

U.S. Tax Incentives for Higher Education

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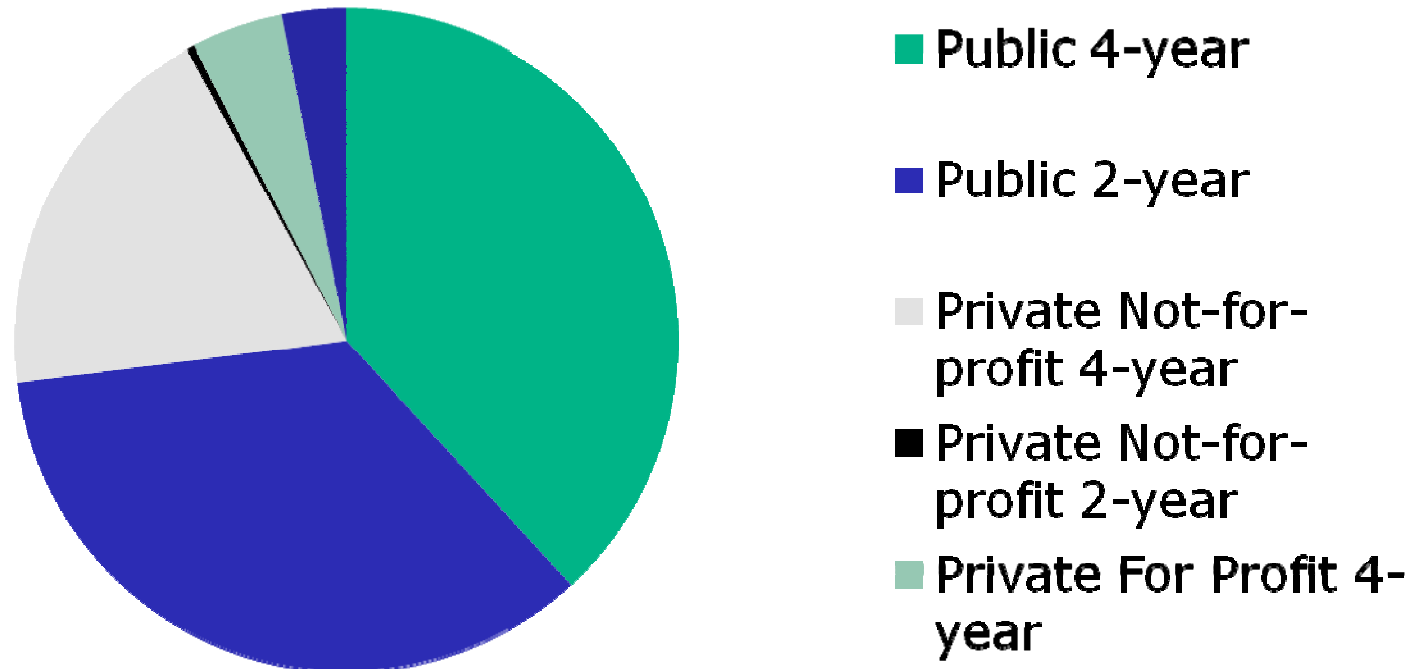
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Cost of education largely paid by individual

- Most students (or families) pay for higher education
- Listed tuition not necessarily what pay
- Leads to differential access across income classes
- Affordability issues also affect completion rates

Colleges Run By States, Private Sector

Enrollment



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Average Net Cost of College, 2000-2008

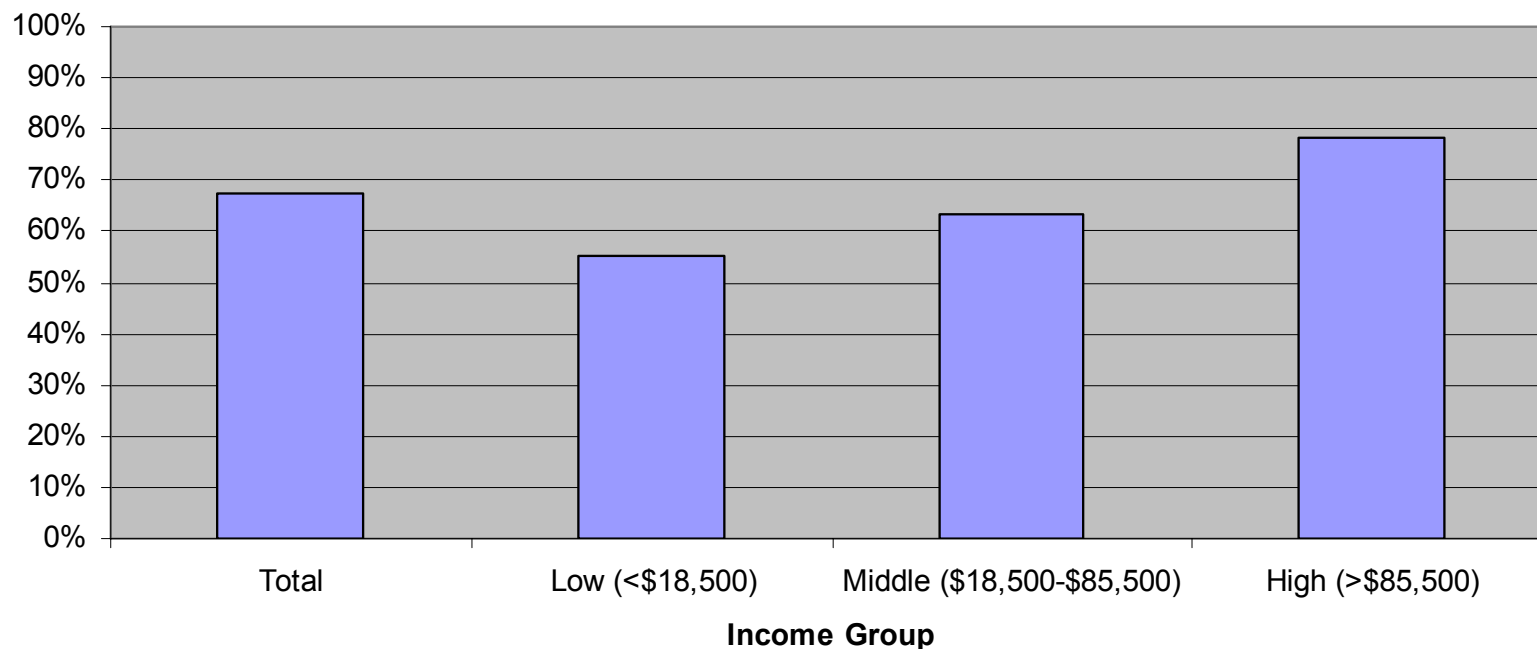
2008			
	4-Year Colleges		2-year, Public
	Private	Public	
Sticker price (tuition/fees)	\$25,100	\$6,600	\$2,400
+ Room/board	\$9,000	\$7,700	\$7,300
- Grants/tax benefits	-\$10,200	-\$3,700	-\$2,300
= Net cost	\$23,900	\$10,600	\$7,400
Changes in Net Costs, 2000-2008			
Real dollars	\$3,500	\$2,200	\$200
Percent	17.2%	26.2%	2.8%

Source: MiddleClass Tax Force: Barriers to Higher Education

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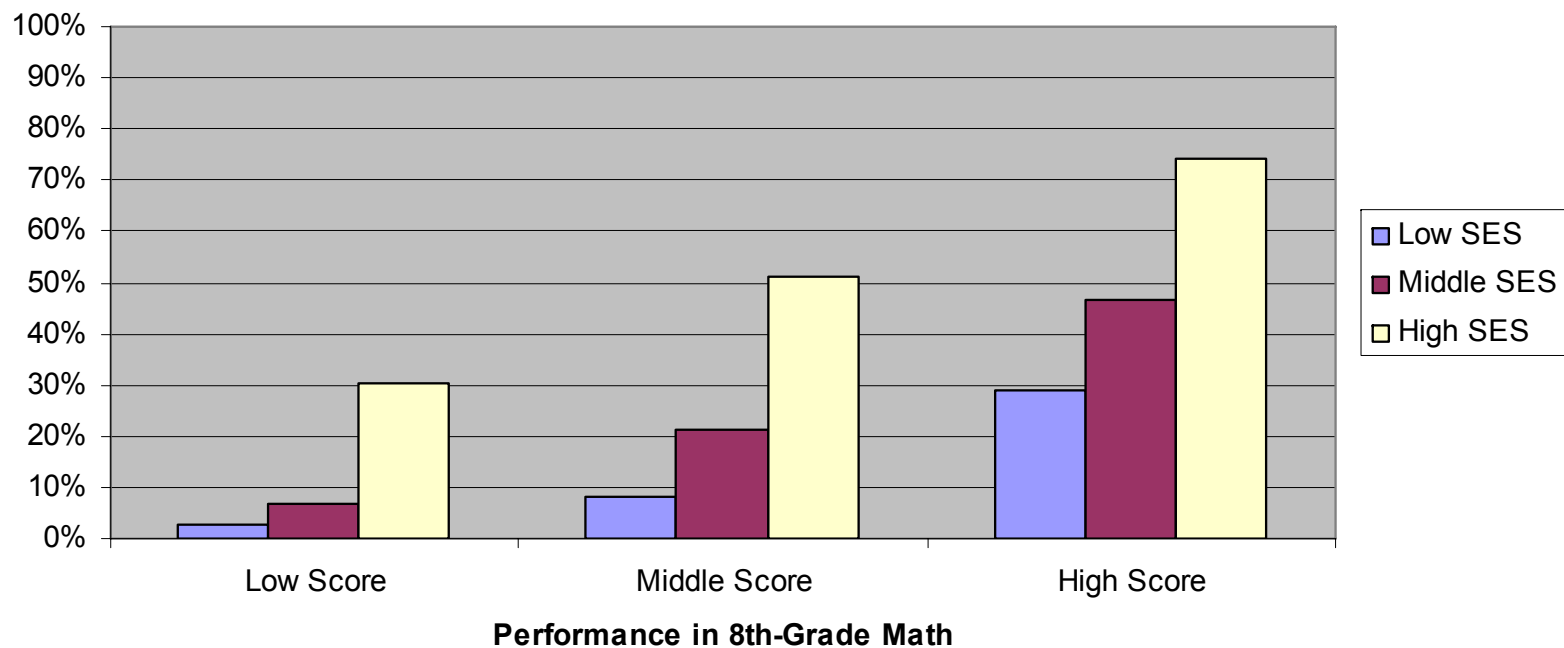
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College Enrollment for High School Graduates by Income Group, 2007



Source: Michael Planty, William Hussar, Thomas Snyder, Grace Kena, Angelina KewalRamani, Jana Kemp, Kevin Bianco, and Rachel Dinkes. 2009. *The Condition of Education 2009*. U.S. Department of Education, National Center for Education Statistics.

College Completion by Test Scores and Socioeconomic Status, 2000



Source: Mary Ann Fox, Brooke A. Connolly, and Thomas D. Snyder. 2005. *Youth Indicators 2005: Trends in the Well-Being of American Youth*. U.S. Department of Education, National Center for Education Statistics.

Federal Aid for Higher Education

- Increase access to low-income families (Title IV)
 - Higher Education Act in 1965
 - Pell Grants introduced 1972
- Programs targeted to middle income households through tax system
 - In 1997 tax credits, savings programs, deductibility student loans
 - Beginning in 2002 more students aided through tax than Title IV

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Federal Funds for Higher Education Take Many Forms

- Grants
- Loans
- Tax Credits
- Deductions

For individuals this complexity often leads to not maximizing benefit

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Pell Grant Program

- Direct grant for low-income students
- Max payment
- Requires filling out FAFSA form
 - Complicated and seen as barrier to applying to schools
 - Payment goes directly to school
- Other targeted grants

Tax Credits/Deductions 2008

- Hope Credit
 - \$1800 per student, first 2 years, pursuant to a degree
 - Lifetime Learning Credit
 - \$2,000 per return, indefinite, no degree requirement
 - Tuition and Fees Deduction
 - Reduce income by \$4,000 per return, value varies by tax rate
- Expanded benefits for disaster victims

Complicated system of tax breaks and credits

- Individuals often choose wrong credit/deduction
- Or don't take any deduction
- Current legislation to simplify applying for financial aid and Pell Grants

Tax Expenditures for Education, Fiscal Years 2008-2014 (millions)

	2008	2009	2010-2014
HOPE tax credit	\$3,770	\$3,800	\$24,560
Lifetime Learning tax credit	\$2,470	\$2,460	\$15,730
American Opportunity Tax Credit	--	\$1,122	\$12,785
Deduction for higher education expenses	\$1,550	\$1,680	\$1,430
Deductibility of student-loan interest	\$1,250	\$1,260	\$5,430
Exclusion of interest on student-loan bonds	\$210	\$470	\$2,770
Discharge of student loan indebtedness	\$20	\$20	\$100
Education Individual Retirement Accounts	\$30	\$40	\$380
State prepaid tuition plans	\$1,030	\$1,250	\$9,250

Sources: Budget of the U.S. Government, FY 2010, Analytical Perspectives, Table 19-1; Joint Committee on Taxation (JCX-19-09, February 12, 2009).

Tax Expenditures (cont.)

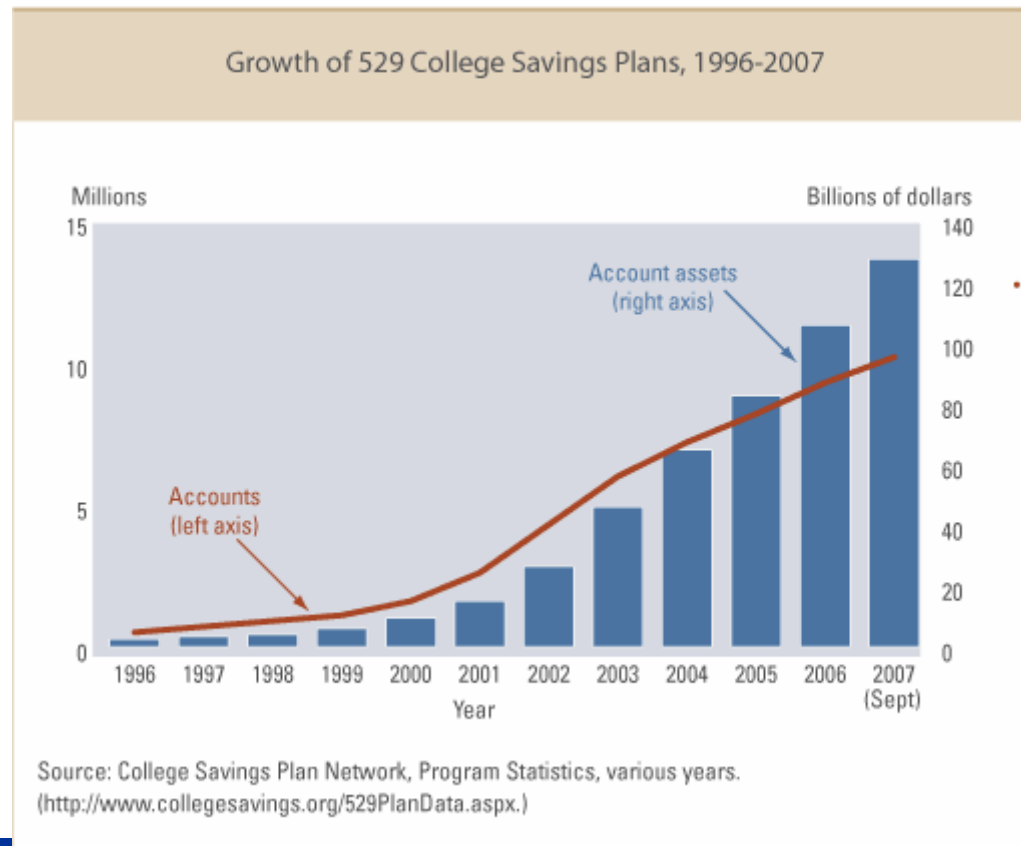
	2008	2009	2010-2014
Parental personal exemption for students age 19 or over	\$4,690	\$2,670	\$12,900
Deductibility of charitable contributions for education	\$4,330	\$4,880	\$30,660
Exclusion of scholarship and fellowship income	\$2,000	\$2,080	\$11,730
Exclusion of interest on bonds for private nonprofit educational facilities	\$860	\$1,870	\$11,040
Credit for holders of zone academy bonds	\$160	\$170	\$770
Exclusion of employer-provided educational assistance	\$650	\$680	\$750
Special deduction for teacher expenses	\$180	\$180	\$160
Exclusion of interest on savings bonds redeemed to finance educational expenses	\$20	\$20	\$100

Source: Budget of the U.S. Government, FY 2010, Analytical Perspectives, Table 19-

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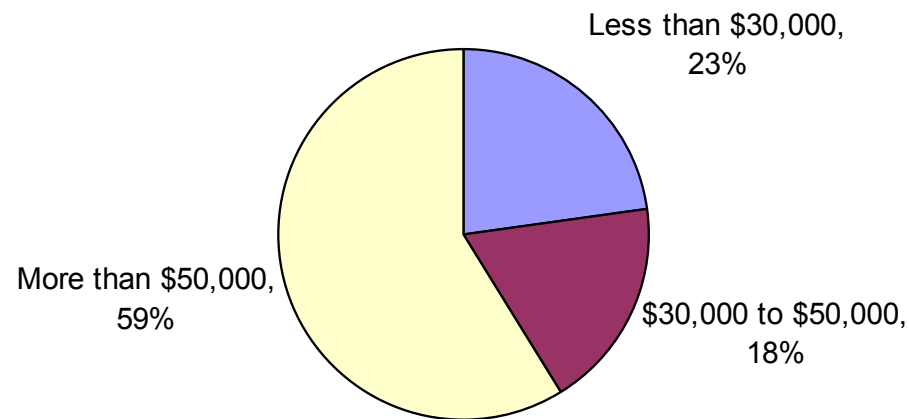
Tax Credits/Savings Plans Plans Have Grown Over Time



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Distribution of Tax Expenditures for Education by Income, 2009

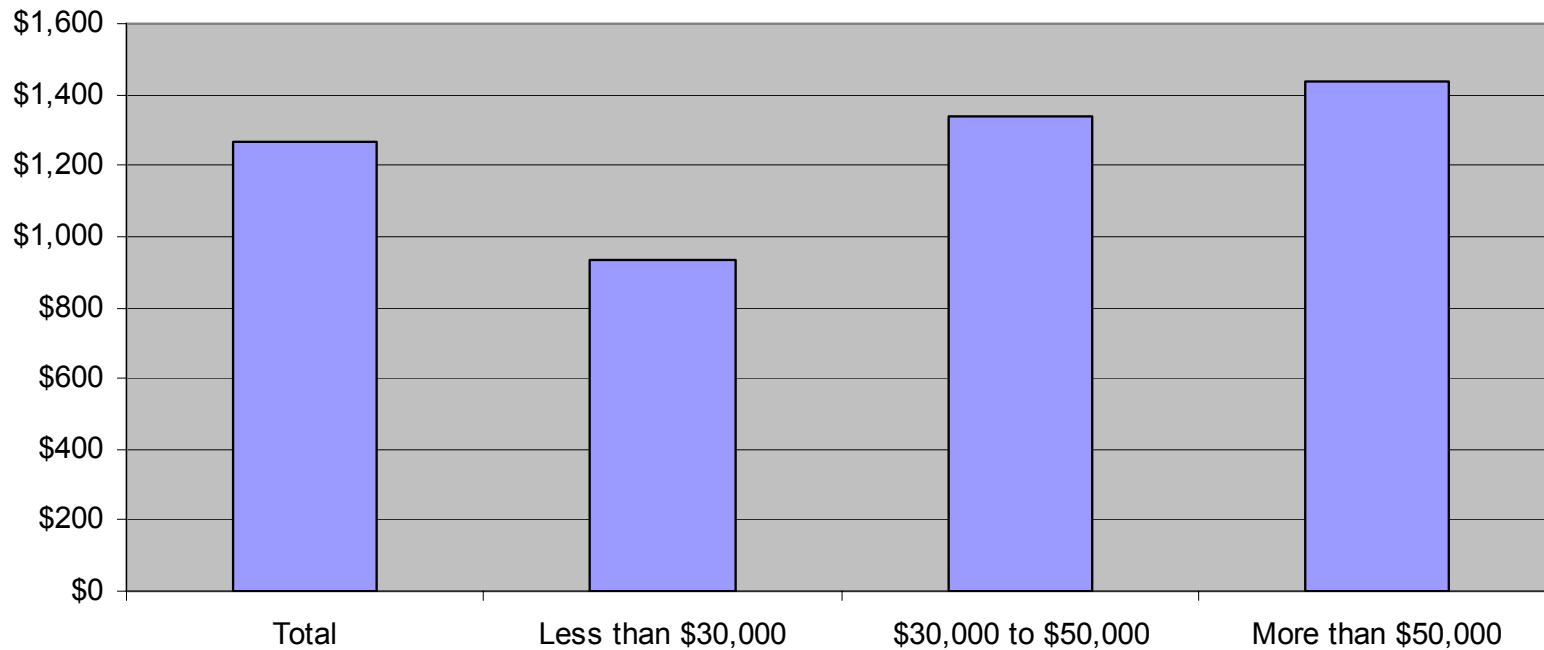
(American Opportunity Tax Credit, Lifetime Learning
Credit, and Tuition and Fees Deduction)



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-2).

Average Benefits from Education Credits and Deductions, 2009

(American Opportunity Tax Credit, Lifetime Learning Credit, and Tuition and Fees Deduction)

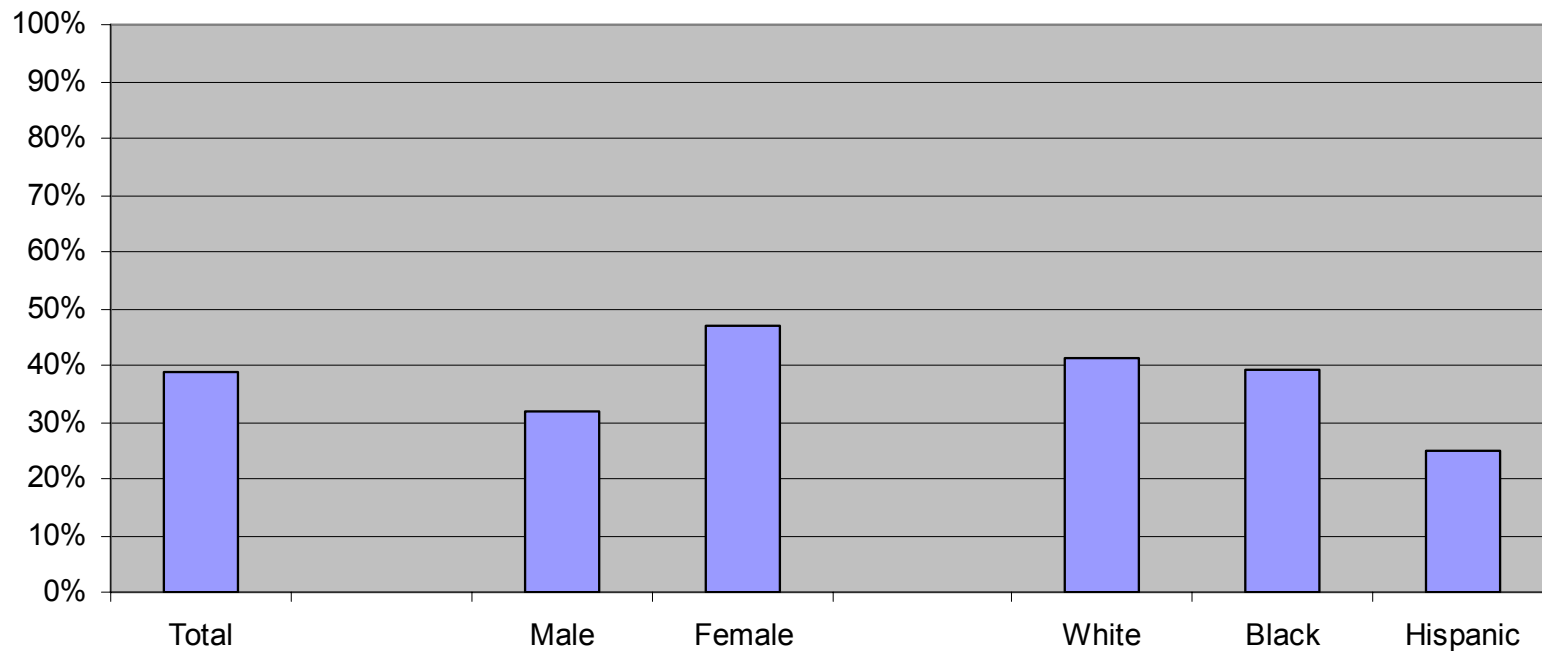


Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-2).

Training and Vocational Education

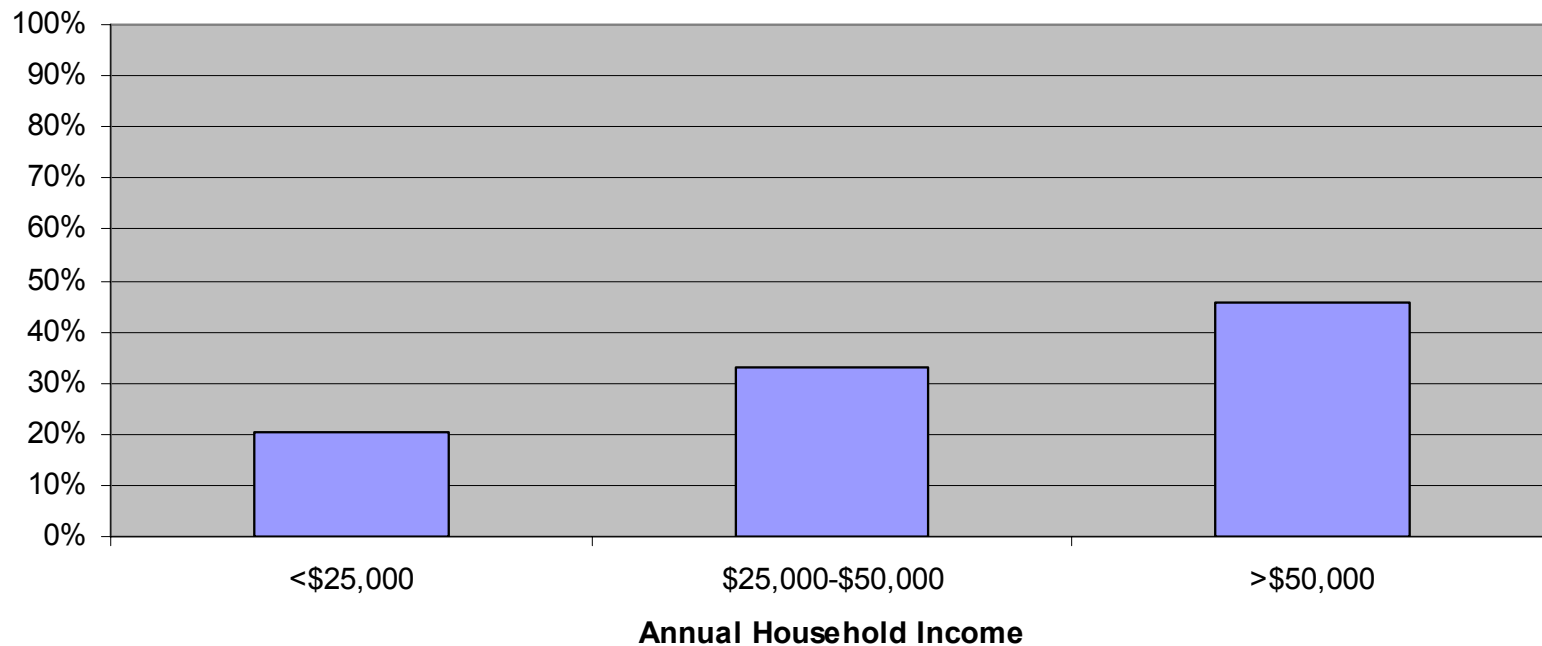
- Lifetime Learning Credit can be used for non-degree students
- Exclusion for employer-provided educational assistance - limited to payments of \$5250 from wages
- Usage also varies by income/education

Adult Participation in Career- or Job-Related Courses, 2007



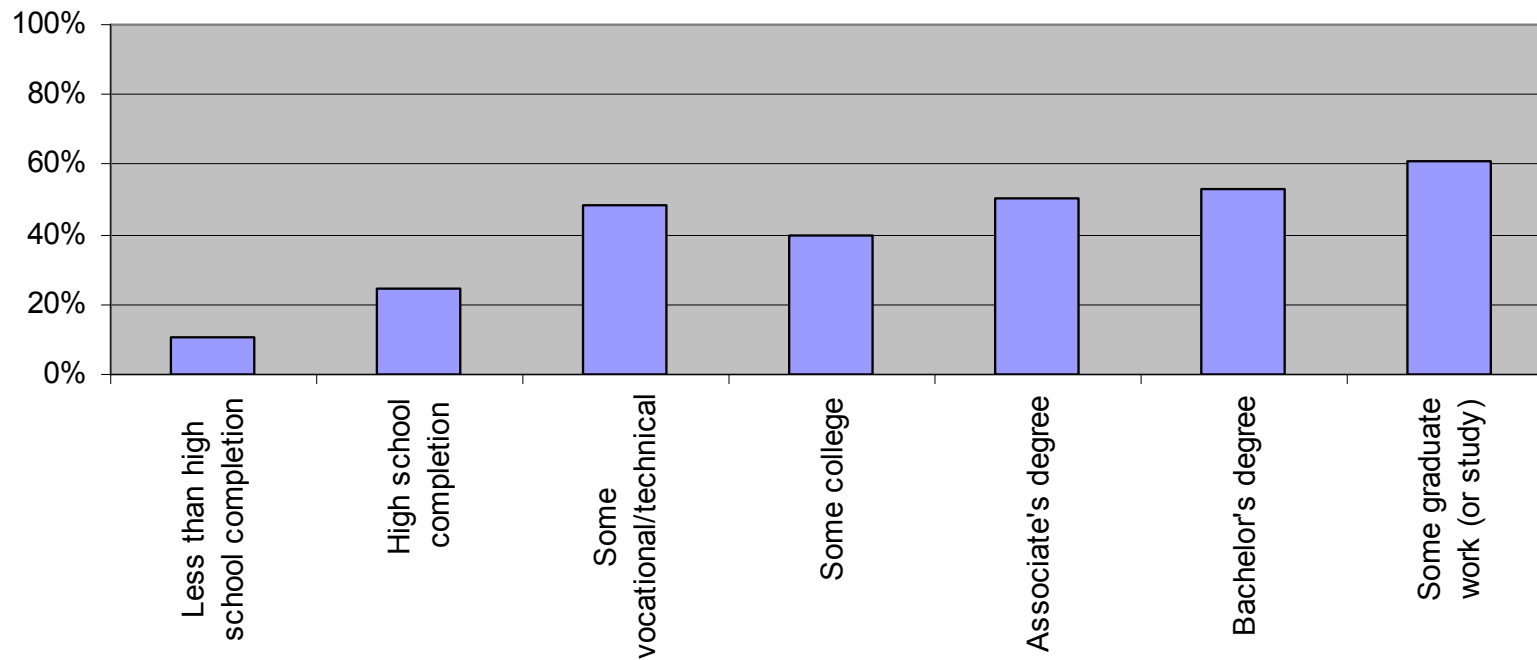
Source: Thomas D. Synder, Sally A. Dillow, and Charlene M. Hoffman. 2009. *Digest of Education Statistics, 2008*. U.S. Department of Education, National Center for Education Statistics.

Participation Varies By Income



Source: Thomas D. Synder, Sally A. Dillow, and Charlene M. Hoffman. 2009. *Digest of Education Statistics, 2008*. U.S. Department of Education, National Center for Education Statistics.

And Educational Attainment



Source: Thomas D. Synder, Sally A. Dillow, and Charlene M. Hoffman. 2009. *Digest of Education Statistics, 2008*. U.S. Department of Education, National Center for Education Statistics.

What's Next?

- Current priority of administration
 - Access/Simplification?
 - **ARRA:** AOTC (4 years, replaces Hope Credit, Partly Refundable) \$2500
 - Funding for Infrastructure
 - Tax Credits for Employment
- Simplification of FAFSA Form
 - Tax Based Formulas – pre-filled in forms
- Nationalization of Student Loan Program
 - Expanding other programs

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Conclusions

- Federal tax expenditures that benefit higher education numerous and complex
- Still unequal access to higher education/continuing education by SES
- Current push for more reform of education system

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