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Highlights

Highlights of [GAO-08-717T](#), a testimony before the Subcommittee on Select Revenue Measures, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

Federal assistance helps students and families pay for postsecondary education through several policy tools—grant and loan programs authorized by Title IV of the Higher Education Act of 1965 and more recently enacted tax preferences. This testimony summarizes our 2005 report and provides updates on (1) how Title IV assistance compares to that provided through the tax code (2) the extent to which tax filers effectively use education tax preferences, (3) potential benefits and costs of simplifying federal student aid, and (4) what is known about the effectiveness of federal assistance.

This hearing is an opportunity to consider whether changes should be made in the government's overall strategy for providing such assistance or to the individual programs and tax provisions that provide the assistance. This statement is based on updates to previously published GAO work and reviews of relevant literature.

What GAO Recommends

GAO does not make new recommendations in this testimony. In 2002, GAO recommended, among other things, that the Department of Education sponsor research into key aspects of effectiveness of Title IV programs. Education began funding grants in July 2007 to conduct research on topics addressed in this statement; however, no project to date appears to directly evaluate the role and effectiveness of federal assistance in improving access to postsecondary education.

To view the full product, including the scope and methodology, click on [GAO-08-717T](#). For more information, contact Michael Brostek at (202) 512-9110 or George Scott at (202) 512-7215.

HIGHER EDUCATION

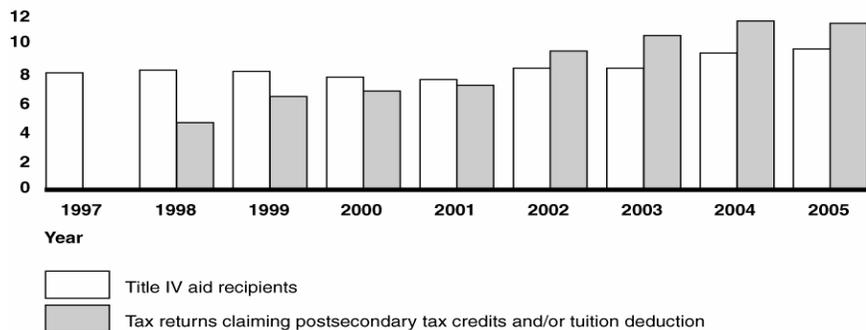
Multiple Higher Education Tax Incentives Create Opportunities for Taxpayers to Make Costly Mistakes

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.

Recipients of Title IV Assistance and Tax Filers Claiming an Education Tax Credit or Tuition Deduction, 1997—2005

Recipients and tax filers (in millions)



Sources: GAO analysis of Budget of the United States Government and Internal Revenue Service data.

Some tax filers do not appear to make optimal education-related tax decisions. For example, our analysis of a limited number of 2005 tax returns indicated that 19 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 \$219, 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.

Simplifying the grants, loans, and tax preferences may reduce complexities in higher education financing, including reducing the number of eligible tax filers that do not claim tax preferences, but more research would be necessary to understand the full benefits and costs of any such changes.

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.