

Student Fees and the American Opportunity Tax Credit

Fees: What We Know

- **Fees are an “economic deterrent” to prospective and continuing students**
“State policies affecting demand [at the CCC] include fees and financial aid” (2006-07 *Analysis of the Budget Bill*, Legislative Analyst’s Office, February 2006).

Increasing fees is not an experiment our state should play again. In 2003-04, fees were increased from \$11 to \$18 per unit and again in 2004-05, this time from \$18 to \$26 per unit. Between those two years, the community colleges lost more than 200,000 students. And even in these times, “the Legislature appropriated \$38 million in the 2003-04 *Budget Act* (\$37 million on an ongoing basis) to expand financial aid outreach, and continued to fully fund fee waivers for needy students” (LAO, February 2006). An impact study published by the Chancellor’s Office points out that the second fee increase, even mitigated with this increased financial aid *and* increased budget allocations to support the addition of 7,000 course sections, led to a **continued loss of students** within our system. The community college student fee is the pillar of access for California’s students.

The AOTC: What We Know (and Don’t)

- **We don’t need increased fees to take advantage of the AOTC**
It has been suggested by the LAO that fees be increased because of new federal financial assistance available to students. However, the American Opportunity tax credit is not financial aid at all—it’s a tax credit. And it is nothing new to students nationally, other than its name; in fact, the AOTC is technically a temporary expansion of the Hope Scholarship tax credit. The LAO refers to the AOTC much like it did to the Pell Grant when “tuition sensitivity” existed. Back then, the amount of a student’s Pell Grant award was largely based on the amount of fees a student paid—the calculation was *sensitive to tuition*. That policy has since been eliminated, and students are given equal awards regardless of tuition and fee levels. The AOTC is not tuition-sensitive either. **A student doesn’t receive increased financial assistance because the student has higher fees.** Rather, there is a cap on the tax credit a student may receive. The LAO is misleading about the way the AOTC works.
- **LAO’s calculations do not take into account costs of textbooks**
The maximum amount the LAO has suggested to increase fees is \$60 per unit since, in their staff’s eyes, “eligible students taking 30 units per year would be able to take full advantage of the tax credit.” Yet this does not take into account the ever-increasing costs of textbooks, a qualified educational expense that a student could claim on the AOTC. In August of 2008, the average annual cost of textbooks was estimated to be between \$700 and \$1,100. The LAO neglected these startling costs. **Instead, raising fees diminishes our students’ ability to claim tax credits for their textbook costs.**
- **The AOTC is complicated**
The AOTC is getting attention as the solution to the community college students’ problems with fee increases. The AOTC is a reimbursement of qualified educational expenses—tuition, fees, books, and supplies—through credits on a student’s (or parent’s) taxes, and, if applicable, partial reimbursement. But the rules for eligibility and credit calculations are complicated, and the IRS has made no indication that a line will be added to the 1040EZ to claim this credit. Therefore, students will have to file the 1040 or 1040A, much more complex tax forms that they otherwise may not file. Most students are unlikely to know about this credit before making the decision to attend community college based on affordability. Information is hard to find, and when you find it, it’s hard to make any sense of it. The AOTC will not be used to the extent the LAO would have you believe and is not the answer for our students.