



Highlights of [GAO-07-262T](#), testimony before the Committee on Finance, U.S. Senate

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 and updates our 2005 report on (1) how title IV assistance compares to that provided through the tax code (2) the extent to which tax filers effectively use postsecondary tax preferences, and (3) what is known about the effectiveness of federal assistance.

This hearing is an opportunity to consider whether any 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 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. In April 2006, Education announced it would make multiyear grants available starting in 2007 to conduct research on topics addressed in this statement.

www.gao.gov/cgi-bin/getrpt?GAO-07-262T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael Brostek at (202) 512-9039 or George Scott at (202) 512-7215.

POSTSECONDARY EDUCATION

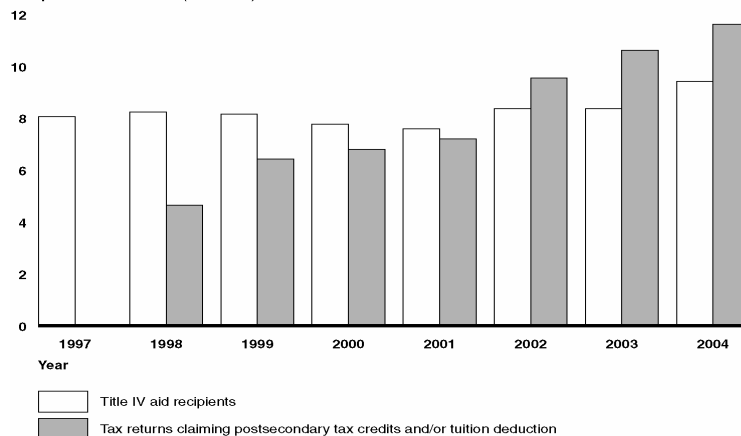
Multiple Tax Preferences and Title IV Student Aid Programs Create a Complex Education Financing Environment

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.

Recipients of Title IV Assistance and Tax Filers Claiming an Education Tax Credit or Tuition Deduction, 1997-2004

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, 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.