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Analysis of H.R.2551 - 115th Congress (2017-2018) - Student Loan Debt Relief Act

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H.R.2551 - 115th Congress (2017-2018) - Student Loan Debt Relief Act

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Introduction

H.R. 2551 (115th Cong.), the Student Loan Debt Relief Act, was introduced on May 19, 2017, by United States Congressman Steve Stivers (R-OH-15). If passed, the bill will modify IRC Section 127 (Educational Assistance Programs) and IRC Section 221 (Interest on Education Loans). The bill has three areas of focus. First, the bill will expand the non-taxable fringe benefits for educational assistance programs to include student loan repayment programs. Second, the bill will increase the maximum non-taxable fringe benefits amount from $5,250 to $10,000. Finally, the bill will increase the maximum deduction allowed under IRC Section221 for qualified student loan interest, from $2,500 to $5,000 with a new phase-out range.[1]

In his statement released on April 27, 2017, Congressman Stivers estimates that the current student loan debt of the nation is at $1.4 billion, affecting over 70 percent of college-going students and graduates. He stated that "over 15 percent of borrowers have either defaulted or been delinquent in repaying their loans."[2] Many citizens who pursue higher education are left with no option but to take on student loans that they must pay back with low paying entry level jobs. Also, according to a Gallup poll, one in five graduates is hesitant to start a new business because of their student debt, which in turn hinders our economy.[3]

H.R. 2551 intends to reduce the burden of student loans on students and graduates, who in many cases are starting their careers with lower-paying jobs and large debts. The bill enhances students' ability to repay their debt through tax-free employer-assisted programs and increased interest deductions. The bill will also help those graduates with higher paying jobs like doctors, lawyers, and high-tech professionals, who tend to have the highest student loan balances.

[1] 115th Congress (2017-2018). H.R.2551 - Student Loan Debt Relief Act. Retrieved from: https://www.congress.gov/bill/115th-congress/house-bill/2551
[2] Representative Steve Stivers (R-OH-15th Dist.). April 27, 2017. Opinion Piece – Repaying Loans, Relieving Student Stress. Retrieved from: https://stivers.house.gov/news/documentsingle.aspx?DocumentID=399231
[3] Brandon Busteed. (October 14, 2015). Gallup News - Student Loan Debt: Major Barrier to Entrepreneurship. Retrieved from: http://news.gallup.com/businessjournal/186179/student-loan-debt-major-barrier-entrepreneurship.aspx

Note: this analysis focuses on the changes H.R. 2551 proposes to make to IRC Section 127. A copy of the bill can be found at congress.gov.

IRC Section 127 was enacted as part of the Revenue Act of 1978. Since its enactment, it was scheduled to expire numerous times, but the American Taxpayer Relief Act of 2012 permanently extended this employer-provided education assistant program.[4] Under Section 127, an employer who maintains a qualified educational assistance program can offer tax-free educational assistance up to $5,250 annually to its employees. For an educational assistance program to be qualified under Section 127, it must be documented as a written plan that is nondiscriminatory (i.e., it should not be in favor or highly compensated employees). Also, the eligible employees should not have the option to choose between educational assistance benefits and other types of compensation. The Section 127 benefits can be used to cover employees' tuition, books, and supplies for both job or non-job related education. Currently, the employer-sponsored educational assistance program under Section 127 excludes employees who are covered by a collective bargaining agreement.[5]

Principles of Good Tax Policy

The following section will briefly analyze H.R. 2551 using the Guiding Principles of Good Tax Policy outlined in the AICPA Tax Policy Concept Statement No. 1.[6]

Criteria	**Does the proposal satisfy the criteria? (explain)**	**Result**
Equity and Fairness – Are similarly situated taxpayers taxed similarly? Consider the tax effect as a percentage of the taxpayer's income for	*Horizontal equity:* Horizontal equity requires similarly situated taxpayers to be taxed similarly. Tax incentives could cause similarly situated taxpayers to pay different amounts of tax. For instance, if two employees earn the same amount of wages, the one who has student loan debt and can take advantage of the employer-provided loan repayment program under H.R. 2551 will pay less tax compared to the one without student loan debt. Also, employees working for different	-

4 American Taxpayer Relief Act of 2012 (Public Law 112–240). Available at: https://www.congress.gov/112/plaws/publ240/PLAW-112publ240.pdf
5 A collective bargaining agreement refers to a contract between an employer and a group (usually a union) bargaining on behalf of employees where educational assistance benefits were the subject of good faith bargaining.
6 American Institute of Certified Public Accountants (AICPA) Tax Division. (January 2017). *Tax Policy Concept Statement 1 - Guiding Principles of Good Tax Policy: A Framework for Evaluating Tax Proposals.* Retrieved from: https://www.aicpa.org/ADVOCACY/TAX/downloadabledocuments/tax-policy-concept-statement-no-1-global.pdf

different income levels of taxpayers.	employers where one offers educational assistance as defined in H.R. 2551, the employees will be taxed differently even if they have the same wage income and education expenses. Furthermore, the bill does not fix the eligibility issue noted in IRC Section 127(b)(2). Under Section 127(b)(2), employees who are covered by a collective bargaining agreement are excluded from the employer-provided educational assistance program. Collective bargaining agreements may provide a smaller amount of educational assistance. It would be unfair to union employees, who receive a smaller amount of benefits through a collective bargaining agreement, compared to employees who directly participate in employer-assisted programs and receive a higher amount of benefits. Although the bill would improve the inequity of the current Section 127 by expanding benefits to taxpayers who incurred student loans prior to employment, it remains unfair to employees without student loans (including those who never had them or paid them off prior to starting work) and employees under a collective bargaining agreement who might receive a smaller benefit amount. This undermines the horizontal equity principle. *<u>Vertical equity:</u>* The vertical equity principle is accomplished when taxpayers with a greater ability to pay should pay more tax than taxpayers with a lower income. H.R. 2551 will diminish the progressivity of the tax code as the tax benefit of the exclusion is greater for employees in higher tax brackets.	
Certainty – Does the rule clearly specify when the tax is owed and how the amount is	The qualified person under Section 127 who is eligible to receive the tax benefit per H.R. 2551 is not the same as under Section 221.	-

determined? Are taxpayers likely to have confidence that they have applied the rule correctly.	A taxpayer must first determine what constitutes as a "qualified education loan" under Section 221(d)(1). Per Section 221, qualified education loan is "incurred on behalf of the taxpayer, the taxpayer's spouse, or any dependent of the taxpayer as of the time the indebtedness was incurred." On the other hand, the rule that is related to Section 127 and Reg. 1.127-2(d) applies only to employees. To improve the principle of certainty, the bill should be modified to indicate it only applies to an education loan for the employee's education.	
Convenience of payment – Does the rule result in tax being paid at a time that is convenient for the payor?	The broader exclusion of modified Section 127 should not an effect on an employee's time of payment. An employer's payment of an employee's education debt will make it easier for the employee to have funds to pay his/her taxes.	+
Effective Tax Administration – Are the costs to administer and comply with this rule at minimum level for both the government and taxpayers?	Under the current law, as noted above, students are taxed on loan repayment assistance from employers on qualified education loans as fringe benefit income. Bill H.R. 2551 amends Section 127(c) by re-classifying such loan repayment assistance as a non-taxable benefit to employees. This may reduce the cost of auditing some income tax returns of student employees who receive education loan repayment assistance below $10,000 from their employers. In addition, it may reduce the compliance burden on employees as they do not need to keep track of any such assistance provided by employers. Thus, it appears that the bill may have some positive impact on effective tax administration though the extent would depend on the number of employees receiving the assistance below the threshold amount. Currently, the maximum exclusion of employer-provided educational assistance program is $5,250. Merely raising the	+/-

	limit from the current threshold to $10,000 would not impact employer's reporting or collection obligations. Lastly, the effect on time needed to implement the change might be positive. To promote such educational assistance programs, it would be imperative for employers, tax practitioners, educational institutions and lenders to undertake certain steps to market such programs. With the increase in the threshold of fringe benefit income exemption, it is likely that lenders would market student loans more actively. For instance, lenders might work with educational institutions to promote such loans among the student community. Further, employers may use this provision as a recruitment tool to hire talent at campus events because more students pursing courses are likely to incur student debt. A marketing practice followed by one firm may soon be adopted by others to compete for hiring the best talent. Therefore, awareness about the existence of this provision may increase. Based on our analysis, the government can easily administer this provision and induce compliance by taxpayers without incurring additional costs. It can be concluded that the overall impact of the bill on effective tax administration is neutral.	
Information Security – Will taxpayer information be protected from both unintended and improper disclosure?	The bill does not introduce any new information reporting or compliance requirements that could potentially expose more taxpayer information. Employers would continue to report their education benefits in excess of $10,000 as compensation on Forms W-2. In doing so, no additional taxpayer information is required by employers. In a situation where employers make principal or interest payments on qualified education loans directly to lenders, no additional sensitive tax information is required to be furnished by the employers in the process (employers already have employee tax	+ / -

	identification information). Therefore, employees would not be required to share additional information with employers related to the provisions in this bill. Also, there is no added complexity due to which lenders would require taxpayers to furnish additional information that could risk the unintentional or improper disclosure of taxpayer information. Thus, the bill does not impact the principle of Information Security.	
Simplicity - Can taxpayers understand the rule and comply with it correctly and in a cost-efficient manner?	H.R. 2551 raises the limit of maximum income exclusion from gross income from \$5,250 to \$10,000. It also expands the definition of educational assistance to include payments made by employers to employees or lenders of principal or interest on qualified education loans incurred by employees. In terms of simplicity, the rules are easy to understand without ambiguity. The changes can also be implemented without incurring additional costs. Also, the bill is easy to comply with as it does not require any additional forms. Therefore, in its current form, the bill achieves the principle of simplicity. However, it might cause unintended consequences if no process is in place to verify if the loan was truly for educational purposes.	+
Neutrality – Is the rule unlikely to change taxpayer behavior?	While this bill will have limited impact on taxpayer decisions to pursue undergraduate, graduate, or other educational opportunities, it will influence taxpayer decisions regarding how they fund their education. If employer student loan debt repayment programs are included in non-taxable income and the exclusion amount is increased to \$10,000, students might prefer student loans over grants, scholarships, and other options because the	-

	application process for student loans is simpler and more certain. This could result in higher student loan debt as students take on more debt in lieu of free or cheaper funding options because they expect their future employer to offer a tax-free repayment program. The bill may also affect employers' decisions regarding employee compensation as they shift their recruiting resources to student loan repayment programs. Changes in compensation and benefit programs may negatively affect other employees who will receive no benefit from these changes. Additionally, the bill will most likely affect taxpayers' employment decision as those with student loans will prefer employers with a Section 127 program.	
Economic growth and efficiency – Will the rule not unduly impede or reduce the productive capacity of the economy?	The bill could have a positive impact on productivity as it may provide some additional benefits that would enable companies to recruit skilled labor at multiple education and experience levels that would improve efficiency and economic growth. Employees would have more disposable income as they would not have to use after-tax dollars to pay off loans, or include the student loan repayment paid by employers in their income. This could lead to more spending and increased economic activity. Student loan delinquency should also go down as more students are able to pay off loans. This will result in a stronger economic performance for both private student loan lenders and government lending programs.	+

Transparency and Visibility – Will taxpayers know that the tax exists and how and when it is imposed upon them and others?	As the bill increases benefits to taxpayers, employers and student loan lenders will likely promote these benefits to attract employees and students. In addition, the current legislation includes a provision Section 127(b)(6), that requires employers to notify employees of educational assistance programs and the terms of those programs. Thus, it is likely that students and employers will be aware of the Section 127 benefit and its tax effect.	+
Minimum tax gap – Is the likelihood of intentional and unintentional non-compliance likely to be low?	Section 127 allows an employee to exclude from gross income certain educational assistance provided by employer. Intentional non-compliance of the section is likely low because Section127 benefits the taxpayers by reducing the employee's taxable income. H.R. 2551 amends Section127 so that certain education loans paid by employers also qualify for income exclusion. As the proposed bill would broaden the tax-free fringe benefit provided to employees, intentional non-compliance is unlikely. Unintentional non-compliance could occur if employees are unaware of, or incorrectly interpret the new rule on educational loan assistance. Most taxpayers do not monitor the change in the tax code. Unless the employees are informed of this new bill (by their employer, school, or student loan agency), it is possible that they would report an incorrect amount of gross income on their tax returns. However, most employers do regularly monitor the change in tax rules on fringe benefits. Because employers, not employees, have the responsibility to issue correct form W-2s, and the impact of the new bill should be directly reflected on an employee's W-2, the risk of unintentional non-compliance is not significant. H.R. 2551 amends the annual income exclusion threshold from $5,250 to $10,000. Similar to the other amendments to Section 127, the risk of intentional non-compliance is low but	+

	the risk of unintentional non-compliance exists. Once the employees are aware of the changed rule, accurately reporting the taxable income should not be an issue because the language and guidance provided under Section 127 are clear and simple. It is important that a system exist to verify that any loan payment by the employer is for the employee's eligible student debt.	
Accountability to taxpayers – Will taxpayers know the purpose of the rule, why needed and whether alternatives were considered? Can lawmakers support a rationale for the rule?	Although most taxpayers do not pay close attention to the developments of tax laws, employees have several means to obtain information about H.R. 2551. For instance, the bill is published on the government website, and it is likely advertised to employees by their employers, schools, student loan creditors, and/or their tax accountants. Today, most employees who receive student loan assistance from their employers also hire a tax accountant, or use a tax software, to prepare their income tax returns. These qualified tax preparers are generally knowledgeable about the developments in tax laws, so the risks of employees not being aware of this new rule is low. It is noteworthy to mention that employers who provide educational assistance to its employees would likely advertise this new bill as a mean to attract future employees. This provides another layer of accountability to ensure taxpayers have the appropriate information and knowledge of the new bill.	+
Appropriate government revenues – Will the government be able to determine how much tax revenue	H.R. 2551 allows an employee to exclude up to $10,000 of employer provided educational assistance from his/her gross income each year. Compared to the current income exclusion limit of $5,250, the proposal will reduce government revenue. The taxing authority has access to certain data on existing education assistance programs and student loans, which will	-

will likely be collected and when?	help the government estimate how much revenue will decline due to the proposed bill. For instance, according to the *Society for Human Resource Management, (SHRM)* the number of people who received Section 127 benefits were about 913,100 in 2007.[7] Per SHRM, the average Section 127 benefit received in 2007 was $2,700 ($3,701 for graduate students and $1,940 for undergraduate students). However, it is difficult to forecast whether H.R. 2551 would significantly influence taxpayers and employers' behavior. For example, an employer that had not previously offered student loan assistance may now consider adding student loan payment as a fringe benefit to further attract future employees. Revenue loss due to changed behavior is difficult to estimate. Furthermore, the potential social and economic impact due to improved productivity of the workforce is not easily determined (see additional discussion in the neutrality section).	

Conclusion

Based on the above analysis, H.R. 2551 has a positive rating for the principles of convenience of payment, simplicity, economic growth and efficiency, transparency and visibility, minimum tax gap, and accountability to taxpayers. It has a neutral impact on the policies of effective tax administration and information security. However, several key principles, including equity, certainty, neutrality, and appropriate government revenues are violated.

The intent of H.R. 2551 is to alleviate the current student debt crisis, which was a result of inadequate government support for higher education, insufficient funds of college students, and

[7] National Association of Independent Colleges and Universities (NAICU) & Society for Human Resource Management (2010). *Who Benefits from Section 127? A Study of Employee Education Assistance Provided under Section 127 of the Internal Revenue Code.* Retrieved from: http://www.cpepea.com/wp-content/uploads/2017/05/10-0418-Coalition-Report-on-Public-Policy-Issue-E-P-E-A_FNL.pdf

rising college tuition. According to the Tax Policy Center, the outstanding student loan balance was $1.2 trillion in 2013 which exceeded other household debt (excluding mortgages). This mounting student loan debt has a long lasting and debilitating impact on a student's life. Student loans will likely impede people's ability to buy their homes and secure their financial stability including saving for retirement. As stated in the U.S. Treasury's Revenue Proposal for 2017, "accumulation of knowledge and skills contributes increased productivity of workers" and ultimately benefits the overall economy.

Higher education helps people to get a better paying job. That said, with other pressing reform goals (such as tax, healthcare, social security), the bill, if enacted, would put more pressure on the budget. As a result, the bill could be modified to include a limit on the number of times such education assistance can be received as tax-free by an employee in a lifetime. Furthermore, with the Consumer Financial Protection Bureau estimating that the U.S. will be facing a shortage in certain fields such as teachers, healthcare workers, police officers etc., the bill may increase the threshold of tax free fringe benefits for those students who pursue education in such fields. In addition, the bill in its present form is likely to motivate students to opt for employer sponsored student loans over other forms of funding. Hence anti-abuse provisions, such as making the loan assistance taxable for employees if the education program or coursework (for which the assistance is made) is not completed during their tenure of employment with the employer, might reduce any abuses and the costs to the fiscal budget.

Analysis of H.R. 2802 - 115th Congress (2017-2018) First-Time Homebuyer Savings Account Act of 2017

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Introduction

There are many financial pressures on individual and family budgets, such as rent, student loan payments, car payments, child care, healthcare, and other routine living expenses. With all those pressures, saving for a down-payment and closing costs for the purchase of a first home can be extremely challenging. As the American dream of homeownership is getting further away for many Americans, tax law changes have been proposed or passed at different levels of the government to help those trying to buy or build their first home.

Currently, some states allow a *First-Time Home Buyers Savings Account*. Minnesota is the latest state to adopt such a plan, joining a growing list of states: Colorado, Mississippi, Iowa, Missouri, and Oregon. Pennsylvania, New York, Oklahoma, Maryland, Utah, and Louisiana have also shown interest in enacting legislation on First-Time Home Buyer Savings Account. These state-level First-Time Home Buyers Savings Account allow individuals and families to save for their first home by putting a percentage of their income, or a capped amount of funds, into an account that is free from state income taxes.[1]

On June 7, 2017, Rep. Mike Coffman[R-CO] introduced the First-Time Homebuyer Savings Account Act of 2017 (H.R.2802, 115th Congress).[2] This bill is almost identical to a previous bill he introduced in the 114th Congress (H.R. 5575, - 114th Congress) with minor differences. H.R. 2802 would amend the federal tax code to create a 529-style savings account for first-time homebuyers. "The goal is to take the highly successful 529 plan model, which provides parents a tax-advantaged means to save for their children's college education, and apply it to another area where savings are equally important: buying a first home". This bill mirrors legislation that received bipartisan

[1] Realtor Mag (June 01, 2017). *More States OK First-Time Buyer Savings Accounts*, Daily Real Estate Retrieved from: http://realtormag.realtor.org/daily-news/2017/06/01/more-states-ok-first-time-buyer-savings-accounts

[2] 115th Congress (2017-2018). *H.R.2802 - First-Time Homebuyer Savings Account Act of 2017*. Retrieved from: https://www.congress.gov/bill/115th-congress/house-bill/2802