
Dear Chairman Levin and Ranking Member Camp:

On behalf of the American Council on Education and the undersigned higher education associations, I write to urge you to include an extension and expansion of the American Opportunity Tax Credit (AOTC) in the pending tax extenders legislation. We are also eager to see other expiring higher education tax provisions, notably Section 127 Employer Provided Educational Assistance, the Student Loan Interest Deduction, and the expanded Coverdell Education Savings Accounts, extended as soon as possible.

Included in the American Recovery and Reinvestment Act, the AOTC is scheduled to expire at the end of this year. The AOTC improves the longstanding Hope Scholarship Credit by increasing it from $1,800 to $2,500, designating “course materials” as eligible expenses, making the credit available for four rather than only two years of college, increasing the income caps to begin phasing out at $80,000 for individuals ($160,000 for joint filers), and making the credit partially refundable.

The AOTC has already made a difference for many students and provides some help to families trying to manage the cost of college in their stressed family budgets. However, the AOTC should also be enhanced to make it more effective for students from low and moderate income families. Due to a provision carried over from the Hope Scholarship Credit, the tax credit contains a grant/scholarship offset that dramatically limits its utility for low-income students attending lower priced colleges, despite the credit’s partial refundability. The offset provision requires that students use any grant/scholarship aid to pay their eligible education expenses before utilizing the tax credit. There are different ways to address this problem and we look forward to working with you as the legislative process unfolds.

Also important to the higher education community are several other provisions facing expiration at the end of 2010. In addition to the AOTC, Section 127 Employer Provided Educational Assistance (Sec. 127) will expire in its entirety. Sec. 127 allows
employers to offer up to $5,250 annually in tuition assistance to employees. These funds offer tax benefits to both employers and student employees. Also, improvements made to the Student Loan Interest Deduction (SLID) and Coverdell Education Saving Accounts (ESAs) in 2001 are set to expire this year. If not extended, SLID will be drastically limited by reduced income thresholds and a renewed 5-year limit—and Coverdells will revert to only allowing $500 in tax-free annual contributions (currently $2,000).

The AOTC improves federal higher education tax policy by creating a stronger tool for increasing access to college. Sec. 127, the SLID, and Coverdell ESAs are critical to students and families saving for, paying for, and paying back college expenses. The higher education community is eager to see all of these critical higher education provisions extended this year as part of the extenders bill or other tax legislation.

Sincerely,

Molly Corbett Broad
President

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On behalf of:
American Association of Community Colleges
American Association of State Colleges and Universities
American Council on Education
Association of American Universities
Association of Public and Land-grant Universities
National Association of Independent Colleges and Universities