

Ronald Reagan Presidential Library Digital Library Collections

This is a PDF of a folder from our textual collections.

Collection: Blackwell, Morton: Files
Folder Title: Tuition Tax Credits I (9 of 13)
Box: 26

To see more digitized collections visit:

<https://reaganlibrary.gov/archives/digital-library>

To see all Ronald Reagan Presidential Library inventories visit:

<https://reaganlibrary.gov/document-collection>

Contact a reference archivist at: reagan.library@nara.gov

Citation Guidelines: <https://reaganlibrary.gov/citing>

National Archives Catalogue: <https://catalog.archives.gov/>

97TH CONGRESS
2D SESSION

S. 2673

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

IN THE SENATE OF THE UNITED STATES

JUNE 23 (legislative day, JUNE 8), 1982

Mr. DOLE (for himself, Mr. ROTH, and Mr. D'AMATO) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

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

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

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

6 **SEC. 2. CONGRESSIONAL FINDINGS.**

7 The Congress finds that it is the policy of the United
8 States to foster educational opportunity, diversity, and choice

1 for all Americans. Therefore, Federal legislation should rec-
2 ognize that—

3 (A) pluralism is one of the great strengths of
4 American society, that diversity in education is an im-
5 portant contributor to that pluralism, and that nonpub-
6 lic schools play an indispensable role in making that di-
7 versity possible;

8 (B) the existence and availability of alternatives to
9 public education tend to strengthen public education
10 through competition and to improve the educational op-
11 portunities of all Americans;

12 (C) Americans should have equal opportunities to
13 choose between the education offered by public schools
14 and that available in private educational systems and
15 should not be compelled because of economic circum-
16 stances to accept education provided by government-
17 created and government-operated school systems, and
18 that to force such a selection is an unfair and unjust
19 discrimination against persons of lesser means;

20 (D) increasing numbers of American families are
21 unable to afford nonpublic school tuition in addition to
22 the State and local taxes that go to support public
23 schools, and that tax relief for nonpublic school tuition
24 expenses is necessary if American families are to con-
25 tinue to have a meaningful choice between public and

1 private education at the elementary and secondary
2 levels;

3 (E) tax relief in the form of tuition tax credits is
4 the fairest way to extend a choice in education to a
5 wide range of individuals, that tax relief in the form of
6 tuition tax credits creates the least possible danger of
7 interference in the lives of individuals and families con-
8 sistent with achieving these ends, and that tax relief in
9 the form of tuition tax credits achieves these ends with
10 a minimum of complexity so that those for whom the
11 tax relief is intended will be able to understand and
12 take advantage of it;

13 (F) the tax revenue loss occasioned by a tuition
14 tax credit for a child would be small compared to the
15 cost to State and local taxpayers of educating the child
16 at a public school; and

17 (G) equality of educational opportunity is the
18 policy of the United States, and the tax relief afforded
19 by this legislation should not be used to promote racial
20 discrimination.

21 Therefore, the primary purpose of this Act is to enhance
22 equality of educational opportunity, diversity, and choice for
23 Americans. The Congress finds that this Act will expand op-
24 portunities for personal liberty, diversity, and pluralism that
25 constitute important strengths of education in America.

1 **SEC. 3. CREDIT FOR TUITION EXPENSES.**

2 Subpart A of part IV of subchapter A of chapter 1 of
3 the Internal Revenue Code of 1954 (relating to credits allow-
4 able) is amended by inserting before section 45 the following
5 new section:

6 **"SEC. 44H. CREDIT FOR TUITION EXPENSES.**

7 **"(a) GENERAL RULE.—**In the case of an individual,
8 there shall be allowed as a credit against the tax imposed by
9 this subtitle for the taxable year an amount equal to 50 per-
10 cent of the tuition expenses paid by the taxpayer during the
11 taxable year to one or more educational institutions for any of
12 his dependents (as defined in section 152(a) (1), (2), (3), (6),
13 or (9)) who has not attained the age of 20 at the close of the
14 taxable year in which the tuition expenses are paid and with
15 respect to whom the taxpayer is entitled to a deduction for
16 the taxable year under section 151.

17 **"(b) LIMITATIONS.—**

18 **"(1) MAXIMUM DOLLAR AMOUNT PER INDIVID-**
19 **UAL.—**The amount of the credit allowable to a taxpay-
20 er under subsection (a) with respect to tuition expenses
21 paid on behalf of each dependent shall not exceed—

22 **"(A) \$100 in the case of tuition expenses**
23 **paid during the taxpayer's first taxable year be-**
24 **ginning on or after January 1, 1983;**

1 “(B) \$300 in the case of tuition expenses
2 paid during the taxpayer’s first taxable year be-
3 ginning on or after January 1, 1984; and

4 “(C) \$500 in the case of tuition expenses
5 paid for each taxable year of the taxpayer begin-
6 ning on or after January 1, 1985.

7 “(2) PHASEOUT OF CREDIT ABOVE CERTAIN AD-
8 JUSTED GROSS INCOME AMOUNTS.—The maximum
9 amount specified in paragraph (1) shall be reduced by
10 the following percent of the amount by which the ad-
11 justed gross income of the taxpayer for the taxable
12 year exceeds \$50,000 (\$25,000 in the case of a mar-
13 ried individual filing a separate return)—

14 “(A) 0.4 percent for the first taxable year of
15 the taxpayer beginning on or after January 1,
16 1983;

17 “(B) 1.2 percent for the first taxable year of
18 the taxpayer beginning on or after January 1,
19 1984; and

20 “(C) 2.0 percent for each taxable year of the
21 taxpayer beginning on or after January 1, 1985.

22 “(c) SPECIAL RULES.—

23 “(1) ADJUSTMENT FOR SCHOLARSHIPS AND FI-
24 NANCIAL ASSISTANCE.—Tuition expenses paid by the

1 taxpayer shall be reduced by any amounts which were
2 paid to the taxpayer or his dependents as—

3 “(A) a scholarship or fellowship grant (within
4 the meaning of section 117(a)(1)) which is not in-
5 cludible in gross income under section 117;

6 “(B) an educational assistance allowance
7 under chapter 32, 34, or 35 of title 38, United
8 States Code; or

9 “(C) other financial assistance which is for
10 educational expenses, or attributable to attend-
11 ance at an educational institution, and that is
12 exempt from income taxation by any law of the
13 United States (other than a gift, bequest, devise,
14 or inheritance within the meaning of section
15 102(a)).

16 “(2) DISALLOWANCE OF CREDITED EXPENSES
17 AS DEDUCTION.—No deduction or credit shall be al-
18 lowed under any other section of this chapter for any
19 tuition expense to the extent that such expense is
20 taken into account in determining the amount of the
21 credit allowed under subsection (a) unless the taxpayer
22 elects, in accordance with regulations prescribed by the
23 Secretary, not to apply the provisions of this section to
24 such tuition expenses for the taxable year.

1 “(d) TAX CREDIT NOT ALLOWED FOR AMOUNTS PAID
2 TO RACIALLY DISCRIMINATORY INSTITUTIONS.—

3 “(1) REQUIRED ANNUAL STATEMENTS.—No
4 credit shall be allowed under subsection (a) for
5 amounts paid to an educational institution during a cal-
6 endar year unless, at the end of such calendar year,
7 the educational institution files with the Secretary (in
8 such manner and form as the Secretary shall by regu-
9 lation prescribe) a statement, subject to the penalties
10 for perjury, that—

11 “(A) declares that such institution has not
12 followed a racially discriminatory policy during
13 such calendar year; and

14 “(B) indicates whether the Attorney General
15 has brought an action against such institution
16 under section 7408 during such calendar year or
17 either of the two preceding calendar years.

18 On or before January 31 of the calendar year succeed-
19 ing the calendar year to which the statement relates,
20 the institution shall furnish a copy of the statement to
21 all persons who paid tuition expenses to the institution
22 in the calendar year to which the statement relates. No
23 credit shall be allowed to a taxpayer under subsection
24 (a) for amounts paid to an educational institution
25 during a calendar year unless the taxpayer attaches to

1 the return on which the taxpayer claims the credit
2 with respect to such calendar year a copy of the state-
3 ment specified in this paragraph.

4 “(2) DECLARATORY JUDGMENT PROCEEDINGS.—

5 If an educational institution is declared to have fol-
6 lowed a racially discriminatory policy in an action
7 brought pursuant to section 7408, then no credit shall
8 be allowed under subsection (a) for amounts paid to
9 such educational institution—

10 “(A) in the calendar year during which the
11 Attorney General commenced the action pursuant
12 to section 7408, and

13 “(B) in the two calendar years immediately
14 succeeding the year specified in subparagraph (A).

15 “(3) DEFINITION.—For purposes of this subsec-
16 tion, an educational institution follows a ‘racially dis-
17 criminatory policy’ if it refuses, on account of race—

18 “(A) to admit applicants as students;

19 “(B) to admit students to the rights, privi-
20 leges, programs, and activities generally made
21 available to students by the educational institu-
22 tion; or

23 “(C) to allow students to participate in its
24 scholarship, loan, athletic, or other programs.

1 A racially discriminatory policy shall not include failure
2 to pursue or achieve any racial quota, proportion, or
3 representation in the student body. The term 'race'
4 shall include color or national origin.

5 "(4) TIME OF DISALLOWANCE.—No credit shall
6 be disallowed under paragraph (2) until the judgment
7 against the educational institution in the action brought
8 under section 7408 has become final. A judgment be-
9 comes final within the meaning of this paragraph when
10 all parties to the action have exhausted all appellate
11 review.

12 "(5) STATUTE OF LIMITATIONS.—If a credit is
13 disallowed under paragraph (2), the period for assess-
14 ing a deficiency attributable to the disallowance of such
15 credit shall not expire before the expiration of 3 years
16 from the date the judgment becomes final within the
17 meaning of paragraph (4). Any such deficiency may be
18 assessed before the expiration of such 3-year period
19 notwithstanding the provisions of any other law or rule
20 of law which would otherwise present such assessment.

21 "(6) ENFORCEMENT RESPONSIBILITY.—Exclu-
22 sive authority to enforce the prohibition against follow-
23 ing a racially discriminatory policy under this subsec-
24 tion, or to undertake activities connected with enforc-
25 ing this subsection, is vested in the Attorney General.

1 Under this subsection, the Secretary has authority
2 solely to receive the statements referred to in para-
3 graph (1); to disallow credits for amounts paid to an
4 educational institution which has failed to file such a
5 statement as provided in paragraph (1); to disallow a
6 credit in the case of a taxpayer who fails to comply
7 with the procedures prescribed by the Secretary for
8 claiming the credit; and to disallow credits for amounts
9 paid to an educational institution against which a final
10 judgment has been entered in an action under section
11 7408 as provided in paragraphs (2) and (4).

12 “(e) DEFINITIONS.—For purposes of this section—

13 “(1) EDUCATIONAL INSTITUTION.—The term
14 ‘educational institution’ means a school that

15 “(i) provides a full-time program of elemen-
16 tary or secondary education;

17 “(ii) is a privately operated, not-for-profit,
18 day or residential school; and

19 “(iii) is exempt from taxation under section
20 501(a) as an organization described in section
21 501(c)(3), including church-operated schools to
22 which subsections (a) and (b) of section 508 do
23 not apply.

24 “(2) TUITION EXPENSES.—The term ‘tuition ex-
25 penses’ means tuition and fees paid for the full-time

1 enrollment or attendance of a student at an educational
2 institution, including required fees for courses, and does
3 not include any amount paid for

4 “(A) books, supplies, and equipment for
5 courses of instruction at the educational institu-
6 tion;

7 “(B) meals, lodging, transportation, or per-
8 sonal living expenses;

9 “(C) education below the first-grade level,
10 such as attendance at a kindergarten, nursery
11 school, or similar institution; or

12 “(D) education above the twelfth-grade
13 level.”.

14 **SEC. 4. DECLARATORY JUDGMENT PROCEEDING.**

15 Subchapter A of chapter 76 of the Internal Revenue
16 Code of 1954 (relating to judicial proceedings) is amended by
17 redesignating section 7408 as section 7409 and by inserting
18 after section 7407 the following new section:

19 **“SEC. 7408. DECLARATORY JUDGMENT RELATING TO RACIAL-**
20 **LY DISCRIMINATORY POLICIES OF SCHOOLS.**

21 “(a) **IN GENERAL.**—Upon petition by a person who al-
22 leges that he has been discriminated against under a racially
23 discriminatory policy of an educational institution, the Attor-
24 ney General is authorized, upon finding good cause, to bring
25 an action against the educational institution in the United

1 States district court in the district in which the educational
2 institution is located, seeking a declaratory judgment that the
3 educational institution has followed a racially discriminatory
4 policy and has, pursuant to such policy, discriminated against
5 the person filing the petition.

6 “(b) TIME FOR FILING PETITION.—The petition shall
7 be filed with the Attorney General within 180 days after the
8 date on which the act of racial discrimination is alleged to
9 have been committed against the person filing the petition.

10 “(c) NOTIFICATION AND OPPORTUNITY TO COM-
11 MENT.—Upon receipt of the petition, the Attorney General
12 shall promptly notify the educational institution in writing of
13 such petition and the allegations contained therein. Before
14 any action may be filed, the Attorney General shall give the
15 institution a fair opportunity to comment on all allegations
16 made against it and to show that the racially discriminatory
17 policy alleged in the petition does not exist or has been aban-
18 doned.

19 “(d) TIME FOR BRINGING ACTION.—An action may be
20 filed by the Attorney General no later than 1 year after re-
21 ceiving the petition.

22 “(e) DEFINITIONS.—When used in this section, the
23 terms ‘educational institution’ and ‘racially discriminatory
24 policy’ shall have the same meaning as assigned to such
25 terms in section 44H.”.

1 **SEC. 5. TECHNICAL AND CONFORMING AMENDMENT.**

2 (a) The table of sections for subpart A of part IV of
3 subchapter A of chapter 1 of such Code is amended by insert-
4 ing immediately before the item relating to section 45 the
5 following:

“Sec. 44H. Tuition expenses.”.

6 (b) Section 6504 of the Internal Revenue Code of 1954
7 (relating to cross references with respect to periods of limita-
8 tion) is amended by adding a new paragraph (12) at the end
9 thereof:

“(12) Disallowance of tuition tax credits because of a
declaratory judgment that a school follows a racially dis-
criminatory policy, see section 44H(d)(5).”.

10 (c) The table of sections for subchapter A of chapter 76
11 of the Internal Revenue Code of 1954 (relating to civil ac-
12 tions by the United States) is amended by striking out the
13 item relating to section 7408 and inserting in lieu thereof:

“Sec. 7408. Declaratory judgment relating to racially discriminatory
policies of schools.

“Sec. 7409. Cross references.”.

14 **SEC. 6. TAX CREDITS ARE NOT FEDERAL FINANCIAL ASSIST-**
15 **ANCE.**

16 Tax credits claimed under this section shall not consti-
17 tute Federal financial assistance to educational institutions or
18 to the recipients of such credits.

1 **SEC. 7. EFFECTIVE DATE.**

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

○



1
The first part of the book is devoted to a
general introduction to the subject of
the history of the world. It is written in a
clear and concise style, and is well
illustrated with maps and diagrams.

THE WHITE HOUSE

WASHINGTON

June 4, 1982

MEMORANDUM FOR BOB THOMPSON

FROM:

MORTON C. BLACKWELL

McB/c

SUBJECT:

Below Items


1. I would appreciate if you could work with Senator Thurmond and Congressman Kindness on a proposed timetable for committee and floor action in both the House and the Senate on the Voluntary School Prayer Amendment. The outside groups are working well but they need to know the time frame in which we are operating. We expect to be able to get votes in both houses before the elections.
2. I strongly suggest that we not hold separate meetings with the Catholics, the Protestants, and the Jewish supporters of tuition tax credits. They all are in agreement now, having been separately kept informed. It is important now that we make them accustomed to working together on this topic. Jack Burgess and I are in agreement that a single meeting rather than separate meetings will be helpful next week. I have left the office for a TV interview and to participate in the Virginia Republican State Convention, but would appreciate your calling my staff this afternoon on this subject. If you, Jack, and my staff will coordinate this afternoon the calling of the meeting for early next week, we can get them started on this issue.
3. Thank you for your cooperation on the Woody Jenkins appointment to the Advisory Committee on Trade Negotiations. I trust this will spring loose this appointment from Ed Rollins' office.

THE WHITE HOUSE

WASHINGTON

June 9, 1982

MEMORANDUM FOR ELIZABETH H. DOLE

THRU: DIANA LOZANO
FROM: MORTON C. BLACKWELL 
SUBJECT: Tuition Tax Credit Bill

Here is an update on the status of our working group's effort to draft a passable tuition tax credit bill.

The major meeting was an eight and one-half hour meeting on May 25 which included, at least initially, representation from OPL, OMB, OPD, Treasury, Justice, and Education. Subsequent meetings have refined our basic draft.

From the outset we realized that it would not serve the President's interest to submit to the Congress a bill which would fail to win support of the major supporters of tuition tax credit, namely the key activists behind the major Catholic, Protestant, Jewish, and secular private schools.

Most people involved are displeased with the proposal to set income ceilings for families benefiting. But that (to me outrageous) sop to our foes has not alienated any significant supporters.

Our major controversy has been in the area of anti-discrimination. Here we have to accomplish two tasks:

1. Make sure that no racially discriminatory school could benefit from the provisions of our bill.
2. Make sure that we protect private, particularly church-related schools from any further intrusion in their operation by the Federal government.

In pursuit of these two goals, we developed many alternate provisions for inclusion in the President's bill. I was responsible for the circulation of four entire alternate bills. These bills, along with other drafts of proposed anti-discrimination provisions, were carefully and promptly distributed by Jack Burgess and me among the major groups supporting the concept of tuition tax credit.

Our effort was to bring these people gradually together as a coalition with a consensus in favor of our final product.

Current status is this: the working group has achieved a current draft which is supported by almost all the leaders who favor enactment of a bill. The exceptions and qualifications are few and should not prevent adoption of our current bill (or one very like it) by the President.

These are the remaining exceptions to full support among those whose schools would benefit:

1. There will always be a small segment of the fundamentalist Protestant community which will oppose any bill which does not make church affiliation a bar to enforcement of anti-discrimination provisions. The Bob Jones University folks, for instance, will not favor this draft.

It should be noted here that we have made great progress since the bitter tax exempt status discussions in January with Protestant school leaders and conservative movement activists. By bringing them and attorneys they trust along with us in our deliberations, we have won the dedicated support of this draft from the great majority of the Protestant "Christian School Movement". This despite the strong provisions in our bill which will exclude all benefits to parents who choose to send their children to church-operated but racially discriminatory schools.

2. There is not yet unanimous support in the Catholic community for this draft. The Catholic educators are strongly with us, as are many key leaders of the church hierarchy. Some liberal staffers at the Conference of Catholic Bishops are dragging their feet. They have declined to endorse or condemn any of the drafts, including the current one.

Discussions are continuing between OPD lawyers and lawyers of the National Conference of Catholic Bishops. We are also taking steps to brief Cardinals and other top Catholic non-staffers, in an attempt to convince them that the anti-discrimination provisions have real teeth (which they do).

In my judgment, some of the Catholic staff liberals would rather have no tuition tax credits than to have a Reagan-passed tuition tax credit law. They know the points such a law would score in their parishes for the President, whom they are fighting in virtually all other legislative areas. They have invested a great deal of effort in planting in Catholic publications the suspicion that the Administration is not serious about passing tuition tax credit legislation.

The saving grace in this situation is that these recalcitrant staffers cannot afford to accept the blame themselves for failure to pass a bill this year.

If we handle this situation carefully, pressure from the pews, from the Cardinals, and from the Catholic educators will combine with fear of being pinned with the blame for killing a good bill. The liberal Catholic staffers may have no choice but to cave. They should soon resign themselves to endorsing the bill, even though we will get much credit for drafting and passing tuition tax credits.

Among those who oppose tuition tax credits, or who don't care either way, we will have three main problems:

1. Civil rights groups have an animus against private education and can be relied upon to oppose any bill which could be supported by the strong coalition which supports tuition tax credit.

Mel Bradley is working hard to limit the intensity of their opposition, which is the best we can look for. As long as we can demonstrate the bill really has teeth against racially discriminatory schools, we can proudly defend it against criticism from this quarter. Moreover, there are many black educators and black religious leaders prepared to get out in front for this draft bill.

2. The NEA and the AFT are sure to oppose this bill, of course. That opposition will be added to their opposition to virtually everything else we are trying to do.

In this case, the teachers unions will be clearly self-serving. The parents out there know how public education has deteriorated as the teachers unions have grown. The attractive idea of giving parents a means of escaping from the teachers unions' monopoly will more than balance the union opposition to the bill.

3. The internal hurdle the working group draft must clear is sure to be the militance of some Treasury Department officials. They will fight a last ditch turf battle against this draft.

Our draft requires that tuition tax credit schools have 501(c)(3) status, which is under Treasury jurisdiction and which carries with it the IRS anti-discrimination requirements. But the draft adds another layer of anti-discrimination requirements which will be enforced by the Attorney General through the Civil Rights Division.

Although warned by Mr. Meese that Treasury will not have a veto over the draft, Treasury officials have shown utterly no interest in drafting a bill which will pass.

If these Treasury people get their way, they will lead the President back into January's tax exempt status impasse. If they win this turf battle, the bill will be a dead duck. The President would be attacked by the liberal Catholic publications for raising false hopes and by the Christian School movement for supporting further IRS assaults on the operations of their schools.

Our judgment was right in picking this issue for a major Presidential initiative. If our draft is launched by the President, we will win lasting credit with the growing percentage of parents of all faiths who want the choice to opt out of the public school system. The pressure will then be great for the public school systems to shape up.

In its current draft, there will be more and better organized grassroots effort in behalf of this tuition tax credit bill than even for the Voluntary School Prayer Amendment.

THE WHITE HOUSE
WASHINGTON

6/10/82

Morton -

EHA asks that you
be sure she has the
info. to reply to Immense.

Mr. Clauson is against
friction tax credits, apparently.
Can you check on the
reply, if sent? If not,
we should send one.

Thanks. EHA will
be looking for this soon.

Diana

THE WHITE HOUSE

WASHINGTON

June 10, 1982

MEMORANDUM FOR ANNE HIGGINS

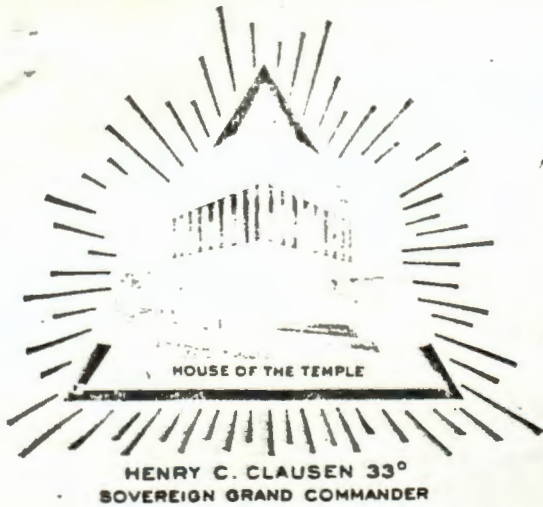
FROM: MORTON C. BLACKWELL 

SUBJECT: Letter from Bill Timmons

Mrs. Dole asked me to check to see if there has been a response sent to Mr. Clausen of the Scottish Rite Freemasons.

If there has been no Presidential reply yet sent, please hold off a bit until we can work up a letter here. If there has been a letter sent, please give me a copy for Mrs. Dole.

The Masons have, as a cardinal article of their belief, a commitment to public schools. This is a delicate matter with this generally supportive group. Nothing, of course, is likely to deter us from proceeding speedily with submission to the Congress of a Presidential-supported tuition tax credit bill.



MOTHER SUPREME COUNCIL OF THE WORLD
THE SUPREME COUNCIL
OF THE THIRTY-THIRD AND LAST DEGREE
ANCIENT AND ACCEPTED SCOTTISH RITE OF FREEMASONRY
SOUTHERN JURISDICTION, U. S. A.

1733 SIXTEENTH STREET, N. W. WASHINGTON, D. C. 20009
TELEPHONE 202-282-3579 CABLE SCSJUSA

March 31, 1982

The Honorable Ronald Reagan
President of the United States
Washington, DC 20500

Re: Tuition Tax Credits

Dear Mr. President:

May I invite your attention to an article in The Washington Post of March 27, 1982, stating that The National Conference of Catholic Bishops called on you to seek tuition tax credits for parents with children in private and parochial schools.

I respectfully suggest that recent developments demonstrate the action requested would be unwise as breaching that wall of separation between church and state, counterproductive as a "budget buster," and violate the Constitution. We need look no further than the November 1981 vote in the District of Columbia, for how the voters feel. They resolved that issue against such a proposal about seven to one!

The experiences in Iran, Northern Ireland, Lebanon and Egypt show what happens when church and state merge. Drives are underway now throughout the nation to inject religious beliefs into public schools and to deprive Federal Courts of jurisdiction in cases of abuse. You may recall my San Francisco law office in a three judge Federal Court won a case that declared void a California legislative attempt for tuition tax credits.

The Washington, DC vote was the subject of a Message from me in our monthly magazine, The New Age, which goes to our over 650,000 plus members, a copy of which is enclosed. The voting elsewhere, set forth in my article, shows the proposal is never the will of our people, as follows:

C
O
P
Y

State	Year	Against Aid	For Aid
District of Columbia	1981	90.7%*	9.3%*
Michigan	1978	74%	26%
Alaska	1976	54%	46%
Missouri	1976	60%	40%
Washington	1975	60.5%	39.5%
Maryland	1974	56.5%	43.5%
Maryland	1972	55%	45%
Oregon	1972	61%	39%
Idaho	1972	57%	43%
Michigan	1970	57%	43%
Nebraska	1970	57%	43%
New York	1967	72.5%	27.5%
Nebraska	1966	57%	43%

*Percentages based on unofficial election returns.

Additional voters sampling disclosed in three significant new opinion surveys that there is continuing strong opposition to the plan.

An ABC News-Washington Post national poll in September showed 60% opposed to tuition tax credit, a result almost identical to that of a Gallup-Newsweek poll last spring.

Rep. Pat Williams, a Democrat who represents the heavily Catholic half of Montana, polled his constituents on the tuition tax credit scheme. The 20,000 who responded opposed the plan 60% to 40%.

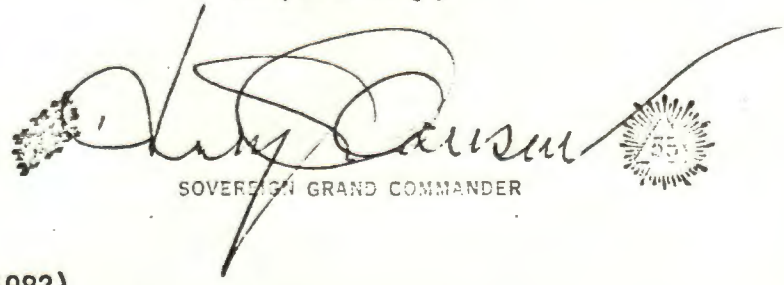
Rep. Phil Sharp, a Democrat who represents the congressional district around Muncie, Indiana, polled his district and found that of the 93% of the 13,000 respondents who had an opinion on tuition tax credits, the plan was opposed 71% to 29%.

The Williams and Sharp polls are similar to those of Republican congressmen Pritchard (WA), McClory (IL), Frenzel (MN), Regula (OH), and Steers (MD), which showed opposition averaging 64%.

We can safely assume that most of the millions of Masons in our Nation, and their families, feel as emphatic against such a proposal as did the voters of our District in November.

Consequently, I urge that you deny the request.

Respectfully,



SOVEREIGN GRAND COMMANDER

HCC/lgh
Enclosure (The New Age, Jan. 1982)

b/cc-All Actives & Deputies, Mother Jurisdiction
All Secretaries, Mother Jurisdiction
All California Chairmen & Assistant Chairmen
Masons in Congress



White House Office of Policy Information

ISSUE UPDATE

Washington, D.C.

July 13, 1982

This paper, prepared for Reagan Administration officials by the White House Office of Policy Information, articulates the philosophical underpinnings of the President's Tuition Tax Credits legislation.

TUITION TAX CREDITS

On June 22, 1982, President Reagan submitted to Congress proposed legislation entitled "The Educational Opportunity and Equity Act of 1982" which would provide tuition tax credits to parents whose children attend private elementary and secondary schools. While all presidents since 1969 have expressed support for the tuition tax credit concept, President Reagan is the first to actually offer legislation, thus fulfilling a pledge he made during the 1980 campaign.

In submitting the bill to Congress, the President declared: "In order to promote diversity in education and the freedom of individuals to take advantage of it, and to nurture the pluralism in American society which this diversity offers, I am transmitting to Congress today a draft bill which provides federal tax credits for the tuition expenses of children attending nonpublic primary and secondary schools."

The proposal

The President's bill would permit individual taxpayers to receive a credit against their income taxes of 50% of the cost of tuition and fees for each child in non-public elementary and secondary schools up to a maximum amount established in the legislation. As proposed, the maximum credit would be phased in over a three-year period, rising from \$100 in 1983, to \$300 in 1984, and ultimately to \$500 in 1985.

For taxpayers with adjusted gross incomes over \$50,000, the amount of credit would be proportionately reduced; for families with incomes of \$75,000 and above, the credit would not be available.

Taxpayers could qualify for tuition tax credits only if the schools their children attend are not-for-profit tax exempt institutions, provide a full-time elementary or secondary school program for eligible students, and do not discriminate on the grounds of race or national origin.

The need for tuition tax credits

Americans have good reason to be proud of a public and private educational system unrivaled in the history of civilization. The enormous accomplishments of our people in their 206-year history as a nation are a tribute, in large measure, to the quality and diversity of educational opportunity available to them.

But increasingly in the past few decades, the quality and diversity of our educational system have become threatened. In many schools, educational performance has steadily declined, in-school crime and similar disturbances have increased, and costs have continued to climb -- often beyond what inflation and enrollment levels would seem to justify.

The result is that growing numbers of Americans want a greater choice in education, but many -- middle-income Americans as well as low-income families -- cannot afford to make a choice. In particular, parents who desire private alternatives to public education are faced with a worsening double burden of paying State and local taxes to support public schools in addition to the rising tuition payments required for their children who attend private schools.

Unless these problems are corrected, the quality and diversity which have been a hallmark of the American education system may further erode. To prevent that from happening, we must increase educational freedom of choice, improve tax equity, and provide greater competitive incentives for improving school quality. Tuition tax credits are an extremely effective means of helping achieve these objectives.

Promoting educational freedom of choice

Tuition tax credits would help give parents the financial means to make a genuine choice in deciding what kind of education they wish to provide their children -- to restore, in the words of the President, "the traditional right of parents to direct the education of their children."

At present, many parents' choice is limited by the combination of high State and local tax payments (used to finance local public schools) and the similarly high costs of private tuition. Given the constraints on most families' budgets, the extra burden of sending a child to private

school -- in terms of other family necessities they would have to forego -- is often simply too great, even though the parents may prefer that their children receive a private education. Thus, the typical low- or middle-income family may have no real option but to send its children to the local public school.

While we know, of course, that many public schools are doing a fine job of educating their students, parents who are not satisfied should be able to send their children to school elsewhere. The ability to make this choice should be widely available, and not an option open just to the wealthy.

A tuition tax credit would help expand this choice by permitting a working family to keep more of its income to devote to the education of its children. This tax savings would allow the family to consider not only the local public school, but various non-public schools as well. The family could then evaluate each one and select the school which would provide the best quality education for its children, without cost being such a limiting factor.

Such a tax credit would provide the greatest benefit to those who need it most -- low- and middle-income families. Clearly, a fixed-dollar credit is of greater proportional value to someone with a relatively lower income. Assuming, for example, that all families spend 5% of their income on education, an additional \$500 savings doubles the education budget of a \$10,000 per year family, and increases by 40% the budget of a \$25,000 per year family. By contrast it increases by only 20% the education budget of a \$50,000 per year family devoting the same percentage of its finances to education.

Moreover, lower- and middle-income families are proportionately the largest users of non-public schools, even with the financial constraints. In 1979, fully 54% of the students in private schools came from families with incomes below \$25,000.

Members of minority groups and the disadvantaged would also benefit significantly. A 1978-79 survey by the National Catholic Education Association, for instance, showed that 18.6% of the students in Catholic schools -- the nation's largest private school sector -- were minority group members.

Essentially, then, it is those students who have received fewer educational advantages in the past who would gain the most from tuition tax credits. That is why economist Thomas Sowell has concurred with educational economist E. G. West's evaluation that tuition tax credits are "a crucial event in the history of education" with a "revolutionary potential for low-income groups." The proposal, Sowell maintains, is "most important

to those who are mentioned least: the poor [and] the working class..."

Tax equity

The proposal is important to working Americans in another way: it would promote greater equity in taxation. Tax equity would be justified in any case, but it is especially called for where government policies impose a special burden, such as the requirement that all citizens pay taxes to support the public schools, whether or not they use them. Such policies should be constructed, as those in this proposal are, so as to minimize any penalizing effect.

Present school tax policies, however, are obviously not constructed that way. Low- and middle-income families who choose to -- and are able to -- send their children to private schools not only pay for the education of their own children, but through their taxes pay for the public school education of the children of other families -- including the wealthy.

In addition, public school students now receive substantial financial benefits from Federal programs. Parents who choose public schools receive an average of more than \$600 per pupil in direct and indirect Federal aid -- a total of as much as \$25 billion. By contrast, children who attend private schools receive very little Federal assistance.

Tax credits will go a long way toward reducing this unfairness. Of course, parents of children in private schools should not -- and will not -- be exempt from supporting their local public schools, since as members of the community they indirectly benefit from the schools whether or not their children attend them. At the same time, these parents should receive some financial relief from, in effect, having to "pay twice" -- relief which the tax credits would provide.

Constraining the cost of education

The credits, moreover, are appropriate compensation for parents even beyond equity considerations. Parents who send their children to private schools relieve the public schools of the costs of educating their children -- without depriving the schools of the parents' tax payments. Not only can this constrain the rise in taxes needed to finance the public schools, but it can make more money per pupil available in the public systems.

The savings can be significant. In Louisiana, for example, non-public schools educated 152,000 students in 1980-81, thereby reducing the cost of operating public schools in that State by \$300 million.

Without the credits, however, public schools could suffer through the potential influx of large numbers of former private school students who could no longer afford to attend the private institutions. For instance, if only one tenth of the private school population of nearly five million students shifted to public schools, the cost to the public school system could increase by almost one billion dollars. It is doubtful whether most public schools could absorb such a cost increase and continue to maintain their current educational standards.

Restoring competition in our educational system

By contrast, tuition tax credits would promote higher educational standards in both public and private systems, not only in the manner just described, but also by stimulating a healthy competition between public and private schools systems.

The vital role competition has played in our society, in providing quality goods and services at affordable prices, is well known. This economic principle applies in the provision of education as forcefully as it does to any other product or service. If a school has little or no competition, it may lack the incentive to improve its educational quality since its students, as virtual "captives," have to attend the school regardless of its educational standards.

If, however, the students have additional options, the school would face the choice of either suffering an undesired drain on its enrollment to other institutions, or upgrading its standards in order to maintain its level of student attendance.

Even some opponents of tax credits have begun to recognize these beneficial effects of competition. A recent New York Times editorial, for example, observed that "the threat of tax credits served to jolt public education out of its lethargy. In New York and other places public schools now show encouraging signs of improvement."

This improvement in quality through competition would provide the greatest help to those very poor families who could not afford, in any case, to send their children to other than the public schools. In fact, the prospect of improving the quality of education available to low-income minority youth through incentives in this manner was one of the prime motives in leading the President to support tax credits. Since these youth face considerable barriers in their quest for upward financial mobility, the better education that competition will produce will be an important step in helping them to secure a job after they leave school, and eventually in helping them to leave the cycle of poverty.

Not surprisingly, some leaders among minority groups have begun to recognize the advantages competition can provide for their members. In 1978, for example, the Congress of Racial Equality observed that "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."

Anti-discrimination provisions of the bill

In addition to offering these educational and economic benefits, the President's proposed legislation also provides several protections to ensure that tuition tax credits cannot be abused. The bill, for instance, contains strong provisions to ensure that no credits will be permitted to taxpayers who enroll their children in schools that discriminate on the basis of race or national origin.

A credit cannot be claimed unless the school is tax exempt under section 501(c)(3) of the IRS code.

Moreover, the bill contains its own strong enforcement mechanism.

First, any school that wishes the parents of its students to be eligible for a tuition tax credit must file a statement with the Treasury Department each year attesting that it has not followed a racially discriminatory policy. If a school does discriminate after filing such a statement, school officials would be subject to prosecution for perjury.

Second, the bill authorizes the Attorney General, upon complaint by a person who believes he has been discriminated against by a school, to bring a law suit against the school.

If the Federal court then finds the school discriminates, tax credits available to parents of those attending the school are automatically taken away for three years, retroactive to the year the discrimination suit was filed.

While providing these powerful protections against racial discrimination, the legislation also protects the legitimate interests of private schools. A school cannot be found racially discriminatory merely because it fails to pursue or achieve racial quotas. In addition, a school is free not to file an annual non-discrimination statement if it does not wish the parents of its students to be eligible for tuition tax credits. In that case, the enforcement mechanism would not be applicable.

Moreover, the Attorney General cannot bring an action against a school until it has had an opportunity to comment on allegations made against it. This provision will enable

the Attorney General to prevent frivolous or malicious complaints from reaching the courts. The Attorney General must also give the school a chance to show that it has abandoned a racially discriminatory policy. Finally, tax credits cannot be disallowed until all court appeals have been exhausted.

Safeguards against additional federal interference

The President's bill also prevents any increases in Federal interference in the operation of private schools. In the past, Federal aid to schools has all too frequently been used as a means of infringing, either directly or indirectly, on the operation of local schools in areas which should properly be of no concern to the Federal government.

These Federal dictates -- the "bureaucracy's intrusive reach into the nation's classrooms," as the Administration's 1981 year-end report described them -- have done little to improve the quality of education, but they have done a great deal to undermine local autonomy and promote a stifling conformity which impairs educational quality.

The President's legislation specifically precludes an increase in such interference by affirming that since the tax credits are provided as tax relief to individuals rather than as aid to institutions, they are not to be construed as Federal assistance to schools. The bill will thus eliminate the danger of Federal intrusion into private schools' operations.

The constitutionality of tax credits

The bill preserves, as well, the constitutional separation between Church and State. The bill will give tax relief directly to students' families. No Federal payments will be made to educational institutions, and the bill specifies that no student for whom a tuition tax credit is claimed will be considered a recipient of Federal financial assistance. These safeguards provide adequate protection to meet the relevant constitutional tests.

Indeed, while the Supreme Court has not ruled on tuition tax credits, constitutional scholars and the U.S. Department of Justice have concluded, after careful study, that the President's legislation is constitutional.

There are, moreover, constitutionally-agreeable precedents for this form of aid. For example, since the proposed tax credits would be equally available for use at sectarian and non-sectarian schools alike, they would be similar to the tax deductions approved in the Walz case in 1970.

The tax expenditure argument

Finally, some have tried to argue that since the proposed tuition tax credits would be a Federal "tax expenditure," they would provide an unfair benefit to private schools at a time when the growth in Federal aid to public schools is being slowed.

Aside from the fact, already discussed, that the credits will benefit students and not institutions, the idea that when the government provides its citizens with a credit against their taxes it is "spending government funds" is wholly inappropriate. Such a notion implies that the government has prior claim to all of a taxpayer's earnings, and that whenever the government permits him, through a tax credit or a tax rate cut, to keep a little more of his income it is "giving away" Federal money. By contrast, the President believes that an individual has first claim to what he earns, and that the government can tax its citizens only within strict limits.

That does not mean, of course, that all tax credits are of equal merit. Tax credits, as opposed to general rate cuts, are used to provide tax reduction in specifically selected instances. While such credits should not be automatically rejected because of the attachment of the pejorative label of "tax expenditures," each must be individually judged as to whether it is an appropriate form of tax relief. Tuition tax credits, with their many beneficial effects, are certainly well-justified by this criterion.

Moreover, as the President has pointed out, inflation-induced bracket creep, coupled with Social Security tax increases, left most Americans paying more in Federal taxes in 1982 than they did in 1981. Tax credits, therefore, will permit working Americans to keep a much-deserved extra portion of what they earn, to be used for the worthwhile purpose of educating their children.

Conclusion

Tuition tax credits thus offer an important opportunity for restoring the quality and diversity of an educational system which has such a long-standing and valued tradition in our society. In addition, the credits promise greater educational choice, improved tax equity, and a much needed measure of tax relief for over-taxed Americans.

The credits will, in the words of President Reagan, be the means by which our society will be better able to "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."

—
THE WHITE HOUSE
WASHINGTON

Tuition
Tax
Credit
FY

June 23, 1982

Dr. Ron Johnson of Accelerated Christian Education called and said that Senators Dole and Benson had agreed at a meeting yesterday that they would not push the tuition tax credit bill this year because of the deficit etc.

He says that the christian community is very upset due to the lack of homework by the White House staff regarding the sponsors. Also, if it is a foregone conclusion that this bill will not be pushed they are upset that they have been asked to go out and mobilize their troops and spend money for no reason at all.



THE WHITE HOUSE
WASHINGTON


Copies sent to:
Kevin Hopkins
Ed Gray
Jack Burgess
Gary Bauer
Ken Cribb
Paul Weyrich
Dan Oliver (at home)

THE WHITE HOUSE

WASHINGTON

June 23, 1982

MEMORANDUM FOR ELIZABETH H. DOLE

THRU: DIANA LOZANO
FROM: MORTON C. BLACKWELL 
SUBJECT: Presidential Event-Tuition Tax Credit
Supporters

We did not have Tuesday afternoon any explanatory materials on the President's proposed tuition tax credit bill to give our meeting of 25 key national leaders. This was a shocking display of organizational incompetence. We sent our best tuition tax credit leaders away without any analysis of the bill we expect them to fight for.

Ed Gray's deputy, Kevin Hopkins, drafted an issue update paper. Ed Gray put that draft into circulation on Monday with a request for comments by COB Monday.

Recipients were in general agreement on the high quality of the draft. Most people made few, if any, corrections.

The only serious objections were raised by Gary Jones, newly designated Under Secretary of Education. Jones suggested deleting large sections of the update, primarily on the ground that the paper exaggerated the problems of public schools.

To deal with Gary Jones' criticisms, Ed Gray convened a meeting Monday evening in his office including himself, Ann Fairbanks, Kevin Hopkins, Gary Bauer, Ken Cribb, and me. Gray got Jones on the speaker-phone. We made a point-by-point review of Jones's suggested changes. We modified the language to soften it in many places. We accepted many of his deletions.

In some cases, after discussion, Jones agreed to O.K. the original language of the draft. Finally, all wording problems were resolved to the satisfaction of all participating in the discussions, including Jones. The only remaining points in question were the documentation of a few statistics in the draft.

Ed Gray arranged for a 9:00 a.m. meeting Tuesday at which Jones and Kevin Hopkins were to make sure all the agreed-upon changes were made and to nail down the sources of some of the statistics which Jones questioned.

We left Ed Gray's office Monday evening close to 8:00 p.m., confident that we had reached a consensus on the language of this important document.

Tuesday morning at his meeting with Kevin Hopkins, Gary Jones quickly reached agreement with Kevin on the numerical data which he had questioned on Monday.

Incredibly, Jones then refused to "sign off" on the document. Jones made it clear he would not be prepared to defend this document, primarily on the ground that it would antagonize supporters of the public school system. The previous evening he had raised the same argument, causing us to edit the update paper with him, point-by-point, until he was satisfied.

Of course the time to raise those objections and to request further changes in the Issue Update was Monday evening, not mid-morning Tuesday. His behavior Tuesday morning was an outrageous, non-professional repudiation of the consensus we took pains to reach with him on Monday,

Tuesday morning I spoke with Jones and expressed my disappointment at his conduct. He had agreed point-by-point as we modified the document at his request Monday, but Tuesday he announced he would hold himself aloof from this badly needed document. My criticism peeled off a little of his composure. He expressed great bitterness that he had not been involved for eight weeks in the consensus process which resulted in the wording of the President's bill. I mentioned that Mike Uhlmann had included the Education Department's General Counsel, Dan Oliver, in our working group which drafted the bill. This in no way lessened Jones' anger at not being included himself. Jones also bitterly complained he had only been given six hours to review the proposed paper, as if he had been singled out for persecution.

As a result of Jones' behavior, the strongest supporters of tuition tax credits left the White House Tuesday afternoon without any background analysis of the particulars of the President's proposed bill. As the news media go to the friends and foes of this important bill, our foes have their arguments ready. As a result of Gary Jones' last minute objections, we have sent out unarmed our best allies.

Our Roosevelt Room meeting was heartwarming for our visitors. Both the President and the Vice President made good impressions on the invited tuition tax credit leaders. The meeting was like a Chinese meal, though. Almost immediately afterwards, participants became hungry, in this case for more useful information.

It happens that Gary Jones, who had blocked our White House analysis, had scheduled his own media briefing on the tuition tax credit bill at the Education Department after our White House meeting adjourned. There he presented a fact sheet and his views, which to the best of my knowledge had not been cleared by the White House OPD. Those present at his briefing tell me his was a performance with no sign of pleasure or vigor.

I take the time to put this all down for you because you and I hope this bill will come to a vote in each house this year. If there is serious congressional consideration of our tuition tax credit bill, Gary Jones must not be this Administration's negotiator. I have no confidence at all in him for this role.

Jones, like Secretary Bell, is primarily attached to the public schools. No doubt his future lies in public school administration. He is not liked or trusted by many Protestant Christian school leaders. Jones was often reported last year to lack enthusiasm for tuition tax credits, although now he presents himself as spear carrier for this bill.

If he understands the importance of holding together the solid coalition we have built behind the President's tuition tax credit bill, he has yet to show it by his actions. Does Gary Jones know or care about the political benefits which can flow to the President and our congressional candidates? I doubt it. Millions of people, historically locked into the Democratic Party, would see the President championing this cause so vital to them.

If scuttling this bill is what it takes to keep his skirts clean with the militant public school crowd, don't count on Gary Jones to bleed for the President's bill. If we surrender any vital point in the bill our tuition tax credit coalition has so strongly endorsed, the coalition would promptly fly apart with vicious recriminations directed from all sides, not at Jones, but at the Reagan Administration.

Thus, in conclusion, I urge you to make sure that those who put this coalition together, your office and Office of Policy Development, be locked into the process before anyone, especially Gary Jones, starts to tamper with this carefully balanced bill.

ROBERT D. DOLE, R-NEB., CHAIRMAN

BOB PACKWOOD, ORES.
WILLIAM V. ROTH, JR., DEL.
JOHN C. DANFORTH, MO.
JOHN H. CHAFFEE, R-I.
JOHN HEINE, PA.
MALCOLM WALLOP, WYO.
DAVID DURENBERGER, MINN.
WILLIAM L. ARMSTRONG, COLO.
STEVEN D. BYNNE, IDAHO
CHARLES E. GRASSLEY, IOWA

RUSSELL B. LONG, LA.
HARRY F. BYRD, JR., VA.
LLOYD BENTSEN, TEX.
SPARK M. MATSUMAGA, HAWAII
DANIEL PATRICK MOYNIHAN, N.Y.
MAX BAUCUS, MONT.
DAVID L. BOREN, OKLA.
BILL BRADLEY, N.J.
GEORGE J. MITCHELL, MAINE

United States Senate

COMMITTEE ON FINANCE
WASHINGTON, D.C. 20510

JUL 7 1982

ROBERT E. LIGHTHIZER, CHIEF COUNSEL
MICHAEL STERN, MINORITY STAFF DIRECTOR

July 1, 1982

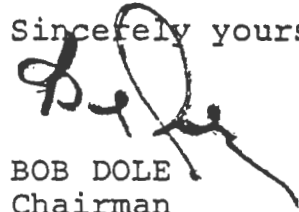
The President,
The White House.

Dear Mr. President:

I am aware of your desire to see your tuition tax credit proposal quickly enacted. To facilitate Congressional action, I have scheduled Finance Committee hearings on this legislation on July 15, 1982. Full Committee hearings will also soon be scheduled on your Enterprise Zone bill.

I expect the Committee will quickly move to markup these matters.

Sincerely yours,


BOB DOLE
Chairman

BD:a

THE WHITE HOUSE

WASHINGTON

July 7, 1982

FG

MEMORANDUM FOR: ROGER PORTER
FROM: SHANNON FAIRBANKS *CF*
SUBJECT: Tuition Tax Credit Legislative Strategy

ISSUE

In spite of the hearings now planned for July 15, 1982, fear of planned failure is growing among those who support tuition tax credits. Support groups believe that last week's negotiations over the revenue package (without a tuition tax credit - TTC - amendment) forced the Administration into a strategy which precludes its ability to see tuition tax credit legislation passed in the 97th Congress.

DISCUSSION

The Citizens for Educational Freedom and the U. S. Catholic Conference have raised these concerns. Both groups question whether the Administration has a fallback strategy. They ask that if such a strategy is in hand or now being formed, they be notified.

Bob Baldwin of CEF called last Friday after talking with Morton Blackwell. He had spent the prior week lobbying members of the Senate to support a TTC revenue bill amendment. Buck Chapoton then told Senator Packwood that the Administration would not back a TTC amendment. In the absence of any known alternate strategy, the Administration's credibility with those who must win this fight was placed on the line.

The fight for TTC's is both ideological and political.

The ideological fight can be won any time within the President's first term; however, the political benefit from the issue cannot be reaped except this year. There are two reasons:

1. Expectations have been raised, and confirmed. The President promised passage in the 97th Congress.
2. Because historical experience has bred consistent patterns of promise/non-delivery, another TTC effort that fails could unleash powerful resentment by strongly motivated voters. We have made initial efforts to capture this political support on the upside, no reason to buy it unnecessarily on the down side.

RECOMMENDED ACTION

1. Confirm and sharpen the Administration strategy to gain passage.
2. Set up strategy consultation sessions immediately with the relevant interest groups. Only they can win it for us.
3. Implement, but with the knowledge that the interest groups must be kept informed.

cc: Bob Thompson
✓ Morton Blackwell
Jack Burgess

THE WHITE HOUSE

WASHINGTON

July 26, 1982

MEMORANDUM FOR ELIZABETH H. DOLE

THRU: DIANA LOZANO

FROM: MORTON C. BLACKWELL 

SUBJECT: Tuition Tax Credits

As discussed in my memorandum to you of July 16, attached, we do not yet have a meeting scheduled per the request of Bob Baldwin last week.

As I noted in my weekly report last Friday, the situation with respect to tuition tax credits is explosive.

We must get a serious legislative strategy in place and communicated to the outside tuition tax credits coalition. Otherwise, there will almost surely be a press conference in a few days in which supporters of tuition tax credits will give up the battle for passage this year and lay out for the news media the failures and inconsistencies we have displayed.

Red Cavaney told me a decision had been made last week to go forward with the meeting Bob Baldwin requested. Speed is now required.

THE WHITE HOUSE

WASHINGTON

July 22, 1982

MEMORANDUM FOR ELIZABETH H. DOLE

THRU: DIANA LOZANO

FROM: MORTON C. BLACKWELL 

SUBJECT: Tuition Tax Credits Legislative Strategy

I am pleased that the Senior Staff meeting this morning decided to act along the lines I suggested in my memorandum to you yesterday.

I must emphasize that time is of the essence if we are to take advantage of the remaining chances for legislative success for tuition tax credits. For instance, today the House Ways and Means Committee is marking up their version of the revenue bill.

The organizations committed to tuition tax credits are not political novices. They have been working for this legislation in some cases for a generation. They closely follow the legislative process. They know that any chance of Presidential action convincing Congressman Rostenkowski to include tuition tax credits in the revenue bill is slipping through our fingers.

It is of the utmost importance that we knock heads together, establish a precise strategy for winning, and expend significant efforts toward implementing that strategy.

The supporters of tuition tax credits, particularly the Catholic community, are on the verge of exploding against us.

THE WHITE HOUSE

WASHINGTON

July 20, 1982

MEMORANDUM FOR ELIZABETH H. DOLE

FROM: MORTON C. BLACKWELL *McB/c*

SUBJECT: Tuition Tax Credits

Per our discussion this morning, here is a summary of our situation and a suggested course of action.

Jack Burgess and I have been working closely with all elements of the coalition of organizations supporting tuition tax credits. Without exception, these organizations have had their confidence in this administration shaken by the way in which we have handled the tuition tax credit bill.

During the drafting of the President's bill, all of these groups were consulted on numerous occasions. As a result, the bill is one of which the Administration can be proud and which enjoys the determined support of all of the major organizations in favor of tuition tax credits.

Here are the principal sources of the growing lack of confidence in us on this issue:

1. At the Roosevelt Room meeting with the President and Vice President and leaders supporting tuition tax credits, Bob Thompson announced that the principal sponsors of the President's bill would be Senator Dole and Congressmen Gradison and Biaggi. For more than twenty-four hours after this meeting, all reports coming from the offices of these announced co-sponsors contradicted Bob Thompson's information that they would be co-sponsors. Many supporters called their offices to coordinate tuition tax credit activities only to be shocked by denials. Word spread through the coalition like wildfire.

2. Eventually the "principal sponsors" and their staffs were locked into sponsorship. However, despite Administration announcements to the contrary, and despite the news conference in which the President indicated his personal support of this bill, our effective support is questioned. Virtually every single supportive organization reports a prevailing view among members and staff on Capitol Hill that the Administration is not interested in fighting or bleeding in behalf of this bill.

3. On July 13 we had a meeting of leaders of the tuition tax credits coalition here. A dispute arose over the testimony Assistant Secretary for Tax Policy (Treasury) Buck Chapotin had given before the Senate Finance Committee on July 2. Bob Baldwin of Citizens for Educational Freedom insisted that Chapotin had specifically said the Administration does not favor placing tuition tax credits on the pending revenue bill. Bob Thompson, Legislative Affairs, just as stoutly insisted that Chapotin in fact said the Administration did want to have the tuition tax credit bill attached to the revenue bill. For some minutes the meeting degenerated into a "Yes he did" - "No he didn't" exchange. Subsequently Father Hoyer of the U. S. Catholic Conference obtained an unofficial transcript of Chapotin's testimony which showed that Thompson was mistaken and Baldwin was correct.

4. Despite the dispute over the content of Chapotin's testimony, our July 13 meeting strove to reach an understanding of what the Administration's position was to be on this bill in the future. Thompson clearly and emphatically stated that our position is that we want this bill, if possible, in the revenue bill. Because Senator Dole clearly does not want it on the revenue bill in its initial passage battle in the Senate, Thompson's statement of our position came down to this:

(a) If it would be possible to attach the tuition tax credit bill to the revenue bill in the Senate, the Administration would favor it, but Dole's opposition makes this course unlikely.

(b) The Administration will fight hard to get tuition tax credits attached to the revenue bill in the House and to grease the way for Senator Dole to accept tuition tax credits from the House Bill during the conference negotiations.

Everyone left with this understanding of Administration policy. Bob Thompson gave everyone the clear impression that he was simply revealing our strategy to them.

5. Despite our assurance to the contrary, response to a question at the Finance Committee hearing July 16, Treasury Secretary Regan specifically said that the Administration does not favor adding tuition tax credits to the revenue bill.

The attached memorandum of July 20 from Bob Baldwin reports that "At this juncture leaders of the coalition are fearful that there is no White House strategy or that tuition tax credits is deliberately being sabotaged."

Surely these fears are warranted.

I suggest the following action:

1. SENATE BILL STRATEGY:

a. Get Secretary Regan to write the Finance Committee members a letter suggesting that the Administration would strongly support attaching the tuition tax credit bill to the revenue bill either in the Senate or from the House bill in conference.

b. Send Bill Barr of OPD, Dan Oliver of Department of Education, and Brad Reynolds of the Civil Rights Division of the Justice Department to meet separately with Packwood and Moynihan to assuage their concerns about the anti-discrimination provisions in our bill.

c. Have the President recruit either Senator Armstrong or Senator Grassley to move to attach the tuition tax credit bill on the upcoming debt limit bill. The President should also write to Senator Baker that he wants this accomplished. If we have lost this chance on the revenue bill, due to Senator Dole's opposition and/or our inability to communicate our position to the Finance Committee, we have only the debt limit bill option left to get tuition tax credits through the SENate on a piece of "must" legislation.

2. SIMULTANEOUS HOUSE STRATEGY WITH SENATE STRATEGY

a. There are two ways the tuition tax credits could be tied to the revenue bill in the House. First, Congressman Rostenkowski could be convinced to insert it in committee. Second, the tuition tax credits could be added to the revenue bill on the floor of the House through a bi-partisan coalition led by Congressman Michel.

b. The President should call Congressman Rostenkowski, urging him to put tuition tax credits on the revenue bill in the House. We should pass the word to all supportive groups that the President has urged Rostenkowski to take this step.

c. The President should contact Bob Michel, who will very likely be given a modified open rule on the revenue bill which would allow him a vote on one substitute to the forthcoming committee bill. The President should ask Congressman Michel to be sure to have tuition tax credits in his proposed substitute.

d. The President should contact Senator Dole to get him to agree specifically to support tuition tax credits in the House-Senate conference if it comes over in a House bill but is not in the parallel Senate bill.

3. WHITE HOUSE MEETING

We should schedule the meeting requested in Bob Baldwin's attached memo and explain to the tuition tax credit coalition that we have decided on the above strategies in both Houses.

We are very close to disaster on tuition tax credits. This disaster is entirely our own fault because we have given either mixed signals or no signals or late signals to outside groups, Republican congressional leaders, and tuition tax credits supporters in the rank and file of both houses of Congress.

Because both the revenue bill and the debt limit bill are so far advanced, we do not have much time to decide on a course of action. There are literally millions of people who if properly approached on this subject would communicate with their elected representatives in its behalf. These grassroots supporters will not move unless their leaders give them marching orders. Their leaders will not issue marching orders to their troops unless they see us seriously employing a strategy which can win.

*Tuition
Tax Credit*

THE WHITE HOUSE
WASHINGTON

In the memo of July 12, to Elizabeth
H. Dole on Tuition Tax Credit Bill
Testimony, please note the change
on page 2, paragraph 3. "Rose
was uncooperative ..." should read
"Olson was uncooperative..."

THE WHITE HOUSE

WASHINGTON

July 12, 1982

MEMORANDUM FOR ELIZABETH H. DOLE

THRU: DIANA LOZANO

FROM: MORTON C. BLACKWELL

SUBJECT: Tuition Tax Credit Bill Testimony

I understand that Buck Chapotin is scheduled to give testimony before the Senate Finance Committee on Friday on our tuition tax credit bill. This could be the source of serious problems.

You may recall that Chapotin gave us considerable grief in the early stages of our coalition on tuition tax credits. At first he insisted that we somehow incorporate in the tuition tax credit bill the same prohibitions contained in the Treasury Department's doomed tax exempt status bill. Fortunately strong, explicit messages from Mr. Meese convinced Chapotin he did not have a veto power over the President's tuition tax credit legislation.

The Treasury Department did, however, have people at our marathon meeting when we drafted the bill. They were not constructive influences. The drafting group developed a bill which could be supported by all of the major supporters of tuition tax credits. Throughout the process, Chapotin's representatives threatened us that Chapotin would not testify in behalf of any bill which did not have anti-discrimination language "as strong as the Bob Jones bill".

Just last Friday Kevin Hopkins and I had a spirited conversation with Greg Ballentine of Treasury Department over the wording of our White House Issue Update on tuition tax credits.

At issue in the conversation with Ballentine was whether or not the Issue Update would include an explicit rejection of the "tax expenditure" argument which is raised frequently by Senator Kennedy and others.

The President has repeatedly, explicitly rejected the tax expenditure argument to the effect that the government has a prior claim to all personal income and that tax cuts or tax credits are "tax expenditures" of federal funds. Ballentine said that Chapotin wanted the criticism of the tax expenditure argument deleted from the Issue Update.

Because opponents of tuition tax credits will surely be using this tax expenditure argument, I insisted that Administration spokesmen and other supporters of tuition tax credits needed to have in the Issue Update a clear answer to the tax expenditure argument. Finally, Kevin Hopkins and I agreed to only minor modifications in the Issue Update text, which Ballentine said he and Chapotin could then support.

You will recall my previous memorandum with respect to Education Undersecretary Gary Jones' questionable role on tuition tax credits. I think it is absolutely vital that any testimony coming out of the Administration on tuition tax credits be cleared through the normal processes here at the White House. Otherwise, I consider it a certainty that Chapotin, Gary Jones, or perhaps someone in the Justice Department will give testimony so out of line with what the tuition tax credit supporters expect that we will blow apart our coalition.

Senator Dole may very well want to have someone to give testimony on the antidiscrimination sections. In this case, it is vital that such testimony be given by Jonathan Rose of the Justice Department Office of Policy Development or Brad Reynolds of their Civil Rights Division, not by Ted Olson, office of Legal Counsel. ~~ROSE~~^{OLSON} was uncooperative in both the school prayer amendment drafting and the tuition tax credit drafting. Bill Barr of OPD should clear all Administration testimony on antidiscrimination language in this bill.

As you know, many Catholic and Protestant political activists interested in tuition tax credits are wary. They suspect officials of the Reagan Administration have put forward this tuition tax credit bill as a ploy rather than as a serious effort to enact legislation. At the U.S.C.C., particularly, there are liberal staffers ready to leap at any opportunity to charge the Administration with lack of good faith on this issue.

We have a very strong coalition, most of which is actively diverting resources to the tuition tax credit battle on the strength of our representations to them. It would be foolish in the extreme to allow any Administration spokesman to give testimony on this important bill without fully clearing it through our White House system.

EHD
Red
Jack
Wayne

Document No. Blackwell

WHITE HOUSE STAFFING MEMORANDUM

If we have comments, need to get in quickly-ASAP

DATE: 7/15/82

ACTION/CONCURRENCE/COMMENT DUE BY:

SUBJECT: DRAFT TESTIMONY OF SECRETARY REGAN BEFORE THE SENATE COMMITTEE ON FINANCE (July 16)

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

Remarks:

Richard G. Darman
Assistant to the President
(x2702)

Response:

DRAFT

July 14, 1982 - 7:00 p.m.

For Release Upon Delivery

Expected at 9:30 a.m., E.D.T.

July 16, 1982

STATEMENT OF
THE HONORABLE DONALD T. REGAN
SECRETARY OF THE TREASURY
BEFORE
THE SENATE COMMITTEE ON FINANCE

Mr. Chairman and Members of the Committee:

I am pleased to appear before you this morning in support of S. 2673, which would provide an income tax credit for 50 percent of certain elementary and secondary school tuition expenses. The tax credit is intended to enhance equality of educational opportunity for all Americans at the elementary and secondary schools of their choice.

S. 2673 addresses an extremely important area of public policy. The President has taken considerable personal interest in its development. The Administration believes that enactment of tuition tax credit legislation during this session of the Congress is essential to maintain the excellence of the American educational system and to protect the right of American parents to determine how and where their children will be educated.

S. 2673 would establish a tuition tax credit system that will fulfill this Administration's commitment to parental responsibility, educational excellence, and fiscal and

administrative restraint. The bill will further the educational diversity that is the hallmark of our educational system. It will make educational freedom of choice a reality to more American families. It will target assistance on those families that need it most. Finally, it will neither interfere with the operation of private schools nor impose costly administrative and regulatory burdens on them.

Equality of educational opportunity clearly requires that a diverse range of schools -- public and private -- be available to all American families, and that all American families have the financial ability to permit meaningful freedom of choice among schools. We believe that parents have a fundamental right, and responsibility, to direct the education of their children in a way which best serves their individual needs and aspirations. Moreover, we believe that parental involvement in the decision-making process enhances the quality of education provided.

Private schools are essential to fulfilling our national educational needs. They provide a healthy diversity of approach, and are often a significant source of innovation and experimentation. But private schools are expensive, and inflation is making them more so. At the same time, higher taxes caused by bracket creep are making it more difficult for families to afford private education. Tuition tax credits offer a simple means to assist these students by

permitting families to spend the money that they have earned for the education they themselves select.

Tax credits are especially appropriate as a method of assisting parents to educate their children at private elementary and secondary schools. In this area, unlike others we have discussed with this Committee in the past, tax credits will not duplicate existing tax benefits. Tax credits for tuition expenses have the additional advantage of providing the same dollar benefit to all taxpayers. In contrast, a deduction would provide a greater benefit for individuals in higher tax brackets.

S. 2673 would allow an individual taxpayer to take a credit against income tax in an amount up to 50 percent of the qualifying tuition expenses paid by the taxpayer in a taxable year. Qualifying tuition expenses are expenses paid for tuition and fees to send certain dependents under the age of 20 full-time to private elementary or secondary schools. Qualifying tuition expenses do not include amounts paid for books, supplies, equipment, meals, lodging, transportation, or personal expenses, or for education below the first-grade level or above the twelfth-grade level.

The credit is allowed only for expenses paid with respect to students for whom the taxpayer is allowed a dependency exemption and who bear any of the following

relationships to the taxpayer: children and descendants; stepchildren; siblings, stepbrothers and stepsisters; nieces and nephews; and members of the taxpayer's household, other than the taxpayer's spouse, whose principal place of abode is the taxpayer's home. To be allowed a dependency exemption, the taxpayer must provide more than half of the student's support for the calendar year in which the taxpayer's year begins, and except for the taxpayer's children and stepchildren, the student must have less gross income than the amount of the exemption.

The amount of the credit that is allowable for the taxable year with respect to a student is subject to two limits. First, the maximum amount of credit that may be claimed by the taxpayer for each student in any taxable year is \$100 for the taxpayer's first taxable year beginning on or after January 1, 1983, \$300 for the first taxable year beginning on or after January 1, 1984, and \$500 for taxable years beginning on or after January 1, 1985. This ceiling limits the relative benefit that the credit will provide to parents whose children attend more expensive private schools. Beginning in 1985, parents who send their children to private schools with tuition of \$1,000 or less per year will receive a credit for a full 50 percent of tuition expenses. Parents who send their children to more expensive schools will receive a credit for a lesser percentage of tuition expenses.

The second limit contained in S. 2673 directs the benefit of tuition tax credits to less wealthy families by a phase-out of the credit for higher-income families. The maximum amount of credit per student is reduced as the taxpayer's adjusted gross income increases over \$50,000 and is phased out entirely for taxpayers with adjusted gross incomes of \$75,000 or over. For the first taxable year beginning on or after January 1, 1983, the \$100 per student maximum credit is reduced by .4 percent of the taxpayer's adjusted gross income over \$50,000; for the first taxable year beginning after January 1, 1984, the \$300 per student maximum credit is reduced by 1.2 percent of the taxpayer's adjusted gross income over \$50,000; and for taxable years beginning on or after January 1, 1985, the \$500 per student maximum credit is reduced by 2.0 percent of the taxpayer's adjusted gross income over \$50,000.

The amount of tuition expense for which a taxpayer is allowed a credit does not include expenses that are paid by scholarships and other educational aid that are not includible in the taxpayer's or in the student's income. If the scholarship is paid directly to the school and the school sends a tuition bill to the taxpayer that is net of the scholarship, the taxpayer is not deemed to have been paid the scholarship; the scholarship is excluded from the computation of tuition expense altogether.

A school with respect to which credits are allowable must provide a full-time elementary or secondary school program and must be a private, not-for-profit, day or residential school.

In addition, the school must be exempt from taxation under section 501(a) as an organization described in section 501(c)(3). Church-operated schools will, pursuant to section 508(c), continue to be exempt from the provisions of section 508(a) and (b), which provide that a new organization will be treated as a private foundation unless it applies for 501(c)(3) status. The fact that credits are claimed for payments to a church-operated school shall not serve as a basis for imposing any new requirements on such schools in this regard.

S. 2673 contains strong provisions to ensure that no credits will be permitted for amounts paid to schools that follow racially discriminatory policies. A racially discriminatory policy is a policy under which a school refuses, on account of race, to admit applicants as students; to admit students to the rights, privileges, programs and activities generally made available to students by the school; or to allow students to participate in its scholarship, loan, athletic or other programs. A racially discriminatory policy does not include the failure by a school to pursue or achieve any racial quota, proportion, or

representation among its students.

Three anti-discrimination enforcement mechanisms have been written into the bill.

First, a tax credit cannot be claimed unless the school is a tax-exempt organization under section 501(c)(3). As you are aware, the Administration strongly opposes granting tax exempt status to schools that discriminate on the basis of race. Litigation now before the Supreme Court will determine whether continued IRS enforcement of this nondiscrimination policy will require explicit legislation. If legislation is found to be necessary, the Administration has already made it clear that it favors a statutory solution.

Second, in order for tuition expenses to be eligible for the credit, the school must annually file with the Secretary a statement under the penalties of perjury that it has not followed a racially discriminatory policy during that calendar year.

Finally, the Attorney General of the United States, upon petition by an individual who claims to have been discriminated against by a school under a racially discriminatory policy, may seek a declaratory judgment in a United States district court in the district in which the school is located that the school follows a racially

discriminatory policy. If a final judgment is entered that the school follows a racially discriminatory policy and pursuant to that policy discriminated against the person filing the petition, tuition tax credits are disallowed for the year in which the complaint is filed by the Attorney General and the two succeeding calendar years. The disallowance takes effect when all parties have exhausted their rights to appeal the declaratory judgment.

This Committee has expressed its concern that aid not be provided to discriminatory schools. The triple enforcement mechanism that I have described will prevent use of tuition tax credits to pay expenses at racially discriminatory schools without interfering in the operation of private schools and without subjecting private schools to costly administrative burdens.

Finally, S. 2673 will assist American families to educate their children at the schools of their choice without significant fiscal impact. Our revenue estimates indicate that the cost of the tuition tax credit program is less than 50 million dollars in fiscal year 1983; \$400 million in fiscal year in 1984; \$900 million in fiscal year 1985; and \$1.3 billion in fiscal years 1986 and 1987.

S. 2673 is a bill that provides substantive tax relief to the families of nonpublic school students, thereby

broadening and enriching educational opportunities, and promoting excellence in our schools. The bill recognizes the value of our private schools and will strengthen the right of parents to decide the education of their children. The Administration strongly supports S. 2673.