

Possible Reconciliation Revenue Options Affecting Higher Education

House Committee on Ways and Means

Endowment Tax Expansion to 14 Percent Rate | \$10 billion in 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

The 2017 Tax Cuts and Jobs Act (TCJA) imposed a new tax on a small group of private nonprofit colleges and universities. Institutions enrolling at least 500 students that have endowment assets exceeding \$500,000 per student (other than those assets which are used directly in carrying out the institution's exempt purpose) pay a tax of 1.4 percent on their net investment income. In 2022, the tax raised \$244 million from 58 institutions. This would raise that rate to 14%.

H.R. 8913, Increase Applicability of Endowment Tax | \$275 million in 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

H.R. 8913 adjusts the criteria for which students are counted when determining whether a private college or university is subject to an excise tax on its net investment income. This bill incentivizes universities that receive generous U.S. federal tax benefits to either enroll more American students or spend more of their endowment funds on those students to avoid being subject to the endowment tax. This bill would subject roughly 10 to 12 additional schools to the Endowment Tax, all of which could avoid the tax by admitting more American students or spending down their endowments.

H.R. 8914, University Accountability Act | No budgetary effects

VIABILITY: HIGH / MEDIUM / LOW

H.R. 8914, marked up by the Ways and Means Committee on July 9, 2024, would enact penalties for colleges and universities that violate students' rights under Title VI of the Civil Rights Act (which applies to educational institutions and protects against discrimination). It was ordered reported favorably by a vote of 24 yeas (you and 23 other Republicans) and 12 nays (all Democrats).

Eliminate the American Opportunity Credit | \$59 billion in 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

The American opportunity tax credit (AOTC) is a credit for qualified education expenses paid for an eligible student for the first four years of higher education. Taxpayers can get a maximum annual credit of \$2,500 per eligible student. This option would repeal the credit.

Eliminate the Lifetime Learning Credit | \$26 billion in 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

The Lifetime Learning Credit ("LLC") provides a nonrefundable tax credit equal to 20 percent of qualified tuition and related expenses of the taxpayer that do not exceed \$10,000. This option would repeal the credit.

Eliminate Exclusion of Scholarship and Fellowship Income | \$54 billion in 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

Qualified scholarships and fellowships are generally excluded from taxable income if used for tuition and related expenses. This option would make all scholarship and fellowship income taxable, increasing revenue by \$54 billion over 10 years.

Eliminate Deduction of Interest on Student Loans | \$30 billion in 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

Taxpayers can deduct up to \$2,500 of interest paid on student loans from their taxable income. This option would eliminate the deduction for student loan interest.

Eliminate Exclusion of Interest on State and Local Bonds | \$250 billion in 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

Interest earned on municipal bonds is currently excluded from taxable income. This option would end the exclusion, making income from municipal bond interest taxable.

End Tax Preferences for Other Bonds | \$114 billion in 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

This option would eliminate the exclusion of interest earned on private activity bonds, Build America bonds, and other non-municipal bonds.

Eliminate Employer Paid Transportation Benefits | \$50 billion in 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

Employer-provided transportation benefits (up to \$315 per month), like transit passes and parking, are excluded from taxable income. This option would eliminate the tax exclusion for these benefits, generating \$50 billion in savings over 10 years.

Repeal Green Energy Tax Credits | Up to \$796 billion in 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

This option would repeal credits created and expanded under the Inflation Reduction Act. These credits are related to clean vehicles, clean energy, efficient building and home energy, carbon sequestration, sustainable aviation fuels, environmental justice, biofuel, and more. The full cost of the IRA provisions is about \$329 billion, which becomes about \$800 billion when paired with the tailpipe emission rule designed to dramatically increase the uptake of EVs and EV credit use. Based on political will, there are several smaller reform options available (starting as low as \$3 billion) that would repeal a smaller portion of these credits.

End Employee Retention Tax Credit | \$70-75 billion in 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

The Employee Retention Tax Credit (ERTC) is a refundable tax credit aimed at encouraging employers to keep employees on payroll during economic hardships, such as the COVID-19 pandemic. Ending the ERTC would extend the current moratorium on claims processing and eliminate the credit for claims submitted after January 31, 2024, along with introducing stricter penalties for fraud. These changes align with the House-passed Tax Relief for American Families and Workers Act.

House Committee on Education & Workforce

Repeal Biden's "SAVE" plan, streamline income-driven repayment plans | \$127.3 billion in 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

Under this option, the Department of Education (ED) would offer borrowers two repayment plans for loans originated after June 30, 2024: the currently available 10-year repayment plan and a new income-driven repayment (IDR) plan.

This option would eliminate all other plans, including the Saving on a Valuable Education (SAVE) Plan, which is the IDR plan that was created administratively in 2023.

Limit the ED's regulatory authority | \$30 billion in 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

This option would limit the authority of the ED to issue regulations that would increase the cost of federal student loans or that would have economically significant effects (have an annual effect on the economy of \$100 million or more or that would adversely affect the economy in a material way).

Establish risk-sharing requirements for federal student loans, PROMISE grants | \$18.1 billion 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

Under this policy option, postsecondary institutions would be required to make annual payments, called risk-sharing payments, in order to participate in the federal student loan program.

Those payments would be the main source of funding for the Promoting Real Opportunities to Maximize Investments and Savings in Education (PROMISE) grants, which would be made to eligible postsecondary education institutions to help improve affordability and promote success for students.

Reform Gainful Employment | TBD 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

This policy option would establish minimum levels of performance (i.e. expanding Gainful Employment) for programs to participate in Title IV federal student aid programs.

Repeal Biden closed school discharge regulations | \$4.9 billion in 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

This option would repeal a Biden administration rule that established a standard process for discharging loans made to borrowers who attended schools that closed, thus increasing the likelihood of loan discharge for those borrowers.

Repeal Biden borrower defense to repayment discharge regulations | \$9.7 billion in 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

This option would partially repeal a Biden administration rule that made it easier for a borrower to discharge loans as a result of a school's misconduct, including, for example, misrepresentation of student outcomes.

Reform Public Service Loan Forgiveness (PSLF) | TBD 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

This option would allow the Committee on Education and the Workforce to make much-needed reforms to the PSLF, including limiting eligibility for the program.

Sunset Grad and Parent Plus loans | TBD 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

This option would eliminate parent PLUS loans, which are offered to parents of dependent undergraduate students, and grad PLUS loans, which are offered to graduate students and students enrolled in professional programs.

This option would generally eliminate such loans to new borrowers beginning on July 1, 2025, and would eliminate the program altogether by 2028.

Establish new annual and aggregate loan limits for unsubsidized undergraduate and graduate loans | TBD 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

Accompanying the above option, beginning on July 1, 2025, this option would amend loan limits for unsubsidized graduate and undergraduate loans.

In total, CBO estimates this and the former option would reduce direct spending by \$18.7 billion.

Amend the need analysis formula used to calculate federal student aid eligibility | TBD 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

This option would amend the need analysis formula to calculate federal student aid eligibility using the median cost of attendance of similar degree programs nationally instead of the cost of attendance of a student's individual program.

End in-school interest subsidy | TBD 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

Currently, the government pays the interest that accrues on a student loan while the borrower is still enrolled in school full-time, essentially meaning the student does not have to pay interest on their loan while actively studying. This policy option would eliminate this arrangement.

Reform Pell Grants | TBD 10-year savings

VIABILITY: HIGH / MEDIUM / LOW

This option would allow the Committee on Education and the Workforce to make reforms to the Pell program, such as capping grants at the median cost of attendance and/or expanding Pell grant eligibility to short-term credential programs.

Allow borrowers to rehabilitate their loans a second time | \$138 million in 10-year costs

VIABILITY: HIGH / MEDIUM / LOW

This option would allow borrowers who default on their loans to be eligible for a second rehabilitation loan, which allows borrowers to exit default by making nine one-time payments.

Under current law, borrowers can rehabilitate their loans just once.

Eliminate interest capitalization | \$3.8 billion in 10-year costs

VIABILITY: HIGH / MEDIUM / LOW

Interest capitalization is when unpaid interest is added to the principal balance of a federal student loan. This good governance option would eliminate interest capitalization.