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THE WHITE HOUSE

WASHINGTON

June 27, 1983

Miss Leone L. Lynn
710 E. Kentucky
DeLand FL 32720

Dear Miss Lynn:

Thank you for your recent letter and for the copy of your letter to Senator Hollings on the subject of tuition tax credits.

I certainly hope the Senator read your letter very closely. In addition to enhancing freedom of choice, the passage of tuition tax credits would lead to an overall improvement in education, both public and private.

As President Reagan recently said, education must not become a political football. Let's hope that in the near future, enough Congressmen "see the light" on this issue.

Sincerely,


Morton Blackwell

Special Assistant to the President
for Public Liaison

710 E. Kentucky
DeLand, Fla 32720
April 20, 1983

*Ken
Draft response*

Mr. Morton Blackwell
Counselor to the President
for Religious Affairs
The White House
Washington, D. C.

Dear Mr. Blackwell:

I thought you might be interested in reading the enclosed copy of my letter to Senator Ernest Hollings, which supports the President's plan for tuition tax credits for parents of private-school children. The letter was intended to be informative in case he does not understand the important role the church-related school plays in education.

I am not at all convinced that the Senator's statement opposing tuition tax credits, which was quoted in my letter, was the result of ignorance on his part. I have been observing him for some time, and increasingly, he gives the impression that he is conducting the same type of campaign which Jimmy Carter conducted in '76. He first came to my attention when he wrote me and strongly criticized President Reagan's policies but also criticized the liberal Democrats as well. Apparently, he wishes us to believe he is the only one who can save the country!

Like President Carter, he is primarily a liberal, but will throw a crumb now and then to gain conservative support. In my voting register, his voting average is that of a Moderate Liberal. His game plan so far is apparently to carry water on both shoulders. I have written him several critical letters. For example, I wrote him to criticize his co-sponsoring the ERA and gave a wealth of information as to why it was a dangerous amendment. In reply, he could not cite one reason why it would benefit the nation and could only say he wanted me to know he was in favor of school prayer.

Because of his waffling from one side to the other, the description fits him which was given by William Murchison of the Dallas Morning News when he described Jimmy Carter during the '76 campaign by saying he had no undergirding in political philosophy, for he was neither liberal nor conservative. He was in favor of nothing except that which benefitted Jimmy Carter. And so it appears to be with Senator Hollings!

Very truly,

Leone L. Lynn
Miss Leone L. Lynn

P. S.

I was a subscriber to the Right Report when you were its editor and always enjoyed your news so much.

Enc.



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."



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Educational Opportunity
I 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

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The need for tuition tax credits

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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.


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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.

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~~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.

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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."