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Tax and Budget Proposals Will Make Paying for College More Difficult for Students

Congressional Republicans have taken enormous steps towards ensuring that college is less affordable and more out of reach for students across the country. As Congress showers corporations and the very wealthy with huge tax cuts, they pay for these tax cuts with provisions that take money from students and families and cause great harm.

**TAX PROVISIONS**

The House and the Senate have passed various versions of their tax reform bill that they are currently trying to reconcile. The House version includes many provisions which would have devastating effects on the ability of students to afford college. Some of the most egregious provisions in the tax bill include:

**ELIMINATING TAX DEDUCTION ON STUDENT LOAN INTEREST**

Currently, students receive a student loan interest tax deduction allowing students to deduct up to $2,500 on student loan interest. This deduction helps to offset costs for students. The House tax bill seeks to eliminate this tax deduction which will add to students’ financial burden of paying for college.

**TAX INCREASE ON TUITION BENEFITS**

The House tax bill taxes tuition benefits that assist many students. These benefits would be considered taxable income under this bill - including tuition waivers and stipends. The majority of students affected by this are graduate students. These benefits often go directly to the cost of tuition. Categorizing these benefits as taxable income could put these degrees out of reach for many students.

**BUDGET PROPOSALS**

In addition, as part of this two-step process to put college out of reach for many students, the House, Senate and White House have proposed various budget plans that include cuts to important programs for college students. Currently, the federal government provides financial resources for students to help make college more accessible including Pell Grants, interest free student loans, work-study opportunities, and loan forgiveness programs. These programs make obtaining a college degree possible for students facing financial difficulty. The House, Senate, and the White House have made clear their intentions to cut important and necessary programs that ensure equal opportunity for all students in order to give huge tax breaks to the wealthy. Financial resources for students are necessary to ensure the same opportunity to obtain a college degree that would help them achieve success.
Republicans on the Hill propose drastic cuts to federal higher education funding. In their budget proposal, House Republicans plan to cut $200 billion to Pell Grants and student loans\(^1\). Details of these cuts are not clear, but based on the budget proposed by the White House, several programs could be affected.

**PELL GRANTS**

Pell Grants are awarded to students based on financial need and do not need to be repaid. The federal government funds Pell Grants using both mandatory and discretionary funding. The House proposes to cut Pell Grants by 18\% by eliminating mandatory funding. In the 2015-16 school year, more than 471,000 New York students received Pell Grants\(^2\).

**FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT PROGRAM.**

Students who receive a Pell Grant may also be awarded a Federal Supplemental Educational Opportunity Grant. This grant is awarded to those who display exceptional financial need and provides financial assistance to make college more attainable for low-income students. In New York nearly 106,000 students received Federal Supplemental Educational Opportunity Grants totaling more than $73,000,000 during the 2014-15 school year\(^2\). The White House’s proposal eliminates funding for this program, effectively taking away additional resources for financially desperate students.

**STUDENT LOANS**

The House budget proposal calls for $120 billion to be cut from federal student loan funding. Details of these cuts are unclear, but there are several ways these cuts could be achieved. There are more than 42 million federal student loan borrowers nationwide sharing $1.45 trillion of debt\(^3\) who could be affected by these cuts including incoming students who will take out loans in the future.

**INTEREST FREE LOANS**

The White House proposes to eliminate subsidized loans which do not accumulate interest while the student is in school. This helps relieve the burden of growing debt while students complete their studies. In New York, the average student debt is more than $27,000\(^4\). Eliminating interest free loans would increase borrowers’ debt making these loans even more expensive.

**PUBLIC SERVICE FEDERAL LOAN FORGIVENESS PROGRAM**

Options for student loan forgiveness help relieve graduates of the burden of their student debt. The Public Service Federal Loan Forgiveness Program allows graduates who are employed by the government or other qualified employers to be eligible for loan forgiveness after ten years. This provides an incentive to graduates to seek jobs in the public

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sector. Eliminating this program would make it more difficult for students to pay off their debt as well as deter graduates from seeking certain high-demand jobs.

**FEDERAL PERKINS LOAN PROGRAM**

Perkins loans are low interest loans that are helpful to students who need assistance paying for college. Their low interest rates make repayment easier and education more affordable. More than 53,000 students in New York received this loan with an average award of $2,300\(^5\). GOP leaders may look to cut this program as suggested in the White House’s budget proposal. Ending this program will take away an affordable borrowing option for students with financial need.

**FEDERAL WORK STUDY PROGRAM**

Though it is not specifically mentioned in the House or Senate budget proposal, the Federal Work Study Program could be at risk under cuts to higher education. This program allows students to work part time to help them afford educational expenses\(^5\). This program awarded nearly $1.1 billion to students nationally in the 2015-16 school year\(^6\). This program helps lessen student debt after graduation. The White House budget proposal suggests cutting the Federal Work Study program in half\(^6\). More than 63,700 students received assistance through the Federal Work Study Program in New York during the 2014-15 school year\(^7\).

**INCOME BASED REPAYMENT PLANS**

Currently, there are several ways students can pay back their loans. In addition to the standard repayment plan, there are several income-based repayment options. These plans formulate monthly payments based on income and forgive the remaining balance after a period of time. These plans allow students to pay as little as 10% of their discretionary income and have their loans forgiven after up to 25 years (or 30 for consolidated loans)\(^7\). The White House has proposed that these repayment plans be condensed into one. Monthly payments would be capped at 12.5% discretionary income and be forgiven after 15 years\(^8\). The increase of payments and shortened repayment period could make repayment more difficult for graduates.

**CALL TO ACTION**

Congress should reject any proposals that cut funding to higher education in order to fund unfair tax breaks for the wealthy and instead advocate for policies that invest in college students. The high cost of tuition makes it difficult for most students to pursue an education without borrowing. Taxing tuition benefits that help graduate students obtain expensive degrees in science and technology will prevent innovative young people from entering these fields. Educational achievement is associated with higher wages, better health, and reduced reliance on government assistance. In order to ensure an influx of well-educated young adults into the workforce, we must ensure that a college education is financially possible.

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\(^5\) [https://www2.ed.gov/programs/fws/index.html](https://www2.ed.gov/programs/fws/index.html)


\(^7\) [https://studentaid.ed.gov/sa/repay-loans/understand/plans](https://studentaid.ed.gov/sa/repay-loans/understand/plans)