House Tax Bill Reduce Access to Higher Education for Some

By Don Sutherland

On Thursday, November 16, 2017, the House of Representatives passed the 450-page "**Tax Cuts and Jobs Act**" (H.R. 1) by a **227-205** margin. In general, the plan would result in an annual $48.4 billion reduction in tax payments by individuals by 2027 according to the Joint Committee on Taxation's (JCT) **analysis**. Annual tax savings for businesses would amount to $63.7 billion by 2027. Tax savings for those households reporting taxable income of $30,000-$100,000 per year would account for 19.7% of total individual tax savings by 2027 vs. 31.8% in 2019. In contrast, households with $1 million or more in taxable income would account for 50.9% of individual tax savings by 2027 vs. 17.7% of tax savings in 2019. Put another way, what would start out as a "middle class tax cut" in the early years of the legislation would transition into a primarily "upper income tax cut." That transition could raise complex distributional issues that are beyond the scope of this blog. It should also be noted that the Senate legislation differs from the House bill and all individual tax policy changes would expire within 10 years on account of budgetary issues.

According to articles in both *The New York Times* and *The Washington Post*, the legislation could make contribute to an increase in the after-tax cost of college education. On November 15, *The New York Times* **reported**:

To help pay for the $1.5 trillion tax cut, lawmakers eliminated many individual tax breaks, arguing the overall plan would compensate for any lost benefits. The result: while many families and businesses would see tax cuts, a large percentage of undergraduates and graduate students would see their tax bills increase, some dramatically.

In addition to campus employees, many doctoral students would see huge tax increases, since the tuition that universities waive for them in exchange for working on campus as researchers and teaching assistants would be deemed taxable income. At expensive research universities like Stanford and Harvard, the new tax bills could swamp graduate-student stipends.

The November 16 edition of *The Washington Post* **reported**:

The repeal and revision of higher-education tax benefits in the bill passed Thursday by the House would cost students and families more than $71 billion over the next decade, according to an official analysis by Congress's Joint Committee on Taxation.

In a letter obtained by The Washington Post, the committee provides individual scores of the education provisions in the House bill. Those that directly benefit current students, borrowers and employees seeking college credentials amount to tens of billions of dollars in revenue for the government, but lost savings for taxpayers.

The combination of the distributional issues identified from the JCT analysis and changes that affect tax treatment of college-relevant provisions could widen the persistent college attendance gap between students from low-income families and high-income families. The latest data from the **National Center for Education Statistics** noted that the immediate college enrollment rate for high school completers was 83% for students from high-income families vs. 63% each for students from low- and middle-income families in 2015. If so, the long-run impact could be reduced opportunities for students from low- and middle-income families relative to their counterparts from high-income families as the demand for advanced skills grows in an increasingly knowledge-intensive economy. Such an outcome could have meaningful employment, poverty, mobility, and other socioeconomic implications.