Multiple Tax Preferences and Title IV Student Aid Programs Create a Complex Education Financing Environment

What GAO Found

Title IV student aid and tax preferences provide assistance to a wide range of students and families in different ways. While both help students meet current expenses, tax preferences also assist students and families with saving for and repaying postsecondary costs. Both serve students and families with a range of incomes, but some forms of title IV aid—grant aid, in particular—provide assistance to those whose incomes are lower, on average, than is the case with tax preferences. Tax preferences require more responsibility on the part of students and families than title IV aid because taxpayers must identify applicable tax preferences, understand complex rules concerning their use, and correctly calculate and claim credits or deductions. While the tax preferences are a newer policy tool, the number of tax filers using them has grown quickly, surpassing the number of students aided under title IV in 2002.

Some tax filers do not appear to make optimal education-related tax decisions. For example, among the limited number of 2002 tax returns available for our analysis, 27 percent of eligible tax filers did not claim either the tuition deduction or a tax credit. In so doing, these tax filers failed to reduce their tax liability by $169, on average, and 10 percent of these filers could have reduced their tax liability by over $500. One explanation for these taxpayers’ choices may be the complexity of postsecondary tax provisions, which experts have commonly identified as difficult for tax filers to use.

Little is known about the effectiveness of title IV aid or tax preferences in promoting, for example, postsecondary attendance or school choice, in part because of research data and methodological challenges. As a result, policymakers do not have information that would allow them to make the most efficient use of limited federal resources to help students and families.