COLLEGE TUITION TAX CREDITS: AN EXAMINATION OF THE IMPACT OF THE AMERICAN OPPORTUNITY, HOPE, AND LIFETIME LEARNING TAX CREDITS SINCE 1998

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ABSTRACT
In August, 1997, President Bill Clinton signed the Taxpayer Relief Act into law which included several targeted tax provisions aimed at assisting middle-income taxpayers in paying for college tuition costs. Two specific provisions enacted were the HOPE tax credit and the Lifetime Learning tax credit (LLTC) (I.R.C. §25A). In 2001, President George W. Bush signed law College tuition and fees deduction, which expired after 2009. In February, 2009, President Obama temporarily expanded and renamed the HOPE credit for 2009 and 2010 called the American Opportunity Tax Credit, which is set to expire after 2010 if Congressional action is not taken. Prior to (and subsequent to) enactment of the HOPE and LLTC, several policy experts made claims that these educational tax benefits would add complexity to the U.S. Tax Code, that benefits would primarily assist taxpayers with higher adjusted gross incomes (Conklin, 1998), and, as such, will disproportionately provide tax relief to upper-middle and higher income taxpayers who do not struggle to pay tuition costs as much as lower-income families (Wolanin, 2001). In 2003, the two tax credits combined claimed totaled $7.5 billion and recent IRS data suggests the combined tax credits have grown substantially. The purpose of this paper is to examine some of the claims by policy experts of the HOPE and LLTC to see the use patterns since enactment in 1998 to 2008.

INTRODUCTION

In the United States, the federal government has had the primary role of assisting qualified needy students pay for college tuition costs through various spending programs, commonly known as federal student aid programs. Prior to the enactment of these programs, the largest college aid program occurred during World War II with the passage of the Servicemen's Readjustment Act of 1944, known as the G.I. Bill. In 1958, Congress passed the National Defense Education Act (NDEA) in response to the former Soviet Union's launching of Sputnik. In 1965, Congress passed the Higher Education Act, which created several student aid programs that are still in existence today. In 1972, the Basic Educational Opportunity Grant (BEOG) was created in the re-authorization of the Higher Education Act of 1965, which was renamed as the federal Pell Grant. The federal government specifically has assisted students through the delivery of need-based student aid programs (Title IV) including the federal Pell Grant, Supplemental Educational Opportunity Grants (SEOG), college work-study, and the federal subsidized and unsubsidized student loan programs (including the federal Perkins Loan, the Federal Family Educational Loan Program, and the William D. Ford Direct Loan Program). In each of these programs, the primary intended beneficiaries were students from lower-income families. In the latter 1970s, tuitions began to rise disproportionately due to rising inflation, and due to capacity constraints that emerged on many college campuses as enrollments increased dramatically due to implementation of open-enrollment policies. Along with lower-income families, many middle-income families began relying on federal student aid programs to assist them in paying college costs. One additional loan program was introduced and made available beginning in 1980, known as the Federal Parent Loan Program. While more aid has been made available, most of it has been in the form of loans. However, as the cost of higher education has increased dramatically over the past forty years, many lower- and middle-income families have found paying for college costs a difficult hurdle. Debt-borrowing levels began to increase dramatically in the 1990s after Congress and the Bush (41) Administration reauthorized the Higher Education Act, significantly increasing the federal student loan limits. These debt burdens can diminish a college graduate's future earnings capacity as they repay their student loans.

Each of these federal student aid programs have had variations of support and funding since their enactment, but the federal government's subsidies for higher education have greatly increased over the past century, conveying a firm commitment to assisting students and parents in paying college costs. These federal programs are paid for through annual appropriations and are funded as spending measures. ***Exhibit 1*** below provides the amount of funding for each of the federal primary student aid programs (in billions) discussed above for fiscal year 2009-2010.

Exhibit 1: Total Federal Student Aid (in current dollars): 2009-2010

	Aid in Billions 2009-10
Federal Pell Grant	$ 28,213
Federal SEOG	758
Perkins Loan	1,106
Subsidized Student Loans:	
FDLP	14,190
FFELP	22,551
Unsubsidized Student Loans:	
FDLP	16,721
FFELP	27,968
PLUS	14,165

Source: The College Board, http://trends.collegeboard.org/student_aid/report_findings/indicator/Total_Student_Aid_in_Current_Dollars

As Congress has debated about how to assist students and families in paying for college costs, in 1997 Congress and the Clinton Administration introduced two federal tax credits aimed at assisting taxpayers in paying for tuition costs: The federal HOPE Scholarship Tax Credit (HOPE) and the Lifetime Learning Tax Credit (LLTC).

The HOPE and Lifetime Learning credits (§25A) were a paradigm change in the federal government's method of paying college tuition costs because it was the first time Congress had used the U.S. Tax Code to directly pay for non-employment related tuition costs. The major purpose of the tuition credits was to assist middle-income taxpayers in paying college costs in addition to the federal student aid programs. Moreover, the credits are not subject to the annual appropriations process. Prior to enactment of the tax credits, tuition was deductible only in a limited situation if the education was job-related and did not train the taxpayer for a new job.

The purpose of this paper is to examine the policy objectives of the HOPE and Lifetime Learning credits, a brief discussion of the history of the development of the credits, and to take a few of the arguments that emerged during 1997 and 1998 against the credits and examine some of the outcomes from 1998 through

2008 to see if those claims are founded. The paper will also address the American Opportunity Tax Credit, which was passed in 2009.

BRIEF HISTORY OF COLLEGE TUITION TAX CREDITS

College tuition tax credits were fully realized in 1997 and went into effect in 1998. However, there were several earlier attempts to enact college tax credits, taking over thirty years for tax them to be enacted. Each attempt had different political actors and somewhat different rationales for pushing the tax credit proposals. Some debates were relatively quiet, others were very contentious.

The 1960s. In the 1960s, as President Lyndon Johnson began to push several pieces of anti-poverty legislation, more commonly referred to as the Great Society legislation, college tuition tax credits were introduced as a counter-proposal to the Higher Education Act. Along with higher education, similar tax credit measures were introduced that included private elementary and secondary education tuition. At that time, there was a significant amount of racial tension, post-*Brown v. Board of Education,* with some taxpayers fleeing public schools for private schools. Parents sending their children to private schools were paying local property taxes to finance public schools, but received no offset for the tuition costs they paid for private school tuition. There was a belief by some in Congress that this was a hardship on middle-income families. Moreover, during this time, the federal role in education was largely regulatory, but very little in the way of spending programs when compared to today. This changed with the Higher Education Act of 1965 (HEA) and the many other pieces of President Johnson's Great Society legislation. Tuition tax credits of all kind were sidelined by these major spending programs.

The HEA provides grants, college work-study, and federally subsidized student loans, known as the Guaranteed Student Loan Program and are the central components of federal student aid that are still widely used today. For nearly twenty-five years, these programs were largely targeted only at those who students and families with a significant amount of financial need in paying college costs (today eligibility easily impacts middle-income families). During the HEA debate, tax credits were seen as an alternative measure that would largely benefit upper-income taxpayers. Lyndon Johnson's Assistant Treasury Secretary, Stanley Surry, argued that college tax credits "would not result in a single additional student going to school" (United States Department, 1965). He further made the claim that student aid programs would be targeted toward students who "would not otherwise go to college at all" (United States Department, 1965).

The 1970s. The most prominent debate involving college tax credits occurred in late 1977 and during the majority of 1978. Nearly ten years after the implementation of the federal student aid programs with the passage of the HEA in 1965, middle-income taxpayers began feeling squeezed largely from several years of high unemployment, rising interest rates, and steadily rising inflation, which diminished take-home pay for millions of Americans. From 1967 to 1977, there was a 74 percent rise in public college tuitions and a 77 percent rise at private institutions (Howard, 1997). While the tax credit proponents in the 1960s were largely from more conservative parts of both parties, in 1977, a large portion of the proponents included liberal members—broadening the coalition enough to become a threat to the President. The literature provides rich layers of discussion on the variables impacting the tax credit debate during the 1970s that are discussed in other manuscripts and publications. However, the central issue during this time was that middle-income taxpayers needed assistance and they were not deemed needy enough to qualify for any of the federal student aid programs. Members of both the House and Senate moved to develop tuition tax credit proposals.

To gain a perspective of the bills that emerged in each chamber, the Senate Finance Committee reported out H.R. 3946, with a tax credit up to $500, with the credit apply against to the first 100 percent of tuition costs, limited to $500. In addition, the tax credit was refundable. In the House, the Ways and Means Committee reported out H.R. 12050, which allowed a more modest credit that had phased-in amounts

($100 in 1978, $150 in 1979, and $200 in 1980). Further, the tax credits were applied against the first 25 percent of tuition costs and were non-refundable. The more controversial aspect was contained in the Senate version—tax credits for private elementary and secondary tuition. President Jimmy Carter was a strong supporter of public education, sending his daughter Amy to a public school in Washington, D.C. President Carter would not even remotely consider signing tax credit legislation, even if lower education credits were stripped from the bill. This was a very contentious issue with members from both parties. In late 1977, while debating the Social Security reform bill, Senator William Roth (R-DE) threatened to derail the Social Security legislation if a tax credit measure were not allowed to be attached to the bill. He relented only after being promised an up-or-down vote by the Senate Majority Leader Robert Byrd (D-WV) on a similar measure in the next session.

President Carter was surrounded with enormous pressure to act on a tax credit proposal, but refused to support the bills. Instead, he introduced legislation that would increase eligibility limits up to the middle-income range for federal Pell Grants from $16,000 to $25,000, removed income ceiling caps on federal student loans, and created a new federal loan program known as the federal PLUS Loan, or the Parent Student Loan. While these spending measures were amenable with several members on Capitol Hill, they did not blunt the tax credit debate immediately. What ultimately caused the tax credit proposals to fail in the fall of 1978 was the requirement in the legislation that the tax credits cover private elementary and secondary education tuition as well as college tuition costs. President Carter's student aid expansion bill, known as the Middle-Income Student Assistance Act, received broad support in both the House and Senate and served as an anecdote to the student aid problem. It is noteworthy that college tuition tax credits came very close to enactment.

The 1980s. After the tax credit bills failed in 1978, some bills were introduced in 1979, but there was no congressional appetite to move on any measures considering President Carter's opposition was firmly established. In 1981 after Ronald Reagan was elected and the Senate control moved to the Republicans, the political actors changed dramatically. President Reagan's popularity in running for office was partly due to the overwhelming support for California Proposition 13, which capped property tax values and ignited a major "anti-tax" movement. Upon entering the White House, the president focused mainly on reducing marginal income tax rates as a way to stimulate the economy. The Economic Recovery Act of 1981 (ERTA) reduced marginal tax rates significantly. In order to move the legislation forward, targeted tax initiatives, such as tuition tax credits, were largely missing from the deliberations. A tax credit measure did not appear again until 1982 and it was defeated. After ERTA was passed, concern mounted that the federal budget deficit was growing more rapidly than predicted. Therefore, in 1983 and in 1984, President Reagan signed to two tax bills, TEFRA and DEFRA. These bills were enacted to eliminate or delay some of the provisions contained in ERTA in order to slow the growth in the budget deficit. There were no major discussions of tuition tax credits, although President Reagan was mildly interested in the idea. The focus in the latter 1980s moved to tax reform, not creating new tax provisions. College tax credits faded out of the overall discussions in Washington, D.C.

The 1990s. College tax credits re-emerged as one of the central pieces of President Bill Clinton's 1996 re-election strategy. In late 1994, after losing both houses of Congress to the Republicans, President Clinton moved early to stake out proposals that would resonate with middle-income voters. The college tuition tax credit idea resurfaced in a televised speech the president gave after the mid-term election. In his speech, President Clinton listed a variety of centrist proposals, one called the college tuition tax deduction. While the provision went nowhere over the 18 months, on June 1, 1996, the President outlined a bold initiative during a Princeton University commencement address called the "Hope Scholarship," which would provide either a tax credit or deduction to assist middle-income families pay for college. While the 104th Congress never acted on the measure, Clinton incorporated the policy idea into his re-election campaign proposals. The idea of college tax credits or a deduction poll-tested very positively with centrist Americans. Once re-elected, President Clinton moved on the HOPE Scholarship proposal in early 1997 in crafting a tax bill with the Republican leaders in Congress. One year earlier, Clinton vetoed budgets handed to him by the Republicans, shutting down parts of the government. The Republican leaders lost several House seats in 1996, with President Clinton winning a near-mandate re-election. In 1997, discussions between Congress and the White House were still sharp, but it was one of the few moments when both parties cooperated. Republicans got several things they wanted and President Clinton got most of what he wanted. One of the key negotiating factors was college tuition tax credits, which President Clinton required had to be contained in the final bill if he were to sign it. President Clinton did not receive overwhelming support for the tax credit proposals from the colleges and universities. In order to secure their support and support from the Democratic members from the liberal wing of the party, President Clinton increased the maximum Pell Grant limits from $2,700 to $3,000 to assist needy students and families (Silliman, 2002). In the final negotiations, two college tax credits were created: The HOPE Scholarship Tax Credit, which covered the first two years of college tuition costs and the Lifetime Learning Tax Credit, which paid for the third year through graduate school. Each tax credit had specific requirements and complexities. The HOPE credit went into effect on January 1, 1998 and the LLTC went into effect for semesters beginning after June 30, 1998.

Ironically, the first two major deliberations over tax credits involved Democratic presidents, Lyndon Johnson and Jimmy Carter. Both were against the tax credits. Several years later, a Democratic president initiated and signed college tax credits into law. For the first time, a new means of assisting taxpayers in paying college costs emerged alongside the federal spending programs for college student aid. Ten years after enactment, the HOPE and LLTC are heavily utilized programs. In the remainder of this paper, a closer look at the usage rates of the tax credits will be examined alongside some of the criticisms of the credits that emerged during the 1996-1997 debate. The next sections discuss the HOPE credit, the Lifetime credit and the recently enacted the American Opportunity credit. The American Opportunity credit is not part of the analysis of this study, but is worth mentioning in pointing out that education tax credits are expanding as a policy, not diminishing.

THE HOPE SCHOLARSHIP CREDIT

The HOPE credit assists parents and students pay for post-secondary education. The Hope credit is a nonrefundable credit, meaning it can only be offset against a positive tax liability. The allowable HOPE credit may be limited by the amount of the tax filer's adjusted gross income and the amount of your tax.

The HOPE credit is for the payment of the first two years of tuition and related expenses for an eligible student for whom the taxpayer claims an exemption on the tax return. Normally, one can claim tuition and required enrollment fees paid for your tax filer's, as well as their dependents' college education. The HOPE credit targets the first two years of post-secondary education, and an eligible student must be enrolled at least half time. In addition, the HOPE Credit can be claimed if all three of the following requirements are met: 1. The tax filer pays qualified education expenses of higher education, 2. The tax filers pays the education expenses for an eligible student, and, 3. The eligible student is either the taxpayer, the taxpayer's spouse or a dependent for whom the taxpayer claims an exemption on your tax return.

The HOPE credit was indexed for inflation and has periodically adjusted. For 2008, the credit is calculated as follows: 100 percent of the first $1,200 of tuition and fees, plus 50 percent of the next $1,200 of tuition and fees, with a maximum non-refundable credit of $1,800. There can be more than one HOPE credit claimed per tax return, as the credit is "per taxpayer." The credit has an income phase-out as follows: for single tax filers, the phase-out begins with modified adjusted income (MAGI) between $48,000 and $58,000; for joint filers, the phase-out begins with MAGI between $96,000 and $116,000.

LIFETIME LEARNING TAX CREDIT

The Lifetime Learning Tax Credit LLTC assists parents and students pay for post-secondary education. Tax filers may be able to claim a LLTC of up to $2,000 for qualified education expenses paid for all students enrolled in eligible educational institutions. There is no limit on the number of years the lifetime learning credit can be claimed for each student. However, a taxpayer cannot claim both the HOPE and/or American Opportunity credit and LLTC for the same student in one year. Thus, the LLTC is helpful to graduate students, students who are only taking one course and those who are not pursuing a degree. The three requirements for the HOPE Scholarship Tax Credit are the same for the Lifetime Learning Tax Credit. Also, if a tax filer is eligible to claim the LLTC and is also eligible to claim the HOPE or American Opportunity credit for the same student in the same year, the tax filer can choose to claim either credit, but not both.

The LLTC was not indexed for inflation and has not adjusted. For 2008, the credit is calculated as follows: 20 percent of the first $10,000 of qualified tuition and fees, with a maximum credit of $2,000. Also, unlike the HOPE, the LLTC is non-refundable. Only one LLTC can be claimed per tax return. The credit has an income phase-out as follows: for single tax filers, the phase-out begins with modified adjusted income (MAGI) between $48,000 and $58,000; for joint filers, the phase-out begins with MAGI between $96,000 and $116,000.

AMERICAN OPPORTUNITY TAX CREDIT

The American Opportunity Tax Credit was created as part of the 2009 stimulus bill known as the American Recovery and Reinvestment Act (ARRA). The American Opportunity credit allows more parents and students to qualify in 2009 and 2010 for a tax credit to pay for college expenses. The American Opportunity credit was not available on the 2008 returns taxpayers are filing during 2009. The new credit modified the existing HOPE credit for tax years 2009 and 2010, making it available to a broader range of taxpayers, including many with higher incomes and those who owe no tax. It also adds required course materials to the list of qualifying expenses and allows the credit to be claimed for four post-secondary education years instead of two. Many of those eligible will qualify for the maximum annual credit of $2,500 per student. The full credit is available to taxpayers whose modified adjusted gross income is $80,000 or less, or $160,000 or less for married couples filing a joint return. The credit is phased out for taxpayers with incomes above these levels. These income limits are higher than under the existing HOPE and lifetime learning credits. For tax-year 2009, only, taxpayers can choose to claim either a special expanded HOPE credit of up to $3,600 for the student or the regular American Opportunity credit.

The HOPE credit was temporarily increased in 2009 and 2010 from $1,800 to $2,500, increasing the number of years of the credit from 2 to 4, raising the income phase-outs to between $80,000 and $90,000 for single filers and between $160,000 and $180,000 for joint filers. In addition, up to 40 percent of the credit is refundable, limited to $1,000. The LLTC did not change, but the income phase-outs were adjusted to the same amounts as the HOPE credit. Further in 2009 only, the American Opportunity Tax Credit was passed in place of the HOPE credit, increasing the amount to $3,600. As of this writing, the White House and Congressional leaders are negotiating a "framework" for extending the expiring Bush tax cuts. No final bill has been negotiated. While the HOPE and LLTC credits will not expire after 2010, the aforementioned temporary increases to the HOPE credit will expire after 2010. Further the American Opportunity Tax Credit is schedule to expire after 2010. There is a strong likelihood that the temporary increases to the HOPE credit and continuance of the American Opportunity Tax Credit will be contained in any negotiated compromise bill.

ARGUMENTS AGAINST COLLEGE TUITION TAX CREDITS AND OUTCOMES

During the 1996 and 1997 deliberations to enact the HOPE credit and LLTC, several critics came out against the creation of the policy. Some of the criticisms came from higher education and student financial aid experts who argued that college tax credits would compete with traditional student aid programs and cause for future diminished appropriations. Further, several proponents of federal student aid tend to have a bias toward lower income students and families only, often excluding consideration of the needs of middle-income families. While most policy experts and political actors have supported student aid programs targeted toward the most needy of families, President Clinton and other moderate Democrats and Republicans realize that the working-class in the U.S. have had enormous struggles in paying for health care, saving for college and retirement, and ultimately paying for college. The HOPE credit and LLTC were targeted as assistance to middle-income taxpayers—not the neediest Americans.

According to Conklin, from 1998 to 2002, a four-year period, the total costs of the tax credits (combined) were estimated to be $40 billion in lost revenues (Conklin, 1998). In Exhibit 2 below, the actual costs of college tax credit claimed (HOPE and LLTC combined) are provided. From 1998-1999 through 2001-2002, the total credits claimed totaled approximately $15.5 billion, well below Conklin's estimates. Some of this difference may possibly be due to lack of understanding of the credit by taxpayers in the earlier years. However, as the number of Americans file their income taxes electronically using tax software or through a paid-income tax preparer, use rates have increased (see Exhibit 2 below). However, the amount of tax credit claimants has increased (at various levels) each year. The total cost of the HOPE and LLTC combined since its inception through 2007-2008, a ten-year period, is approximately $51.4 billion in foregone revenues to the federal government.

In 1997, President Clinton's Education Secretary, Richard Riley, predicted that the HOPE credit and LLTC would provide an "enrollment boost" (Wolanin, 2001). This fact is largely true, as enrollments grew significantly after 1999. Exhibit 3 below reveals that enrollments in post-secondary education (undergraduate and graduate combined) grew approximately 18.9 percent between 2000 and 2008.

Exhibit 2: Total Amount of Education Credits Claimed from 1998 to 2010

	Education Tax Credits Claimed in Billions 1998 to 2010	*Percentage Change in Amount of Credits Claimed*
1998-1999	$ 2,970	
1999-2000	4,130	39.1%
2000-2001	4,160	0.7%
2001-2002	4,260	2.4%
2002-2003	5,000	17.4%
2003-2004	5,520	10.4%
2004-2005	6,050	9.6%
2005-2006	6,120	1.2%
2006-2007	6,590	7.7%
2007-2008	6,630	0.6%
2008-2009	6,830	3.0%
2009-2010	6,970	2.0%

Source: The College Board,
http://trends.collegeboard.org/student_aid/report_findings/indicator/Total_Student_Aid_in_Current_Dollars

Exhibit 3 further reveals the steady increase in enrollments, which was largely due to anticipated population trends. However, there is no evidence that this enrollment growth was correlated with college tax credit claims. Thomas Wolanin (2001) argued that the two college tax credits would not benefit lower-income taxpayers. This is based on the structure of the HOPE credit and LLTC—each credit is non-refundable and requires a positive tax liability in order to offset a college tax credit.

Exhibit 3: Post-Secondary Education Enrollments (1995-2008)

Year	*Post-Secondary Enrollment (in thousands)*
1995	14,262
2000	15,312
2001	15,929
2002	16,612
2003	16,911
2004	17,272
2005	17,487
2006	17,759
2007	18,248
2008	18,200

Source: U.S. Department of Education,
http://nces.ed.gov/programs/digest/d08/tables/dt08_190.asp

However, Exhibit 4 provides recent data in 2008 that highlights the average tax credit per adjusted gross income levels. Taxpayers with adjusted gross incomes below $25,000 claimed approximately 5 percent of the tax credits in 2008, with an average tax credit of $455. While this is a small percentage of the total benefits claimed, there was some benefit, albeit modest. Taxpayers with an adjusted gross income falling between $25,000 and $49,999 captured approximately 34 percent of the total credits in 2008, with an average tax credit of $989. Therefore, nearly 39 percent of all tax credits realized had adjusted gross incomes below $50,000. This qualifies Wolanin's argument somewhat in that lower-income tax filers modestly benefits from the college tax credits and lower-middle-income tax filers ($25,000 to $49,999) realize nearly one-third of the tax credits in 2008.

Exhibit 4: Average Tax Savings per Claimant and Distribution (2008)

Adjusted Gross Incomes	*2008 Average Tax Savings per Claimant*	*Percentage Distribution of Education Tax Credits by AGI*
Less than $25,000	$ 455	5%
$25,000 to 49,999	989	34
$50,000 to $74,999	1,123	25
$75,000 to $99,999	1,325	31
$100,000 to $116,000	858	5

Source: College Board,
Trends in Education (2009)

Wolanin (2001) further made the argument that college tuition rates would rise disproportionately due to the tax credit, claiming that there would be additional monies in the hands of tuition-paying taxpayers, causing colleges and universities to raise tuition and fees. Table 5 below

Exhibit 5: Average College Tuition from 1998 to 2008

Year	*Public 4-Year College Tuition Rates*	*Public 2-Year College Tuition Rates*	*Private 4-Year College Tuition Rates*
1998-9	$ 4,340	$ 2,080	$ 19,650
1999-0	4,400	2,160	20,290
2000-1	4,430	2,070	20,280
2001-2	4,630	1,970	21,340
2002-3	4,960	2,030	21,860
2003-4	5,510	2,260	22,460
2004-5	5,900	2,390	23,070
2005-6	6,130	2,430	23,410
2006-7	6,220	2,430	23,900
2007-8	6,480	2,400	24,850

Source: College Board,
Trends in Education (2010)

provides the average tuition charged by public 4-year, public 2-year, and private 4-year colleges and universities nationwide. Tuition and fees increased between 1998 and 2008 approximately 49.3 percent for public colleges and universities, 15.4 percent for public 2-year colleges, and 26.5 percent for private colleges and universities. Wolanin's argument that tuitions would increase more at public colleges and universities was correct, but there is no evidence available to suggest that the availability of the HOPE credit or LLTC accelerated these increases.

CONCLUSION

Since the HOPE credit and LLTC were passed in 1998, the use rates have steadily increased, with the tax credits becoming a permanent form of assistance alongside the federal student aid programs. Many of the critics of the tax credits predicted enrollments would increase, which was largely correct. However, there is no evidence available indicating such increases were due to the tax credits. It was argued that the tax credits would cost taxpayers approximately $40 billion over a four-year period (1998-2002), but the actual cost was approximately $15.5 billion, much lower than predicted. This is not suggesting that the credits were underutilized, as the dollar amount of credits claimed increased steadily between 1998 and 2008. Another argument persisted, particularly when the tax credits were debated in 1996 and 1997 that lower-income taxpayers would not benefit from either tax credit. While the distribution of lower-income claimants was relatively small (5 percent), nearly 40 percent of all 2008 tax credit claimant adjusted gross incomes fell below $50,000, suggesting that lower- and lower-middle income taxpayers do benefit from the two tax credits. However, the majority of the benefit is skewed to those taxpayers with adjusted gross incomes above $50,000.

The HOPE Scholarship Tax Credit, Lifetime Learning Tax Credit, and the American Opportunity Tax Credit all reflect the federal government's firm commitment in using the tax code as a mechanism to assist middle-income (and some lower-income) taxpayers offset their college tuition burden on their income tax returns. Is this good tax policy? After President Clinton passed the HOPE and LLTC, President George W. Bush enacted a similar College Tuition Tax Deduction (which expired) and President Obama enacted the American Opportunity Tax Credit. Each president has had his imprint on the idea. However, these tax credits have added to an already cluttered tax code. They are complex, difficult to understand, and yield minimal results for some taxpayers. However, should a member of Congress or the President stand up and propose repeal, there would be a major public outcry. Like the Child Tax Credit, Earned Income Tax Credit, Adoption Tax Credit, and many others, these college tuition tax credits are considered family-oriented social tax provisions. Unless they are repealed in a major tax reform overhaul, they are most likely going to become permanent to the federal tax code.

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