

**Attention: Information No Longer Current  
(Alert archived November 2011)**

**Alert #4**

**Subject: Taxpayer Relief Act of 1997**

**Prepared: February 1998**

**Summary**

The Taxpayer Relief Act (TRA) signed on August 5, 1997, created two sweeping incentives for students and parents: (a) the Hope Scholarship: an annual tax credit worth 100 percent of the first \$1000 that a freshman or sophomore spends on tuition and fees and 50 percent of the next \$1000 for a annual total of \$1500, and (b) the Lifetime Learning Credit: an annual tax credit worth 20 percent of the first \$5000 that a full-time third or fourth year student or a part-time student spends on tuition and fees through the year 2002 (and 20 percent of \$10,000 thereafter). Both programs total about \$40 billion for institutions and the students they serve.

Internal Revenue Service (IRS) Notice 97-73 identifies several institutional reporting requirements. Beginning in 1998, colleges must report the names, addresses, and social security numbers of their students, as well as whether students are enrolled at the institution at least half-time. The IRS backed off earlier rules which held that institutions must also report the names and social security numbers of students' parents or other individuals who may have the tax credit in 1998. However, it is now reported that this additional information will be required after January 1999. College officials may seek to have the law changed, claiming that this information already is available to the IRS on individual tax returns and the burden of collecting and reporting this information is quite high since it typically is not part of existing institutional data systems.

**Current Status**

In general, college officials are pleased with the influx of federal dollars and the responsiveness of the Treasury Department to the higher education community. In addition, the IRS has shown flexibility in phasing in several reporting requirements and listening to members of the community at several public forums and meetings since the law was passed.

TRA has resulted in a new set of agencies that are asking for data. For example, the Treasury Department, not the Department of Education, issued TRA regulations and reporting requirements. Different government officials than those usually seen at the AIR Forum each year will be monitoring these data. Tax lawyers, rather than NCES officials, chaired two public meetings for the higher education community and Treasury officials in Fall 1997. Obviously,

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Treasury officials were less familiar with reporting formats and requirements in higher education than those who usually gather Integrated Postsecondary Education Data System (IPEDS) data.

On the other hand, the staff of the Department of the Treasury has a lot of experience with gathering unit record data in very high volume. It has an office that handles issues of confidentiality and privacy in very complex situations. These issues, which are new in higher education, have a longer history at Treasury than at Education.

### **Implications for Institutions**

Privacy is an issue with TRA. The Family Policy Compliance Office as the federal oversight office for the Family Educational Rights and Privacy Act (FERPA) legislation released a letter last Fall concluding that Congress intended to supersede FERPA when it enacted TRA. This was not the first use of this logic. This ruling was essential for institutions to meet the reporting requirements for all enrolled students, not just those whose tuition is fully covered by institutional or outside financial aid.

Another issue is the definition of first, second, third and fourth year of college. Eligibility for tax credits and reporting requirements depend on these academic levels, but there exists no consistent procedure for determining each academic level across institutions.

A third issue for institutional researchers is that the government collects taxes on a calendar year basis and not an academic year. Whereas, the Department of Education often has changed regulations or sought technical amendments to conform to the academic year cycle, Treasury officials follow the tax calendar year which will not change as a result of TRA regulations.

A fourth issue, applicable to financial aid recipients, lies in documenting the party responsible for paying different categories of tuition and fees. The tax credit applies only to tuition and fees, not to other charges. When students receive financial aid to supplement their own resources, institutions will need to delineate the specific categories of student charges to which they first apply financial aid, perhaps holding tuition and fees in abeyance for last, so that students and families seeking the tax credit can demonstrate that their share went to tuition and fees.

Institutions will want to watch the developments in Washington for the 1999 requirement to report the social security numbers of parents or others declaring students for tax credits on their returns. Not only are these data elements typically not collected by institutions, but also they typically would not reside in a single data source on most campuses. For example, enrollment data are typically stored in a student system, financial aid data in a financial aid system, tax information in a financial system, and parent addresses (if at all) in numerous places (e.g., the

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annual giving system). Since the law is new, no institution is collecting information in any system about the "others" that are not parents but use the tax credit in a calendar year. On many campuses neither the data systems nor the officers responsible for the data typically work together with regularity. Institutional Researchers may have the burden of pulling the data together from disparate sources.

## **Timelines**

June 1996 - President announces formation of "Hope Scholarships."

August 1997 --- Taxpayer Relief Act signed by the President.

January 1998 - - Institutions must assemble the names, addresses, and social security numbers of their (full and part-time) students in view of TRA.

January 1999 - - Institutions must also begin collecting the names and social security numbers of students' parents or other individuals who may have the tax credit in 1998.

March 1999 - Institutions must report 1998 data to the IRS on Form 1098-T.

## **Additional Resources**

The Internal Revenue Service has released three new forms related to institutional reporting requirements for education provisions of the Taxpayer Relief Act of 1997:

- Form 1098-T, Tuition Payments Statement. This form will be used by institutions to report certain information on students to the IRS by March 1, 1999.
- Form 1098-E, Student Loan Interest Statement. This form is for reporting student loan interest payments. It must be filed by any institution that receives payments from students/parents for qualified education loans.
- Form W-9S, Request for Student's or Borrower's Social Security Number and Certification. This optional form may be used to collect information from students.

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To review the Taxpayer Relief Act of 1997, see <http://thomas.loc.gov/cgi-bin/query/z?c105:H.R.2014.ENR>:

The new TRA guidelines (Notice 97-73) are available on the American Association of State College and Universities Web site at [http://www.aascu.nche.edu/services/gov\\_rel/taxact.htm](http://www.aascu.nche.edu/services/gov_rel/taxact.htm) and at the National Association of Collegiate Business Officer's site at <http://www.nacubo.org>

The Internal Revenue Service has information for taxpayers and institutions about TRA at the following address:

- <http://www.irs.treas.gov/hot/not97-60.html>,
- <http://www.irs.ustreas.gov/hot/index.html>,
- <http://www.irs.ustreas.gov/hot/tax-law.html>.

The new tax forms can be downloaded from [http://www.irs.ustreas.gov/basic/forms\\_pubs/forms.html](http://www.irs.ustreas.gov/basic/forms_pubs/forms.html).

"IRS Makes Concessions on Hope But Colleges Fear Parents Complaints." Enrollment Management Report, Volume 1, Issue 8. November 1997.

The Chronicle of Higher Education has had several articles about TRA that are available for subscribers on its Web site at <http://chronicle.com>. Go to the Government and Politics section:

- "Treasury Department Explains Requirements for Colleges on New Tax Credits," 10/31/97.
- "New Tax Breaks for Students May Require Extensive Reporting by Colleges to the IRS," 10/10/97.
- "IRS Provides Details on Line of College-Payment Tax Breaks," 11/14/97.
- "Treasury Department Eases Requirements for Data on Students Who Seek Tax Breaks," 12/4/97.

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