

A bill to amend the Internal Revenue Code of 1954 to provide a Federal income tax credit for tuition.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled.

SEC. 1. SHORT TITLE.

This Act may be cited as the "Educational Opportunity and Equity Act of 1982".

SEC. 2. CONGRESSIONAL FINDINGS.

The Congress finds that it is the policy of the United States to foster educational opportunity, diversity, and choice for all Americans. Therefore Federal legislation should recognize that —

(A) pluralism is one of the great strengths of American society, that diversity in education is an important contributor to that pluralism, and that nonpublic schools play an indispensable role in making that diversity possible;

(B) the existence and availability of alternatives to public education tends to strengthen public education through competition and improves the educational opportunities of all Americans;

(C) Americans should have equal opportunities to choose between the education offered by public schools and that available in private educational systems and should not

be compelled because of economic circumstances to accept education provided by government created and government operated school systems, and that to force such a selection is an unfair and unjust discrimination against persons of lesser means;

(D) increasing numbers of American families are unable to afford nonpublic school tuition in addition to the state and local taxes that go to support public schools, and that tax relief for nonpublic school tuition expenses is necessary if American families are to continue to have a meaningful choice between public and private education at the primary and secondary level;

(E) tax relief in the form of tuition tax credits is the fairest way to extend a choice in education to a wide range of individuals at all income levels, that tax relief in the form of tuition tax credits creates the least possible danger of entanglement between government and the value structures of the various nonpublic school systems and of interference in the lives of individuals and families consistent with achieving these ends, and that tax relief in the form of tuition tax credits achieves these ends with a minimum of complexity so that those for whom the tax relief is intended will be able to understand and take advantage of it;

(F) the tax revenue loss occasioned by a tuition tax credits for a child would be far exceeded by the cost to state and local taxpayers of educating the child at a public school.

Therefore, the primary purpose of this Act is to enhance equality of educational opportunity, diversity, and choice for all Americans. The Congress finds that this Act will expand opportunities for personal liberty, diversity, and pluralism that constitute important strengths of education in America.

SECTION 3. CREDIT FOR TUITION EXPENSES.

(a) IN GENERAL. Subpart A of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1954 (relating to credits allowable) is amended by inserting before section 45 the following new section:

"SEC. 44H. TUITION EXPENSES.

"(a) GENERAL RULE. In the case of an individual, there shall be allowed as a credit against the tax imposed by this subtitle for the taxable year an amount equal to 50 percent of the tuition expenses paid by him during the taxable year to one or more educational institutions for any of his dependents (as defined in section 152(a)(1), (2), (3), (6) or (9)) who has not yet attained the age of 20 at the close of the taxable year in which the tuition expenses are paid.

"(b) LIMITATIONS.

(1) MAXIMUM DOLLAR AMOUNT PER INDIVIDUAL. The amount of the credit allowable to a taxpayer under subsection (a) with respect to amounts paid on behalf of each dependent on whose behalf a credit is claimed shall not exceed--

"(A) \$100 in the case of tuition expenses paid during the taxpayer's first taxable year beginning on or after January 1, 1983;

"(B) \$300 in the case of tuition expenses beginning on or after January 1, 1984; and

"(C) \$500 in the case of tuition expenses paid for each taxable year of the taxpayer beginning on or after January 1, 1985.

(2) MARRIED INDIVIDUALS. In the case of a husband and wife who file a joint return under section 6013, the maximum dollar amounts specified under this subsection (b) shall apply to the joint return. In the case of a married individual filing a separate return, subsection (b) shall be applied by reducing the maximum dollar amount for each taxable year by 50 percent.

(3) PHASE-OUT OF CREDIT ABOVE CERTAIN ADJUSTED GROSS INCOME AMOUNTS. Notwithstanding any other provision of this section, the credit allowable under

this subsection (b) shall be reduced by the following percent of the amount by which the adjusted gross income of the taxpayer for the taxable year exceeds \$50,000 (\$25,000 in the case of a married individual filing a separate return).

(A) 0.4 percent for the first taxable year of the taxpayer beginning on or after January 1, 1983;

(2) 1.2 percent for the first taxable year of the taxpayer beginning on or after January 1, 1984; and

(3) 2.0 percent for the first taxable year of the taxpayer ending on or after December 31, 1985.

"(4) PART-TIME STUDENTS. Tuition expenses paid with respect to any individual who is not a full-time student at an educational institution shall not be taken into account under subsection (a).

"(c) SPECIAL RULES.

"(1) ADJUSTMENT FOR SCHOLARSHIPS AND FINANCIAL ASSISTANCE. The amounts deemed paid by the taxpayer under subsection (a) as tuition expenses shall not include any amounts which were received by the taxpayer or his dependent as

(i) a scholarship or fellowship grant (within the meaning of section 117(a)(1)) which is not includible in gross income under section 117;

(ii) an educational assistance allowance under chapter 32, 34, or 35 of title 38, United States Code; or

(iii) other financial assistance which is for educational expenses, or attributable to attendance at an educational institution, and that is exempt from income taxation by any law of the United States (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)).

"(2) DISALLOWANCE OF CREDITED EXPENSES AS DEDUCTION. No deduction or credit shall be allowed under any other section of this chapter for any tuition

expense to the extent that such expense is taken into account in determining the amount of the credit allowed under subsection (a) unless the taxpayer elects, in accordance with regulations prescribed by the Secretary, not to apply the provisions of this section to such tuition expenses for the taxable year.

"(3) TAXPAYER WHO IS A DEPENDENT OF ANOTHER TAXPAYER. No credit shall be allowed to a taxpayer under subsection (a) for amounts paid during the taxable year for tuition expenses of the taxpayer if such taxpayer is a dependent of any other person for a taxable year beginning with or within the taxable year of the taxpayer.

"(4) TAX CREDIT NOT ALLOWED FOR AMOUNTS PAID TO RACIALLY DISCRIMINATORY EDUCATIONAL INSTITUTION.

"(A) No credit shall be allowed under subsection (a) for amounts paid to any educational institution in a calendar year during which such institution has been declared by a United States district court, in an action brought by the United States pursuant to subparagraph (C) of this paragraph, to follow a 'racially discriminatory policy', and in the two calendar years succeeding such judgment.

"(B) (i) For purposes of this subsection, an institution follows a 'racially discriminatory policy' if it refuses, on account of race:

(a) to admit applicants as students;

(b) to admit students to the rights, privileges, programs, and activities generally made available to students by that institution; or

(c) to allow students to participate in its scholarship, loan, athletic, or other programs.

A racially discriminatory policy does not include failing to pursue or achieve any racial quota, proportion, or representation in the student body.

(ii) The term 'race' shall include color or national origin.

"(C) (i) To enforce this paragraph, the Attorney General, upon petition by a person who has been discriminated against under a policy as described in subparagraph (B) of this paragraph, is authorized, upon finding good cause, to bring an

action against an institution in the United States district court in the district in which such institution is located, seeking a declaratory judgment that the institution is following a racially discriminatory policy and has, pursuant to such policy, discriminated against the person filing the petition.

(ii) The petition must be filed with the Attorney General within one year of the act of racial discrimination alleged to have been committed against the person filing the petition. Upon receipt of the petition, the Attorney General shall promptly notify the affected institution in writing of such petition and the allegations contained therein. Before any action may be filed, the Attorney General shall give the institution a fair opportunity to comment on all allegations made against it and to show that the racially discriminatory policy alleged in the petition does not exist or has been abandoned. An action may be filed by the Attorney General no later than two years after receiving the petition. Exclusive authority to enforce, and to undertake activities connected with enforcing, the prohibition against following a racially discriminatory policy under subparagraph (A) of this paragraph is vested in the Attorney General.

(iii) A tax credit shall be disallowed during the entire calendar year in which a district court judgment that the institution follows a racially discriminatory policy has been entered and during the two immediately succeeding calendar years.

(iv) No credit shall be disallowed under subparagraph (A) of this paragraph until all parties to the

action have exhausted all appellate review.

"(5) STATUTE OF LIMITATIONS. If --

"(A) a credit is allowed to a taxpayer in any taxable year under subsection (a) for expenses paid to an institution --

"(i) in a calendar year during which the United States district court for the district in which such institution is located enters a judgment that such institution follows a racially discriminatory policy, as provided in paragraph (4) of subsection (c), or

"(ii) in either of the two calendar years immediately succeeding the calendar year specified in clause (i), and

"(B) that judgment has become final because --

"(i) the period within which the institution may seek review of that judgment has expired and the institution has failed to petition for review; or

"(ii) the judgment has been affirmed by a court of appeals and the period within which the institution may seek review of that decision has expired,

then the period within which a deficiency attributable to the disallowance of any credit allowed with respect to such expenses shall expire three years after such judgment becomes final within the meaning of subparagraph (B). Any such deficiency may be assessed before the expiration of such three-year period notwithstanding the provisions of any other law or rule of law which would otherwise prevent such assessment. Whenever a judgment against an educational institution has become final

within the meaning of subparagraph (B), the Attorney General shall promptly notify the Secretary.

"(d) DEFINITIONS. For purposes of this section --

"(1) EDUCATIONAL INSTITUTION.

"(A) The term 'educational institution' means an elementary or secondary school which is a privately operated, not-for-profit, day or residential school and which is exempt from taxation under section 501(a) as an organization described in section 501(c)(3).

"(2) TUITION EXPENSES. The term 'tuition expenses' means tuition and fees required for the enrollment or attendance of a student at an educational institution, including required fees for courses, and does not include any amount paid for

"(A) books, supplies, and equipment for courses of instruction at the educational institution;

"(B) meals, lodging, transportation, or personal living expenses; or

"(C) education below the first-grade level, such as attendance at a kindergarten, nursery school, or similar institution.

"(e) TAX CREDITS ARE NOT FEDERAL FINANCIAL ASSISTANCE.

Tax credits claimed under this section shall not constitute Federal financial assistance to educational institutions or to the recipients of such credits."

SEC. 4. CONFORMING AMENDMENT.

(a) The table of sections for subpart A of Part IV of subchapter A of chapter 1 of such Code is amended by inserting

immediately before the item relating to section 45 the following:

"Sec. 44H. Tuition expenses."

(b) Section 6504 of the Internal Revenue Code of 1954 (relating to cross references with respect to periods of limitation) is amended by adding a new paragraph (12) at the end thereof:

"(12) Disallowance of tuition tax credits because of a declaratory judgment that a school follows a racially discriminatory policy, see section 44H(c)(5)."

SEC. 5. EFFECTIVE DATE.

The amendments made by section 3 of this Act shall apply to taxable year beginning after December 31, 1982, for tuition expenses incurred after that date.

- An income cap proposal to insure the benefits go to working families.
- And a policy of non-discrimination to ensure credits are not available to parents sending their children to segregated schools.

It is important to understand that we do not propose aid to schools. This bill will provide direct benefit to individuals. It is proposed as a matter of tax equity for working, taxpaying citizens.

We do not seek to aid the rich, but those of the lower and middle classes who are most strapped by inflation, oppressive taxation and the recession that grips us all.

I am not worried about the rich, who always have choices. We are offering help to the inner city child who faces a world of drugs and crime, the child with special needs, and the families who still believe the Lord's Prayer will do less harm than good in the classroom.

A majority of all parents who have children in private elementary and secondary schools have incomes of \$25,000 or less. Secondary school parents pay average tuition costs of \$900, while also supporting their community public schools through local taxes. Our bill is intended to relieve that dual financial burden threatening to usurp the traditional right of parents to direct the education of their children.

Today more than 5 million American youngsters attend thousands of religious and independent schools because of

emphasis on values or the type of teaching available. Their parents have made this choice at great cost and sacrifice. They have made it because the education of their children is their greatest concern.

A Democrat from New York, Senator Patrick Moynihan, said a few years ago, "It is time we acknowledged that the ordinary family's insistence on providing its children with the best obtainable education results in costs that the Federal Government should help it to bear, not by giving it a gift or a handout, but simply by allowing it to keep a bit more of the money it earns for itself." I wholeheartedly agree, and I think most of you do, as well.

It is no accident that we who are the freest people on Earth have an educational system unrivaled in the history of civilization. We know that knowledge and freedom are inseparable. And we also acknowledge the right of every individual to both. They cannot be arbitrarily apportioned according to race or station or class.

The Pledge of Allegiance, now missing from too many of our classrooms, concludes with the affirmation that we are "one Nation under God, indivisible, with liberty and justice for all." America embraces these principles by design and would abandon them at her peril.

But private education is no divisive threat to our system of education. It is an important part of it. Our public schools offer quality education to our children and are the heart of our

communities. We must ensure that their classrooms continue to provide the finest education possible. But alternatives to public education tend to strengthen public education. Taken together, public and private institutions sustain the diversity that has made our culture rich.

Excellence demands competition -- among students and among schools. And why not? We must always meet our obligation to those who would fall behind without our assistance. But let's remember: Without a race there can be no champion, no records broken, no excellence -- in education or any other walk of life.

This freedom to choose what type of education is best for each child has contributed much to America's reputation for excellence in education. Unfortunately, the high plane of literacy and the diversity of education we have achieved is threatened by policymakers who seem to prefer uniform mediocrity to the rich variety that has been our heritage.

As competition has lessened, so has quality. As taxes and inflation have ballooned, choices have evaporated. Together we must restore the pluralism that has always been a strength of our society.

Our leaders must remember that education does not begin with some isolated bureaucrat in Washington. It does not even begin with State or local officials. Education begins in the home where it is a parental right and responsibility. Both our public and our private schools exist to aid our families in the instruction of our children, and it is time some people back in

Washington stopped acting as if family wishes were only getting in the way.

"Train up a child in the way he should go," Solomon wrote, "and when he is old he will not depart from it." That is the God-given responsibility of each parent, the compact with each teacher and the trust of every child.

This city of Chicago is a good example of the strength that pluralism and freedom of choice have provided our people. Chicago has long been a magnet for immigrants who have come to this country to make a better life. For them, education was not simply another part of American society -- it was the key that opened the golden door. It was the best path to progress for their families. And it has been an indispensable part of the growth of our Nation and the prosperity of all our people.

Many of your Catholic schools were first opened to serve these new Americans. Today, generations later, they serve other Americans who find themselves at a disadvantage.

Holy Angels, the Nation's largest black Catholic school, stands in the middle of one of Chicago's poorest neighborhoods. It imposes strict academic and religious requirements, and yet it still receives 1,000 more applicants a year than it can accept.

Such statistics explain why Americans at every economic level believe education is still something to sacrifice for. It still offers the promise of a better life. It is still the hope of our people.

Who will really benefit from tuition tax credits?

According to the Most Reverend James P. Lyke of Cleveland, "The people who will benefit most" are "the minorities and the poor."

Reverend Lyke said inner-city parents desperately need to be told by this Government:

"You may educate your children in the schools of your choice as guaranteed by the Constitution. And . . . you will be able to do so even though you may be poor . . . whether or not you live in the cities or the suburbs, or the rural areas of this country."

Those Americans have not forgotten what education and freedom can do. They know freedom is the only truly essential possession we have. And education is freedom's guide.

These are not easy times for a great many Americans. But the future looks dark only for those who have lost faith in our people, and in the promise of individuals who are educated and free. The rest of us should welcome the future, knowing, with God's help, it is ours to shape.

Together with your colleagues in other independent and public schools, you are molding each rising generation. You are working with parents to fill young minds with the knowledge and young hearts with the morality, understanding and compassion they will need to live in happiness and fulfillment.

In the meantime, we in Washington must make sure that freedom, the other half of the equation, is still secure when your students graduate. We must make sure the incentives to use

their education are not destroyed by oppressive taxation. We must be sure the Federal Government does not soak up the lion's share of our gross national product, that regulations don't choke off technology and that interest rates don't ruin the dream of self-employment.

As your boys and girls become adults, and they marry, we must have an economy which will permit them to own their own homes. The values of work and family and neighborhood must not become things of the past.

A job must be there for every American who wants one, and inflation must be controlled so that wages have real meaning.

And after your students have spent their lives turning your theories into reality, earning a living and providing for their families, we must have a society that will reward them with security.

In short, we must end the excessive taxing and spending that has wrecked our economy and mocks the ambition of our poor and middle classes. We must open the way for more productivity and more employment. We must generate new jobs and new opportunities for all our citizens.

At the same time, we must realize there are some among us who cannot help themselves. Our hungry must be fed, our elderly must be cared for, and those who are cold must be clothed and given shelter. No one must be left behind in our drive for progress.

Such a commitment from this Administration may come as somewhat of a surprise to you. If I didn't know better and believed all the wailing going on in Washington, I'd be confused, as well. But let me set the record straight. Our massive budget cuts have only reduced the size of the increase in the Federal budget. We have never proposed reducing Federal spending.

Let me give you a few examples of the level of human services we have proposed in the 1983 budget:

- The Federal Government will subsidize approximately 95 million meals per day, or 14 percent of all meals served in the United States.
- About 3.4 million American households will receive subsidized housing assistance at the beginning of 1983. By the end of 1985, under our proposals, 400,000 more households will be added to the list.
- In all, Federal programs will provide over \$12 billion in education aid to students. This amount will provide for 7 million grants and loans -- giving assistance to almost half of all students in the country who will enroll in college during the next school year.
- Through Medicaid and Medicare, the Federal Government will pay for the medical care of 99 percent of those Americans over the age of 65 and a total of 20 percent of our population -- approximately 47 million aged, disabled and needy people.

- Twenty-eight percent of all Federal spending will go to the elderly -- an average of \$7,850 per senior citizen in payments and services.
- About \$2.8 billion will be spent on training and employment programs for almost 1 million low-income people, nearly 90 percent of whom will be below the age of 25 or recipients of Aid to Families with Dependent Children.

These examples should demonstrate once and for all that we in this Administration have not and will not turn our backs on America's needy.

Perhaps our greatest program for the poor, the needy and those on fixed incomes, however, has not been a subsidy, has not been more welfare and did not arrive in the form of a Government check. We have increased the purchasing power of our people. We have begun to tame the inflation monster -- the cruellest tax of all.

After an unprecedented 2 years of double-digit inflation, the first year of this Administration was marked by an inflation rate of 8.9 percent. During the last 5 months, inflation has averaged 4.5 percent.

Let me put that in human terms. If inflation had kept running at the rate it was before the 1980 election, a family of four on a fixed income of \$15,000 would be \$1,000 poorer in purchasing power than they are today.

I don't think Americans value a handout nearly so much as a hand up. Past policies have locked millions of our people in

place on the bottom rung of our economic ladder. We must be sure that our Government never again stands in between our families and our prosperity. We must aid those who need us, but we must not hinder those who need only a chance.

Years ago, the Secretary of the Massachusetts Board of Education, Horace Mann, said education "beyond all other devices of human origin, is a great equalizer of the conditions of men, -- the balance wheel of the social machinery."

The immigrants who came to Chicago, the poor in our inner cities, the middle classes struggling to make ends meet -- these Americans still believe the American dream. They still yearn for prosperity and still sacrifice so that their children will enjoy it. They mark progress by the level of education reached by members of their families. Parents who never finished high school send their children to college. Each generation stands upon the shoulders of the one before as our Nation and our people reach for the stars.

We must keep those dreams alive. We must provide the learning, shape the understanding and encourage the spirit each generation will need to discover, to create and to improve the lot of man. But we must also preserve the freedom they will need both to pursue that education and to use it.

Together, with God's help, we must ensure that, in Abraham Lincoln's words, our children and our children's children to a thousand generations will continue to enjoy the benefits that have been conferred upon us. It is a sacred trust.

WHITE HOUSE STAFFING MEMORANDUM

DATE: 4/13/82 ACTION/CONCURRENCE/COMMENT DUE BY: -----

SUBJECT: DRAFT PRESIDENTIAL REMARKS BEFORE THE NATIONAL CATHOLIC EDUCATIONAL ASSOCIATION (CHICAGO) -- APRIL 15

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	<input type="checkbox"/>	<input type="checkbox"/>	GERGEN	<input type="checkbox"/>	<input checked="" type="checkbox"/>
MEESE	<input type="checkbox"/>	<input checked="" type="checkbox"/>	HARPER	<input type="checkbox"/>	<input checked="" type="checkbox"/>
BAKER →	<input type="checkbox"/>	<input checked="" type="checkbox"/>	JAMES	<input type="checkbox"/>	<input type="checkbox"/>
DEAVER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	JENKINS	<input type="checkbox"/>	<input type="checkbox"/>
STOCKMAN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	MURPHY	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CLARK	<input type="checkbox"/>	<input checked="" type="checkbox"/>	ROLLINS	<input type="checkbox"/>	<input checked="" type="checkbox"/>
DARMAN	<input type="checkbox"/> P	<input checked="" type="checkbox"/> SS	WILLIAMSON	<input type="checkbox"/>	<input checked="" type="checkbox"/>
DOLE	<input type="checkbox"/>	<input checked="" type="checkbox"/>	WEIDENBAUM	<input type="checkbox"/>	<input type="checkbox"/>
DUBERSTEIN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	BRADY/SPEAKES	<input type="checkbox"/>	<input checked="" type="checkbox"/>
FIELDING	<input type="checkbox"/>	<input checked="" type="checkbox"/>	ROGERS	<input type="checkbox"/>	<input type="checkbox"/>
FULLER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<u>Bakshian</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Remarks:

FYI. This draft has been forwarded to the President.

Richard G. Darman
Assistant to the President
(x2702)

Response:

(Maseng/BE)
April 12, 1982
6:00 p.m.

ADDRESS TO THE NATIONAL CATHOLIC EDUCATIONAL ASSOCIATION
CHICAGO -- APRIL 15, 1982

Thank you very much for your warm welcome. I'm sure you realize it's something of a risk for any official to appear anywhere in public on income tax day.

I am delighted, however, to have this opportunity to be among leaders and educators in the Catholic community -- a community of Americans who have done so much to bring sustenance and fulfillment to people around the world. I am grateful for your help in shaping American policy to reflect God's will -- for your efforts to allow Americans to provide direct aid to the people of Poland -- and look forward to further guidance from His Holiness John Paul II during an audience with him this summer.

But I have come to speak with you today about other subjects of mutual concern: about the strength and future of American families, about the education of their children and about the increasing strains placed on both by current levels of taxation.

I believe that working Americans are overtaxed and underappreciated, and I have come to Chicago to offer relief. I have come to propose further restoration of the incentives and choices that were our inheritance, and that encouraged our people to build the greatest Nation on Earth.

We have already taken historic strides. Last year, with the help of a bipartisan coalition in the Congress, we enacted the largest tax cut in history for the working men and women of

America. But to give you an idea of what we are up against, that tax cut will barely offset the increases already built into the system.

Despite all the moaning you've been hearing in Washington about huge tax cuts running up the deficit, our tax reduction program has not meant that Government revenues are going down. The U.S. Treasury is still taking in more money every year than the year before. In 1981, personal taxes actually went up by about \$41 billion.

Raising taxes is no way to balance the budget. History proves it doesn't work. Taxes went up by more than 200 percent in the last decade and we still had the largest string of deficits in our history. You see, spending was increasing during the same period by over 300 percent. If people are serious about balancing the budget, they must cut spending.

Suggestions to repeal the third year of our tax cut would stifle our recovery and hike the tax bill for working families.

I believe the working families you see every day are already weary and overburdened. I have come to Chicago to propose another tax bill that will allow them to keep a little more of their own money. I have come to propose a tuition tax credit for parents who bear the double burden of public and private school costs.

I know you have heard promises before. I know in the past politicians promised tax credits only to break those promises. But this Administration is different, even radical, in one sense:

we keep our promises, we hold to our commitments, and we intend to act on the will of the people.

In 1980, while campaigning for this office, I promised to base this Administration's policies on the primacy of parental rights and responsibility. I pledged to expand education opportunities by supporting a tuition tax credit plan that would permit parents to take a credit on their income tax for each child they have in a private school.

Today, as your President, I keep that pledge. I am pleased to announce that, after consulting with congressional leaders, this spring we will send to the Congress draft legislation to be known as "The Educational and Opportunity Equity Act of 1982." Our bill will be aimed at middle and lower income, working families who now bear the double burden of taxes and tuition. While still paying local taxes to support public schools, working families would be able to recover up to half the cost of each child's tuition. It is a fair bill, an equitable bill, and a bill designed to secure the parental right to choose.

Key elements of our draft proposal include:

- A limited coverage provision that would restrict credit to parents of children in private, non-profit elementary and secondary schools.
- A phase-in of credits beginning in 1983 to be completed in 1985.
- A maximum credit of \$500.



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE ASSISTANT SECRETARY FOR POSTSECONDARY EDUCATION

THE ASSISTANT SECRETARY

March 1, 1982

JP
check on numbers
advance
Roger Porter will
find these activities when sec 17
JP 3/1/82

PERSONAL

M E M O R A N D U M

TO : James A. Baker, III
Chief of Staff and
Assistant to the President

FROM : Thomas Patrick Melady

SUBJECT: Strategy for Enlisting Extensive Catholic Support Along with
Protestant and Jewish Support for Tuition Tax Credits; Prelude
to 1982 Elections (No. 11)

Summary

We should utilize the March-April period to obtain massive Catholic support for the Tuition Tax Credit Bill. We should also focus on obtaining the support of Protestant Populist-evangelical and Jewish conservative groups. Following the passage of the Bill in July or August, we will have a well-defined network to work with for the 1982 Congressional elections.

Plan

- I. A "leak" concerning plans for the legislation -- Early March.
- II. Introduction of legislation officially sponsored by President Reagan -- Late March. It should clearly be known as the President's proposal. (Following this, an exclusive interview should be arranged for the President with the Catholic Press service).
- III. Energizing the Catholic network -- March-August.
 - A. The President should speak at a few select institutions on behalf of the legislation, i.e., Catholic University Commencements, The Knights of Columbus and at least one Catholic or private high school graduation.
 - B. The President should write to every member of the hierarchy urging them to support the legislation, as well as letters to Catholic organization leaders.

- C. All these efforts should be reported to the Catholic news media.
 - D. Similar efforts can be made with the appropriate Protestant and Jewish groups.
 - E. As the campaign evolves, other strategic tactics can be developed.
- IV. Signing of the legislation. Once the Bill is passed, the President should invite church and lay leaders who supported the campaign to the "signing" of the legislation at the White House. It should be a major ceremonial event.

THE WHITE HOUSE
WASHINGTON

March 18, 1982

MEMORANDUM FOR: MICHAEL K. DEAVER
CRAIG L. FULLER
EDWIN L. HARPER
KENNETH M. DUBERSTEIN
DAVID R. GERGEN

FROM: RICHARD G. DARMAN *Rich*

SUBJECT: Presidential Decisions on Tuition Tax Credits

Attached is a copy of the President's decisions on tuition tax credits as discussed in the Cabinet Meeting on March 18.

In addition to the first four approved items, the President approved in principle the fifth decision -- subject to further analysis.

As follow up:

- Craig Fuller and I should set up an appropriate Budget Review Board meeting;
- Ken Duberstein should explore the questions raised concerning Congressional timing -- and notify me when he is ready for this to be discussed in legislative strategy;
- Mike Deaver and Dave Gergen should determine the optimal time for a Presidential announcement; and
- Craig Fuller and Ed Harper should determine what further analytical work needs to be done in the Cabinet Councils.

Fuller
Cap!
note to CF
EH re cap
impt
Keep inf
Done

cc: Edwin Meese III
James A. Baker III ✓

THE WHITE HOUSE

WASHINGTON

March 17, 1982

DECISION MEMORANDUM FOR THE CABINET



FROM:

ROBERT CARLESON, EXECUTIVE SECRETARY,
HUMAN RESOURCES CABINET COUNCIL

SUBJECT:

Tuition Tax Credits

SUMMARY

The Working Group on Tuition Tax Credits of the Cabinet Council on Human Resources has reviewed alternative ways to fulfill the President's commitment to enact a tuition tax credit bill in the 97th Congress.

A proposed draft Administration bill, "The Educational Opportunity and Equity Act of 1982", has been developed and forwarded by the Working Group. The major elements of the bill include:

- Tax Equity: ✓ The purpose of the Act is to provide tax relief to parents who bear the double burden of public and private school costs.
- Limited Coverage: The credit is restricted to parents of children in private, non-profit, elementary or secondary schools.
- A Phase-In of Credits: ✓ The policy decisions are the subject of this meeting; a decision on the ultimate size, and phase-in of credits should be referred to the Budget Review Board for recommendation to the President.
- Policy of Non-Discrimination: ✓ The tax credit is subject to a policy against discrimination.
- A Limited Federal Presence: ✓ Because the tax credit does not constitute a form of direct Federal financial assistance to institutions, it does not open a window for future intrusive Federal action.

STATEMENT OF THE ISSUE

The right of parents to direct the education of their children is a firmly established policy in American jurisprudence. More than half a century ago, in the landmark case of Pierce v. Society of Sisters, the Supreme Court decided that the Constitution protects parents' choice to have their children educated at private schools rather than in public institutions. However, economic, social, and political changes have occurred since Pierce which, in many instances, have rendered this constitutional protection effectively meaningless.

On the one hand, parents who choose to have their children educated at a non-public school must bear the constantly escalating tuitions which those schools must charge to survive. On the other hand, these same parents must support public education through taxes which are paid by all citizens.

For many parents, this dual financial burden is too great to permit them to exercise the right to send their children to a non-public school of their choice. Therefore, tax relief for non-public school tuition expenses is necessary as an issue of equity if American families are to continue to have a meaningful choice between public and private education at the elementary and secondary level.

BACKGROUND

Constitutionality:

Courts which have confronted state tuition tax credit legislation have displayed the uncertainty which characterizes this issue: five courts have found such legislation to be unconstitutional, whereas two others have found no constitutional deficiencies.

The courts which have invalidated tuition tax benefit programs have done so on the basis of an inability to discern a "secular effect" in the legislation. Therefore it is crucial for the administration to build a case for the secular purposes served by a tuition tax credit bill. The Working Group has inserted specific language in the preamble to the Act which meets this test. (refer to Section 2 in the attached bill).

Refundability:

The Working Group believes that although refundability would provide assistance to needy families who are not now taxpayers, this feature is not desirable. It would be costly to make the credit refundable to families who have no tax liability.

Moreover, refundability of tuition tax credits could set a forceful precedent for the use of the tax system to deliver other types of Federal assistance programs.

OPTIONS

The Working Group recommends introduction of tuition tax credit legislation in the 97th Congress, and a restriction of the tax credit to parents of students in private, non-profit, elementary and secondary schools.

The introduction and enactment of legislation this year meets the President's campaign commitment, and addresses the concerns of those who recall President Carter's reversal of policy regarding support for tuition tax credits.

Limiting the tax credit is recommended in light of changes being made in current Federal programs for post-secondary student financial assistance, and as a way to control program costs. The Treasury has estimated that the extension of tax credits to post-secondary students would approximately triple the revenue impact of the program.

1. RECOMMEND INTRODUCTION OF TUITION TAX CREDIT LEGISLATION IN THE 97TH CONGRESS.

✓ RR Approve _____ Disapprove

2. RESTRICT CREDITS TO PARENTS WITH CHILDREN IN PRIVATE NON-PROFIT PRIMARY AND SECONDARY SCHOOLS ONLY.

✓ RR Approve _____ Disapprove

The Treasury Department has provided the following preliminary estimates as a guide to the costs of the proposed tuition tax credit proposal. The estimates are based on the following assumptions: initiation of the program in January of 1983; 5 million initial potential recipients; a 3 year phase-in: \$100 in 1983, \$300 in 1984, \$500 in 1985; and a small estimated first year effect, since most individuals would receive the credit on or before April 15, 1984. However, the Working Group recommends that a final decision on the phase-in and level of credits be made by the Budget Review Board.

A Tuition Tax Credit Equal to 50% of Tuition Payments

(billions)

1982	1983	1984	1985	1987	1988
-	0.1	0.6	1.6	2.5	2.6

Office of the Secretary of the Treasury, March 16, 1982
Division of Tax Analysis

3. REFER LEVEL OF TAX CREDITS AND PHASE-IN TO THE BUDGET REVIEW BOARD.

✓ RR Approve _____ Disapprove

One way to delay the revenue impacts from a tuition tax credit program is to phase the program in by grade increments. This alternative would extend the phase-in period, but would require a higher initial level of credit in order to be credible. The Working Group believes that this proposal carries a built-in growth dynamic during the legislative process to extend credits to post-secondary schools, and therefore believes it would be more advantageous to initiate a smaller credit which covers all intended beneficiaries from the beginning.

4. RECOMMEND THAT THE TAX CREDIT PROGRAM NOT BE PHASED-IN BY GRADE.

CR Approve _____ Disapprove

One further way to control costs would be to limit the credit to those under a certain income level. Such targeting would insure that the benefits of the program would be received by those most in need.

The Working Group rejected this option because it converts a tax equity proposal into a program for income redistribution. When a similar initiative was introduced by Senator Metzenbaum in 1978 4 Republicans (Griffin, Hatfield, Javits and Stafford) joined 35 Democrats in voting for the proposal, and 34 Republicans joined 24 Democrats in voting against.

5. SET A RESTRICTION OF THE TAX CREDIT BY INCOME LIMITS.

_____ Approve _____ Disapprove



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE ASSISTANT SECRETARY FOR POSTSECONDARY EDUCATION

THE ASSISTANT SECRETARY

March 17, 1982

PERSONAL

MEMORANDUM

TO : James A. Baker III
Chief of Staff and
Assistant to the President

FROM : Thomas Patrick Melady *TSM*

SUBJECT: Time Running Out for Tuition Tax Credits (No. 15)

1. Time is running out for the Reagan Administration to initiate a Tuition Tax Credit Proposal. Too many articles are now appearing indicating that for various reasons it is "unlikely". (See attached)
2. In order to obtain maximum political results, we should push the proposal so that legislation can be introduced in the immediate future. If we don't, there will be negative consequences for the Catholic Coalition.

Attachment

Tuition tax credits for students in private schools held unlikely

By David O. Savage
Los Angeles Times

Tuition tax credits for students attending private schools, considered a sure bet when President Reagan took office, now seem unlikely to be enacted into law.

Because of the massive federal deficit, the embarrassing flap over segregated private schools and the huge cut in aid for public schools, the push to grant tax privileges to parents of students in private schools is fading.

"If it's not dead, it is badly ailing," said a spokeswoman for Sen. Bob Packwood, R-Ore., a co-sponsor of the Senate tuition tax credit bill. And as the budget deficit grows, "it looks dimmer each week," she said.

The 1980 Republican Party platform promised by 1982 to give parents a tax credit for tuition paid to private or parochial schools, calling it a "matter of fairness." The platform said that private school aid would promote diversity and competition in education.

Since then, Congress has adopted a \$750-billion tax cut endorsed by the administration that excluded the tuition credit, which was deemed too costly. According to the Congressional Budget Office, the \$500 tuition

tax credit proposed by Sens. Packwood and Daniel Patrick Moynihan, D-N.Y., would have cost the Treasury an extra \$7 billion a year.

"I'd say the chances are nearly zero for the foreseeable future," said Denis Doyle, a fellow at the American Enterprise Institute in Washington and an advocate of private school aid.

Doyle said the deficit and the Reagan administration's effort — since reversed — to grant tax exemptions to white segregationist schools have killed the tuition credit on Capitol Hill.

The principal argument against tuition tax credits has been that "the federal government would, in effect, be underwriting white segregationists escaping the public schools," Doyle said. "But Moynihan and Packwood have always countered by saying the Internal Revenue Service would exclude those kinds of schools."

By attempting to reverse the long-standing IRS policy denying exemptions to segregated private schools, "the White House pulled the rug out from under them and responsible private school people," Doyle said.

Despite the poor prospects for

such legislation in Congress, the White House still intends to send a tuition tax credit bill to Capitol Hill this year, a top Reagan administration official said.

"The amount won't be large, but we think it's important to establish the principle," he said. The Reagan plan will call for phasing in the credit over several years, thereby defusing the concern over the proposal's eventual high cost, he said.

President Reagan's 1983 budget proposal, which seeks about a 30 percent cut in aid for elementary and secondary education, includes a one-line statement saying the administration will propose a tuition tax credit "later in the year."

Last November, the voters of Washington, D.C., rejected by a 9-1 margin a proposal for a \$1,200 tuition tax credit.

Since then, many congressmen who liked the idea have been quietly backing away. Even Moynihan, who is seeking re-election in New York, has toned down his support. The American Federation of Teachers, a powerful force in New York politics, has vowed to defeat any candidate who advocates aid for private schools.

QUESTIONS AND ANSWERS REGARDING THE "EDUCATIONAL OPPORTUNITY AND EQUITY ACT OF 1982"

1. WOULD THE TAX CREDIT BENEFIT INDIVIDUALS OR INSTITUTIONS?

A. A tuition tax credit is meant to provide a direct benefit to individuals -- primarily parents of children enrolled in private schools as a matter of tax equity. These parents have already paid one school bill -- in the form of local taxes. Because they are paying a second bill for private school, they are in need of some relief.

2. WON'T THIS BILL GET THE FEDERAL GOVERNMENT INVOLVED IN DICTATING POLICY IN PRIVATE SCHOOLS?

A. Because the bill would not make available any Federal financial assistance to the schools themselves, but would only provide tax credits to parents, it would create no Federal jurisdictional nexus which would enable the Federal government to dictate policy to the schools.

3. WILL THIS BILL PROMOTE "WHITE FLIGHT" AND EMPTY OUT THE PUBLIC SCHOOLS?

A. To the contrary.

The Congress of Racial Equality stated on behalf of tuition tax credits before the Senate Finance Committee: "the presence of even a fairly small number of alternatives, even just the potential of parents being able to reject a school that is not doing its job, can work great changes in the public schools."

4. ISN'T THIS A TAX CREDIT FOR THE RICH?

A. First of all a majority (54%) of all parents who have children in private elementary and secondary schools have incomes of less than \$25,000. These parents currently pay average tuition costs of \$900. The bill tends to provide the greatest relief for this "marginal" taxpayer.

5. HOW CAN THE ADMINISTRATION JUSTIFY A COSTLY TAX CREDIT PROPOSAL WHEN IT IS PROPOSING MAJOR REDUCTIONS IN THE EDUCATION BUDGET, ESPECIALLY FOR PUBLIC SCHOOLS?

A. Reductions in the education budget are a part of the Administration's economic recovery program that is aimed at limiting Federal spending.

Some portion of the education reductions will be offset by consolidation, deregulation and other Administration proposals currently before the Congress that would limit the burdens imposed by the Federal government on public schools.

Tax credits are consistent with the Administration's priority to reduce taxes and promote tax equity.

The diversity that tax credits promote will strengthen both public and private schools alike.

6. WON'T TAX CREDITS ENCOURAGE THE ESTABLISHMENT AND SUPPORT OF SCHOOLS THAT SYSTEMATICALLY DISCRIMINATE AGAINST MINORITY STUDENTS?

A. No.

Under this proposal, schools must not deny admission to any person on account of race, color, national or ethnic origin. The Administration strongly supports these provisions and considers them an essential element of the proposed tuition tax credit bill.

7. WON'T TUITION TAX CREDITS SIMPLY RESULT IN INCREASED PRIVATE SCHOOL TUITION?

A. The tuition tax credit is unlikely to result in increased private school tuitions, because:

It will only cover 50 percent of tuition. Thus, if a school raised tuition, the credit would cover, at most, half of the increase and parents would have to pay the other half.

This should be a major disincentive for schools to try to "capture" the credit by raising tuition.

8. WHAT ABOUT COVERAGE FOR THE HANDICAPPED?

Tuition tax credits would provide some monetary relief to those parents who choose to place their child in a school other than the school or facility recommended by the school district.

Assisting parental choice is particularly critical in the case of handicapped children because of the potential controversy surrounding the question of an appropriate placement for each child.

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M E M O R A N D U M

TO: James A. Baker, III
FROM: Richard B. Wirthlin
DATE: March 2, 1982
SUBJECT: Tuition Tax Credits

Attached are the numbers you requested in our conversation yesterday.

TUITION TAX CREDITS (RNC2/Jan 31, 1982)

Let's talk about tuition tax credits for a moment. Do you approve or disapprove of giving parents who pay tuition to private elementary and high schools a tax credit of, say, between \$250 and \$500 per child?

	Approve	Disapprove	No Opinion
AGGREGATE	54	41	5
Blue Collar	56	39	6
Union	52	43	6
Catholic	66	31	3

And would you approve or disapprove giving the same kind of tuition tax credit to parents who are supporting children in college?

AGGREGATE	71	25	4
Blue Collar	74	21	4
Union	72	23	5
Catholic	75	22	4

MANDATORY BUSING (E5/March 29, 1981)

Generally speaking, do you favor or oppose busing children to achieve racial balance in our schools?

	Favor	Oppose	No Opinion
AGGREGATE	16	81	3
Blue Collar	13	83	4
Union	12	86	2
Catholic	17	81	2