Testimony for the Senate Committee on Finance Hearing on "Less Student Debt from the Start: What Role should the Tax System Play?"

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Chairman Wyden, Ranking Member Hatch and distinguished members of the Senate Committee on Finance,

Thank you for the opportunity to submit testimony regarding the education provisions in tax law for the record on behalf of the Council of Graduate Schools (CGS) and for holding this hearing on an important issue that affects all postsecondary students. I am Debra Stewart, President of the Council of Graduate Schools. CGS is dedicated to the advancement of graduate education and research. Its membership includes over 500 universities that enroll approximately 85 percent of all graduate students and annually award more than 92 percent of all U.S. doctorates and over 78 percent of all master's degrees.

Graduate Education, the Economy and the Workforce

Our country's economic past and its continued prosperity rely on individuals with master's and doctoral degrees. Projections from Georgetown University's Center on Education and the Workforce suggest that 65 percent of all jobs will require post-baccalaureate training. Jobs that require a master's degree at entry-level, for example, are expected to grow at a rapid rate into the next decade. Demand for these master's degree holders is expected to grow even faster in certain occupational areas, including healthcare and social services. Graduate students drive the research and innovation at our universities. Their research in science, medicine, health, education and the arts and humanities contributes directly to the groundbreaking discoveries, inventions and innovation which results in sustained economic growth and prosperity.

Every day in the labs, libraries, and classrooms in our institutions of higher education, faculty and graduate students conduct leading-edge research, create and share knowledge, and teach the next generation of scholars and professionals. They are the researchers, entrepreneurs and inventors of the future. Graduate students not only engage in groundbreaking research, they facilitate technology transfer, participate in the development of new products and services that stimulate partnerships between universities and industry, and contribute to methodologies and approaches to solving complex social problems. Graduate degree holders have been instrumental in establishing new start-up companies that create jobs, promoting public health initiatives, creating community reconciliation and reconstruction mechanisms within countries experiencing conflict, and preparing the K-12 teacher workforce. The contributions of graduate students and graduate degree holders are essential to America's global economic leadership.

These examples illustrate why support for graduate education and graduate students is critical if we are to grow our domestic scientific talent and build the educated and skilled workforce we need to be competitive in a global economy. It is for these reasons that CGS is concerned about changes that may be made to current education tax provisions. A number of the proposals that have been made would seriously affect the ability of master's and doctoral students, especially low-income and underrepresented minority students, to pursue a graduate education.

Graduate Students – Who are they?
CGS's interest is particularly heightened given the policy changes that have been made to federal student financial assistance, in particular to student loans, over the past few years. These changes include eliminating in-school interest subsidies, creating a distinction between undergraduate and graduate student Stafford loans, and increasing the disparity between interest rates for undergraduate and graduate student loans, all of which have eroded federal student loan support for graduate students.

Despite recent news items, graduate students on the whole are not borrowing in excess of six-figures, and the cost of attendance for graduate students is not increasing at a faster rate than the cost for undergraduate students. It is also not true that all graduate students are from affluent families and wind up with high salaried jobs. The reality is that many media reports are focused on a small minority of graduate students. This narrow attention could result in federal policy that overlooks more than 80 percent of this nation's graduate student population.

Issues of Concern
Changes to the education tax provisions in current law may have an adverse impact on graduate students. Any potential changes should not add to the cost of pursuing an advanced degree at a time when some of the fastest growing occupations and the demands of a knowledge economy require education beyond the undergraduate level. For this reason CGS is concerned about proposals that would eliminate the Lifetime Learning Credit by consolidating it into the AOTC, end the deductibility of interest paid on student loans, and consider tuition remissions and waivers as income.

Lifetime Learning Credit
The only tax credit available for low-and middle-income income graduate students and adult learners is the Lifetime Learning Credit (LLC). Over the past few years federal financial support for graduate students has been eroded. Graduate students cannot receive Pell Grants and are no longer eligible for subsidized loans. They pay higher interest rates on their loans and the distinction between undergraduate and graduate students has been heightened through these changes in policy. The elimination of LLC only adds to the difficulty that low- and middle-income and underrepresented minority students already have in financing their continued education.

CGS appreciates the need to simplify education tax credits so that more students can take advantage of them. Advanced education and graduate degrees are becoming the norm for many entry-level positions. Jobs that require a master’s degree at entry-level are expected to grow at a rapid rate into the next decade. In order for the U.S. economy to remain competitive, and for state economies to thrive, master’s degree holders need to play a critical role in innovation and implementation of new technologies in the marketplace. This is why the policy decisions regarding education tax credits should no longer focus solely on financial support for undergraduate students.

Student Loan Interest Deductibility

Graduate students pay higher interest rates on their federal student loans than undergraduates. In addition, they are not eligible for subsidized loans, which means that interest accrues while they are pursuing their degrees, and they do not have the benefit of a grace period once they graduate. Taking away the ability to deduct interest paid on student loans will only further increase the debt obligation of graduate degree recipients. This means that when graduate students complete their degrees, their repayment obligation is already greater than what they borrowed, unlike undergraduates who benefit from subsidized loans. Additionally, in combination with the higher interest rates that graduate students pay, after the 10 year standard repayment period, graduate students could pay as much as twice as much in interest as students with subsidized loans of the same amount. Taking away deductibility for student loan interest hits graduate students twice as hard.

Tuition Remissions and Waivers

Currently tuition remissions and waivers are excludable from taxable income. One out of four students pursuing doctoral degrees, not including professional degree students, receives institutional tuition and fee waivers, the average amount being $12,646. About six percent of master’s degree students receive institutional tuition and fee waivers, the average amount being $6,511. Removing the exclusion of tuition and fee waivers would increase tax liability for graduate students on “income” they never receive.

For example, a doctoral degree student at a public institution had a $14,500 fellowship and was also credited with $9,500 as a tuition/fee waiver. Under the current law in 2012, this student’s tax liability would have been $8,550 and the student would have paid $847.50 in federal income tax. If tuition waivers are considered as taxable and LLC is not available, the student’s tax liability would increase to $18,050 despite the fact that the student would still take home the same amount of money. The student would wind up paying $2,272.50 in federal income tax, or 16% of the fellowship, increasing the student’s federal income tax by $1,425 or 168%.

Conclusion

The 21st century economy demands that our workforce have the education and skills needed to be competitive globally. Public policy should encourage the pursuit of education beyond the undergraduate level. CGS believes that the Lifetime Learning credit, deductibility of student loan interest, and exclusion of institutional tuition and fee waivers are important components of this public policy. In light of recent changes in student federal financial assistance, current education tax benefits are one of a few remaining ways that graduate students can afford to pay for their education.