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Before the Committee on Finance,
U.S. Senate

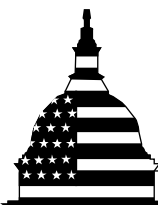
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HIGHER EDUCATION

Improved Tax Information Could Help Pay for College

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Issues



G A O

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Chairman Baucus, Ranking Member Hatch, and Members of the Committee:

We are pleased to be here to discuss federal assistance for higher education. The federal government provides billions of dollars in assistance each year to help millions of students and families meet the costs of higher education. This assistance is provided through federal student aid programs authorized under Title IV of the Higher Education Act of 1965, as amended, (Title IV) and through tax expenditures—reductions in federal tax liabilities that result from provisions in the tax code such as tax credits, deductions, exemptions, and tax-preferred savings programs. Providing federal financial assistance in these varied ways presents students and their families with multiple tools to help them pay higher education expenses. However, it may be difficult for families to understand and apply for higher education assistance.

This statement summarizes our recently issued report that addressed how tax information could help families pay for college.¹ In response to your request, our report: (1) described the size and distribution of federal grants, loans, and tax expenditures available to assist students and families with higher education expenses; (2) assessed the extent to which tax filers select higher education provisions that maximize their tax benefit; (3) summarized what is known about the effect of grants, loans, and tax expenditures on student attendance, choice, persistence,² and completion; and (4) described factors that contribute to the effectiveness and efficiency of federal higher education student assistance programs. To address these issues, we analyzed data from the Department of Education (Education), Internal Revenue Service (IRS), and the Board of Governors of the Federal Reserve, and conducted a literature review for original empirical research.³ We also developed a framework for evaluating federal assistance and validated it with recognized experts of

¹GAO, *Higher Education: Improved Tax Information Could Help Families Pay for College*, [GAO-12-560](#) (Washington, D.C.: May 18, 2012).

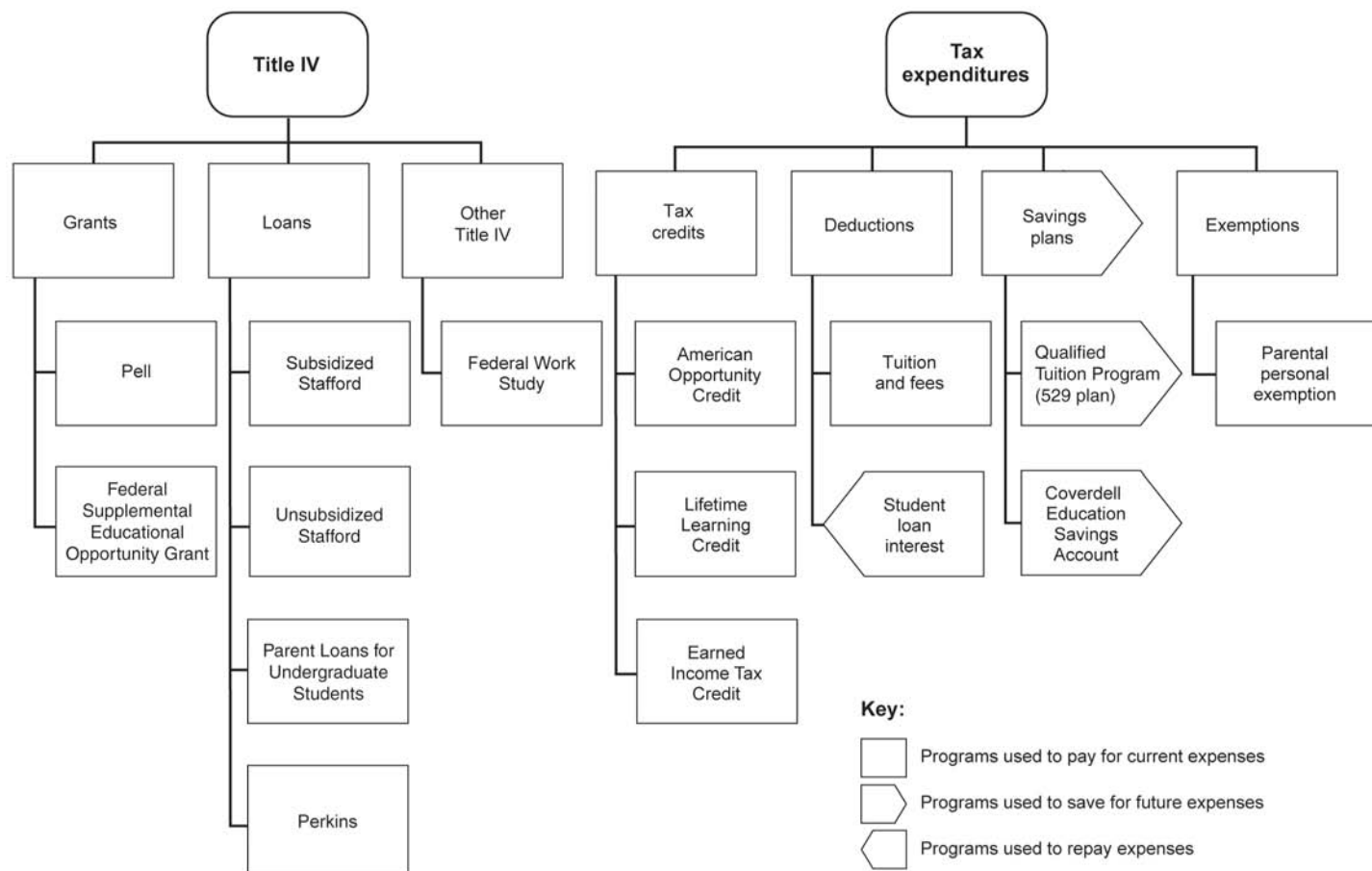
²Persistence is the likelihood that students will continue their education.

³We conducted this performance audit from June 2011 to May 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

higher education finance. Detailed information on our findings as well as our scope and methodology is available in the report.

We found that multiple Title IV programs and tax expenditures provided substantial aid to populations across income levels. Figure 1 summarizes the Title IV programs and tax expenditures we reviewed.⁴

Figure 1: Title IV Programs and Tax Expenditures Available to Save, Pay, or Repay Higher Education Expenses



Source: GAO.

⁴Details on each program can be found in [GAO-12-560](#).

In 2009, 12.8 million students received Title IV aid, and approximately 18 million tax filers claimed a higher education tax benefit for current expenses.⁵ The number of students receiving Title IV aid increased from 10.4 million to 12.8 million, or 23 percent, from 2006 to 2009. The number of tax filers benefiting from an education tax expenditure was larger, and increased from 14.4 million to 18 million, or 25 percent, from 2006 to 2009. Recent increases in both Title IV aid and tax expenditures from 2008 to 2009 may be because of enrollment increases and legislative actions, among other factors. Title IV grants tend to benefit students and families with incomes below the national median (about \$52,000 from 2006 to 2010), while loans and work-study serve these students as well as students at family incomes above the median. Most tax benefits from the tuition and fees deduction and the parental exemption for dependent students went to families with incomes above \$60,000, whereas the majority of benefits from the other higher education tax expenditures in our review—such as the American Opportunity Credit—went to families with lower incomes.

In our analysis of 2009 IRS data for selected returns with information on education expenses, we found that tax filers do not always choose tax expenditures that maximize their potential tax benefits.⁶ We found about 14 percent of filers (1.5 million of almost 11 million eligible returns) failed to claim a credit or deduction for which they appear eligible. On average, these filers lost a tax benefit of \$466. We estimate that the total amount of tax benefits filers did not claim was approximately \$726 million in 2009. We found no cases where filers' combined state and federal tax liability would have been higher if they had claimed one of those benefits on their federal return. Taxpayers might not maximize their tax benefits because they are unaware of their eligibility for the provisions or confused about their use. IRS and Education have taken steps to provide information on these provisions, but the number of filers failing to claim a higher

⁵The total number of Title IV and tax recipients should not be added together, as in some cases students and families may be eligible for benefits from both types of programs. The most current year for which data are available for both tax and Title IV programs is 2009.

⁶Our analysis is limited to tax filers who appeared eligible for the lifetime learning credit (LLC) or the tuition and fees deduction in 2009, had a Form 1098-T Tuition Statement with information on the student's education expenses, and had a tax liability after claiming other tax benefits. After eliminating returns where eligibility was not clear, we included only 29 percent of returns in our analysis of filers with a 1098-T but selecting neither the LLC nor the tuition deduction in 2009. Estimates have 95 percent confidence intervals that are within 10 percent of the estimate itself. Details on our methodology and its limitations can be found in [GAO-12-560](#).

education tax provision suggests more could be done. For example, IRS stated that it coordinated with tax preparation software providers to provide links to relevant higher education forms, while Education's Federal Student Aid website provides a link to IRS's *Publication 970, Tax Benefits for Education*. Developing a coordinated, comprehensive strategy to better inform eligible students could improve take-up of these tax provisions.

We also found that despite Education's research efforts, evaluative research on the effects of federal assistance for higher education on student outcomes—such as the likelihood students will complete their education—remains limited, as shown in table 1. Researchers have examined the effects of federal assistance on a limited basis, such as only for certain states or groups of students, but these studies provide an incomplete view of the effects of federal assistance. Education's efforts to sponsor and undertake research represent an important step, but research available at present still lacks evaluative information on the effects of federal grants, loans, and work-study. Continuing gaps in research on the effectiveness of federal assistance may be due, in part, to data and methodological challenges that have proved difficult to overcome. Recent changes in Title IV aid and tax expenditures—such as the introduction of the American Opportunity Credit in 2009—may provide opportunities for evaluative research, but Education officials told us they have not conducted such research due in part to the level of resources Education officials told us they devote to such research. In an environment of constrained budgets, evaluative research can help inform policy decisions.

Table 1: Research We Reviewed on the Effects of Federal Assistance Is Limited and Cannot Be Generalized

Federal assistance for higher education	Attendance	Choice	Persistence	Completion
Grants ^a	✓	✓	✓	
Student loans	✓		✓	✓
Work-study			✓	✓
Tax expenditures				
Tuition and Fees Deduction	✓			✓
Student Loan Interest Deduction				
Parental exemption for students age 19 to 23				
American Opportunity Credit				
Hope Credit	✓			
Lifetime Learning Credit	✓			✓
Earned Income Tax Credit for students age 19 to 23				
Coverdell Education Savings Account				
529 Qualified Tuition Program				

Source: GAO analysis.

Note: We did not find research that could be generalized. A check mark indicates that one or more Title IV aid or tax provisions in the category has been studied for certain states, types of school, or groups of students.

^aResearch conducted into the effects of Pell Grants but not Federal Supplemental Educational Opportunity Grants.

Finally, we identified factors that contribute to effective and efficient higher education assistance programs to help policymakers allocate limited resources among multiple programs.⁷ These factors can be used as a policy tool for considering improvements to current programs, consolidating programs, eliminating programs, or designing features of new programs. They can be used as a framework for assessing whether a higher education program:⁸

- achieves program goals and produces demonstrable results,
- provides appropriate incentives for targeted populations,
- facilitates beneficiaries' use of the program,

⁷We consulted subject-matter experts and our prior work as we identified these factors. See [GAO-12-560](#) for details on the framework and our methodology.

⁸Programs include federal assistance through Title IV grants, loans, and work-study, and tax expenditures directed at future, current, and past education expenses.

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- interacts effectively with other programs,
 - minimizes costs and risks, and
 - establishes monitoring and evaluation mechanisms.

Based on our work, we recommended the Commissioner of Internal Revenue and the Secretary of Education work together to:

- identify characteristics of tax filers who are not claiming a higher education tax expenditure when they appear to be eligible for one and possible reasons for this, and
- use this information to identify strategies to improve information provided to eligible students and families.

We also recommended that the Secretary of Education take advantage of opportunities presented by recent and anticipated substantive program changes to sponsor and conduct evaluative research into the effectiveness of Title IV programs and higher education tax expenditures at improving student outcomes.

Education and IRS agreed with our recommendations. Education noted that while it does not have access to tax data, it will work with IRS to assist in taxpayer outreach. A complete discussion of agency comments and our evaluation are provided in the report.

Chairman Baucus, Ranking Member Hatch, and Members of the Committee, this completes our prepared statement. We would be happy to respond to any questions you and Members of the Committee may have at this time.

GAO Contact and Staff Acknowledgments

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