House Passes Single Higher Education Credit

With a vote of 227-187, the House passed the Student and Family Tax Simplification Act (H.R. 3393). The bill proposes to combine all of the higher education tax credits into a single credit. It was co-sponsored by Rep. Diane Black (R-TN) and Rep. Danny K. Davis (D-IL).

The single credit in the bill replaces the existing above-the-line tuition deduction, the HOPE credit, the lifetime learning credit and the American Opportunity Tax Credit. The single credit has a limit of $2,500 per year for up to four years with a total benefit of $10,000.

The bill creates a modified American Opportunity Tax Credit for higher education. One hundred percent of the first $2,000 of qualified expense is offset by the credit. $1,500 of the credit is refundable for low-income persons. There is also an additional credit of 25% of the second $2,000 in qualified education expense or an added credit amount of $500. The total credit would be $2,500 per year.

House Ways and Means Chairman Dave Camp (R-MI) supported the bill. He noted, “This new, improved credit will provide greater benefits for those who need it most.”

In the past, the White House has supported making the American Opportunity Tax Credit permanent. It published a press release and noted that it was looking “forward to working with Congress to ensure that students and working families have ongoing access to this and other
important middle class tax benefits that are also scheduled to expire in just a few years.” However, the White House expressed concern because the $96.5 billion cost of the credit over a decade is not offset by any tax increases.

Representative Black spoke in favor of the bill. She stated, “Today’s broken tax code does little to ease that financial burden or provide a sense of security that education will be a reality in the future. Streamlining the number of education provisions and retooling those that are most effective allows us to simplify the code and reduce some of the confusion that exists today.”

Ways and Means Committee Ranking Member Sander Levin (D-MI) noted that he supported the concept of a higher education tax credit. However, Levin expressed concern that there would be individuals who do not benefit from this credit. He noted that it would not help students who take over four years to graduate, it would fail to assist many adult learners who use part time programs over a longer duration and it may provide less benefit to some low and middle-income persons.

Editor’s Note: The House has now passed permanent bills that cover 14 different tax extenders. The cost per year for these provisions is approximately $83 billion. The House is now setting up a negotiation with Majority Leader Harry Reid (D-NV) for the November lame-duck session. The House leaders will attempt to persuade Sen. Reid to make these provisions permanent or at least pass them for a five to 10 year duration rather than the traditional two years. The November negotiations will also include five charitable tax extenders that were passed previously by the House.