



Highlights of [GAO-05-684](#), a report to 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. In fiscal year 2004, about \$14 billion in grants and \$56 billion in loans were made under title IV while estimated outlay equivalents for postsecondary tax preferences amounted to \$10 billion. In light of the relative newness and financial significance of tax preferences, this report examines (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.

## What GAO Recommends

GAO does not make new recommendations in this report. In 2002, GAO recommended, among other things, that Education sponsor research into key aspects of effectiveness of title IV programs. Little progress has been made by Education; however, according to the Department, it is in the process of establishing a postsecondary research center that will sponsor such research. Although Education disagreed with our conclusion about the extent to which title IV programs have been adequately studied, it agreed, as it did when we issued our 2002 report, that more research was warranted.

[www.gao.gov/cgi-bin/getrpt?GAO-05-684](http://www.gao.gov/cgi-bin/getrpt?GAO-05-684).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael Brostek at (202) 512-9110 or Cornelia M. Ashby at (202) 512-7215.

# STUDENT AID AND POSTSECONDARY TAX PREFERENCES

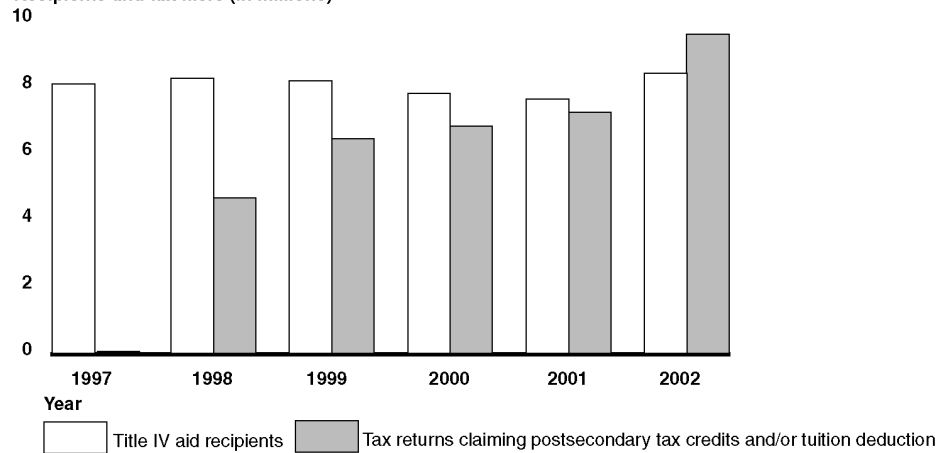
## Limited Research Exists on Effectiveness of Tools to Assist Students and Families through Title IV Student Aid and Tax Preferences

### 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. While both serve students and families with a range of incomes, 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. While both require students and families to fill out forms, tax preferences require more responsibility on the part of students and families because they 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, 1997-2002

Recipients and tax filers (in millions)



Source: GAO analysis of Budget of the United States Government, FY1994-2002 and Internal Revenue Service data 1994-2002.

Some tax filers do not appear to make optimal education-related tax decisions. For example, among the limited number of 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 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.