent pays the expenses, must be able to claim exemption for student on tax return No felony drug conviction Regulations explain who gets credit in special circumstances | Tuition, fees, and course materials including books, during first four years of post-secondary education; but not room and board Courses must be associated with degree program or recognized education credential Athletic fees, insurance, activity fees are not eligible unless required as a condition of enrollment and paid directly to the institution | S: \$80,000 - \$90,000 MFJ: \$160,000 - \$180,000 MFS: No credit |

| Code § | Provision | Summary | Qualified Education Expenses Definition | AGI Phase-Out |
|--------|--------------------------|--|--|---|
| 25A | Lifetime Learning Credit | <p>Credit of up to \$2,000 per return: 20% on up to \$10,000</p> <p>A non-refundable elective credit</p> <p>If parent pays the expenses, must be able to claim exemption for student on tax return</p> <p>Regulations explain who gets credit in special circumstances</p> | <p>Tuition and fees including for graduate courses/continuing education; but not room and board</p> <p>Available for all post-secondary education—not necessarily associated with a degree</p> | <p>S: \$52,000 - \$62,000</p> <p>MFJ: \$104,000 - \$124,000</p> <p>MFS: No credit</p> |

Education Incentives – Planning for College

| Code § | Provision | Summary | Qualified Education Expenses Definition | AGI Phase-Out |
|--------|---------------------------|--|---|--|
| 135 | Educational Savings Bonds | <p>Allows for partial or total exclusion of interest income on redemption of qualified U.S. savings bonds used for qualifying purposes</p> | <p>Tuition and fees but not for courses involving sports, games, or hobbies that are not part of degree or certificate granting program; not room and board</p> | <p>S: \$74,700 - \$89,700</p> <p>MFJ: \$112,050 - \$142,050</p> <p>MFS: No exclusion</p> |

| Code § | Provision | Summary | Qualified Education Expenses Definition | AGI Phase-Out |
|--------|-------------------------------------|---|--|---|
| 529 | Qualified Tuition Plans | <p>For College Savings Plan, account owner contributes cash to a plan account for a beneficiary and the contribution is invested according to the terms of the plan</p> <p>For Prepaid Tuition Plan, account owner contributes cash to a plan account and the contribution purchases tuition credits or credit hours based on then-current tuition rates</p> <p>Contributions qualify for the annual gift tax exclusion. Earnings are not taxed and funds may be withdrawn tax-free if used for qualifying purposes</p> | <p>Tuition and fees, books, computers, technology and other expenses for vocational schools, 2-year and 4-year colleges as well as graduate and professional education; room and board if the beneficiary attends school at least half-time; expenses of special needs beneficiary necessary for his/her enrollment at eligible educational institutions</p> | None |
| 530 | Coverdell Education Savings Account | <p>Non-deductible contribution of up to \$2,000 per year for a beneficiary under age 18. Except for special needs beneficiaries, contributions must end at age 18 and assets must be withdrawn by age 30</p> <p>Distributions non-taxable to extent funds used for QHEE or qualified elementary and secondary education expenses</p> | <p>Tuition, books, fees, supplies, equipment, tutoring, computer equipment and software, uniforms for both higher education and elementary and secondary education at public, private, and religious schools; room and board for student enrolled at least half-time</p> | <p>S: \$95,000 and \$110,000</p> <p>MFJ: \$190,000 and \$220,000</p> <p>MFS: \$95,000 and \$110,000</p> |

| Education Incentives – Proposals | | | | |
|----------------------------------|-----------------------------|---|---|--|
| Code § | Provision | Summary | Qualified Education Expenses Definition | AGI Phase-Out |
| 25A | S. 1090 (113rd Congress) | <p>Credit of up to \$2,500 per student: 100% of first \$2,000; 25% of next \$2,000</p> <p>Must be enrolled at least half-time</p> <p>If parent pays the expenses, must be able to claim exemption for student on tax return</p> <p>No double benefit allowed.</p> <p>Special reporting and recordkeeping requirements specified</p> <p>Lifetime learning credit and section 222 above-the-line deduction for education expenses both repealed</p> | <p>Tuition, fees, and course materials for the first four years of post-secondary education; room and board or equipment costs not covered</p> <p>Costs must relate to attendance of the taxpayer, spouse or dependent at an eligible educational institution, or for course of instruction from an eligible provider to acquire or improve job skills.</p> | <p>Phase-out levels tied to household income and 500% of the poverty line.</p> <p>MFS: No credit</p> |

| Code § | Provision | Summary | Qualified Education Expenses Definition | AGI Phase-Out |
|--------|----------------|---|---|---|
| 25A | AICPA Proposal | <p>Replaces AOTC, Hope Scholarship, and Lifetime Learning credits, as well as the section 222 deduction</p> <p>Covers higher education expenses beyond the first four years of college including graduate and non-degree instruction at a qualified institution</p> <p>Credit is calculated “per student” rather than “per taxpayer”</p> <p>Student must meet definition of “student” under section 25A(b)(3)</p> <p>Existing reporting requirement of section 25A continue</p> <p>IRS should track higher education expenses claimed by the student’s SSN or TIN</p> <p>If parent pays the expenses, must be able to claim exemption for student on tax return in order to qualify for the credit</p> <p>100% refundable (subject to phase-out if necessary)</p> | Tuition, books, fees, supplies and equipment. | Match those for other education provisions. |

Comparison of AICPA and S. 1090 Proposals for Higher Education Expenses

The chart below compares [S. 1090](#)⁶, the Higher Education and Skills Obtainment Act (113th Congress) with the [AICPA proposal](#)⁷ for expenses related to post-secondary education.

| Topic | S. 1090 | AICPA Proposal |
|---------------------|---|---|
| Purpose | Reduce the number of higher education provisions by consolidating three such provisions into a single credit in section 25A. | Combine the credits as described below and reduce number of higher education provisions by merging the Coverdell Education Savings Accounts (section 530) into qualified tuition programs (section 529) and repealing the student loan interest deduction (section 221), the tuition and fees deduction (section 222), and the educational savings bonds (section 135). Provide a uniform definition of higher education expenses, recognize that higher education expenses can represent more than 4 years of post-secondary education resulting in a college degree. |
| Basic tax provision | Credit equal to \$2,000 of “qualified tuition and related expenses” paid by taxpayer + 25% of next \$2,000 of such expenses (maximum credit of \$2,500) | Credit that replaces existing American Opportunity Tax Credit, Hope Scholarship, and Lifetime Learning credits, as well as the section 222 deduction. Amount not specified. |
| Eligible costs | Tuition, fees, and costs of course materials for attending an “eligible educational institution during any academic period beginning in such taxable year” of the taxpayer, spouse or dependent. The eligible costs | A uniform definition of “qualified higher education expenses” (QHEE) should be used for this credit as well as all education-related tax provisions. QHEE should include tuition, books, fees, supplies and equipment. |

⁶ The Higher Education and Skills Obtainment Act is available at: <http://thomas.loc.gov/cgi-bin/query/z?c113:S.1090>:

⁷ The AICPA submitted testimony to the Senate Finance Committee hearing on Education Tax Incentives and Tax Reform on July 25, 2012; available at: <http://www.aicpa.org/Advocacy/Tax/Individuals/DownloadableDocuments/senate-finance-submission-hearing-education-tax-incentives.pdf>.

| Topic | S. 1090 | AICPA Proposal |
|----------------------------------|--|--|
| | <p>must be “for a course of instruction from an eligible provider to acquire or improve job skills of the individual during the taxable year (for education furnished during any academic period beginning in such taxable year).”</p> <p>Eligible costs must be reduced by any scholarship excluded under section 117, educational assistance, a federal Pell Grant or other specified grants, and any payment (other than a gift, bequest, devise or inheritance per section 102(a)) excludable from gross income.</p> | <p>Also, the terms “special needs services” and “special needs beneficiary” should be clearly defined.</p> |
| Eligible educational institution | <p>“An institution--(A) which is described in section 481 of the Higher Education Act of 1965, as in effect on the date of the enactment of the Taxpayer Relief Act of 1997, and (B) which is eligible to participate in a program under title IV of the Higher Education Act of 1965.”</p> | <p>Not specified other than that the credit should be available for postsecondary education, including graduate-level and professional degree courses.</p> |
| Time period of education covered | <p>Only the first four years of “any combination of postsecondary education at an eligible educational institution and instruction” from an “eligible provider to acquire or improve job skills of the individual during the taxable year (for education furnished during any academic period beginning in such taxable year).”</p> | <p>The credit should be available for any year of postsecondary education, including graduate-level and professional degree courses.</p> |

| Topic | S. 1090 | AICPA Proposal |
|---|---|--|
| | <p>An “eligible provider” is a “provider of training services (within the meaning of section 134(d)(4)(D) of the Workforce Investment Act of 1998) (29 U.S.C. 2864(d)(4)(D)) who is identified in accordance with section 122(e)(3) of such Act (29 U.S.C. 2842(e)(3)).”</p> | |
| <p>Who the qualified expenses are for</p> | <p>“Eligible student” defined as “a student, who during any academic period meets the requirements of section 484(a)(1) or the Higher Education Act of 1965 (as in effect on the date the Taxpayer Relief Act of 1997 was enacted (8/5/97)) and is carrying at least half of the full-time workload for the student’s course of study.”</p> | <p>“Eligible student” as currently defined at section 25A(b)(3). This term refers to a student, who during any academic period meets the requirements of section 484(a)(1) or the Higher Education Act of 1965 (as in effect on date section 25A was enacted (8/5/97)) and is carrying at least half of the full-time workload for the student’s course of study.</p> <p>The credit should be on a “per student” rather than a “per taxpayer” basis, offering a potentially larger tax benefit per family.</p> |
| <p>Who claims the credit</p> | <p>If the higher education expenses are paid by a dependent, such expenses will be treated as paid by the person eligible to claim that dependent.</p> | <p>The credit should be claimed on the parents’ return as long as the child is a qualifying dependent of the parent.</p> |
| <p>Ineligible taxpayers</p> | <p>Married taxpayers filing separate returns.</p> <p>Taxpayers who are a nonresident alien for any part of the tax year unless an election under 6013(g) or (h) has been made. (Similar to existing section 25A provisions.)</p> | <p>No provision.</p> |

| Topic | S. 1090 | AICPA Proposal |
|---------------------------------------|---|---|
| Refundability | Not refundable | The credit should be 100% refundable and phased out for high income taxpayers. The phase-out limitations should be consistent with any other education-related incentive. |
| Limitations on the credit (phase-out) | <p>“The amount which would (but for this paragraph) be taken into account under subsection (a) for the taxable year shall be reduced (but not below zero) by the amount which bears the same ratio to the amount which would be so taken into account as the excess (if any) of--</p> <p> (A) the household income of the taxpayer for such taxable year over 400 percent of the poverty line, bears to</p> <p> (B) the amount equal to 500 percent of the poverty line minus the amount equal to 400 percent of the poverty line.”</p> <p>“Poverty line” is defined per “section 2110(c)(5) of the Social Security Act (42 U.S.C. 1397jj(c)(5)) with respect to the taxpayer’s family of the size involved.</p> <p>... The poverty line used shall be the most recently published poverty line as of the 1st day of the regular enrollment period for coverage during such calendar year.”</p> | All education-related tax provisions should have the same adjusted gross income limitations. The concern for excessively high marginal rates resulting from coordinating phase-out provisions should be alleviated by substituting one credit for the several benefits that exist today. In addition, any remaining concerns could be addressed by widening the phase-out range which would still permit coordination that could simplify matters for taxpayers and improve their understanding of eligibility. |
| Other limitations | None | None |

| Topic | S. 1090 | AICPA Proposal |
|------------------------|--|--|
| Prepayments | <p>“If tuition, fees, or costs of course materials are paid by the taxpayer during a taxable year for an academic period which begins during the first 3 months following such taxable year, such academic period shall be treated for purposes of this section as beginning during such taxable year.”</p> <p>(Similar to existing section 25A provisions.)</p> | No provision. |
| Refunds | <p>Specifies that regulations should be issued as necessary and appropriate. The regulations should provide that a previously claimed credit is recaptured if the taxpayer obtains a refund of eligible costs used to calculate the credit. (Similar to existing section 25A provisions.)</p> | No provision. |
| No double benefit | <p>The credit may not be claimed if the expenses have been deducted under any other tax provision. A taxpayer may elect to not have this section apply to eligible expenses. (Similar to existing section 25A provisions.)</p> | Not specified. |
| Reporting requirements | <p>The taxpayer claiming the credit must report:</p> <ul style="list-style-type: none"> • the student’s name and SSN/TIN • the EIN, name and address of the institution. <p>“Information supporting such expense” must be submitted with the return.</p> | The student’s SSN or TIN should be provided on the return. |

| Topic | S. 1090 | AICPA Proposal |
|---|---|--|
| Verification | <p>“In carrying out this section, the Secretary shall utilize information from the Secretary of Education to confirm and verify information relating to educational institutions and students, including the Integrated Postsecondary Education Data System and the National Student Loan Data System.”</p> | No provision. |
| <p>IRC § 6050S, Returns relating to higher education tuition and related expenses</p> | <p>The reporting form (1098-T) issued by the institution must also include:</p> <ul style="list-style-type: none"> • whether the student is full-time or part-time • if part-time, whether the student is at least half-time • whether the student is a graduate student | No provision. |
| Other education provisions addressed | <p>The deduction for eligible education expenses at section 222 is repealed.</p> | <p>Repeals of the student loan interest deduction (section 221), the tuition and fees deduction (section 222), and the educational savings bonds (section 135).</p> <p>The Coverdell Education Savings Accounts (section 530) is merged into the qualified tuition programs (section 529).</p> |
| Tax gap measure | <p>IRC § 6213(g)(2) is modified to include the following as a mathematical or clerical error:</p> <ul style="list-style-type: none"> • Omission of a correct student SSN/TIN or institution EIN • Claiming the credit for years beyond what is allowed | No provision. |

| Topic | S. 1090 | AICPA Proposal |
|---------------------|---|--|
| Additional comments | <p>“It is the sense of Congress that any savings in revenues resulting from the enactment of this section shall be applied to the currently projected Pell Grant funding shortfall beginning in 2015 and to deficit reduction.”</p> | <p>The AICPA encourages Congress to consider all of the various types of government programs providing benefits to taxpayers and students for higher education costs to determine if the desired goals are being met in an effective and efficient manner.</p> <p>The current tax provisions do not always meet the goal of helping low to middle-income families with college expenses.</p> <p>Consideration should be given to where assistance can best be provided through the tax law (such as incentives to save for future college expenses) versus grant and scholarship programs while the student is in college (where assistance is needed at the start of the school year rather than when the tax return is filed).</p> <p>Consideration should also be given to identifying the targeted income group. When assessing whether this goal is met, aid distributed through scholarships, grants or tax provisions should be considered.</p> |