

Oral Testimony of Dr. Susan Dynarski

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Chairman Neal, Members of the Committee, I am honored to testify before you today.

A college education is a good investment. Over a lifetime, a worker with a bachelor's degree earns, on average, a million dollars more than worker with just a high school degree.

But college remains out of reach for many. While 34 percent of young white people earn a BA, only 19 percent of African Americans and ten percent of Hispanics grab that golden ticket.

Even among the smartest kids, income is a strong predictor of college attendance. Three-quarters of upper-income kids who earn top scores on tests in high school go on to college, but less than a third of those who grew up in a low-income family.¹

Designing Effective Education Tax Incentives

I give you these statistics to get us thinking about how we can best use tax incentives to encourage college attendance.

Tax incentives can *increase schooling* only if they put money into the hands of kids for whom price is a barrier to college. For our tax breaks to truly act as incentives, they need to cut the price of college for those students who would not go to college without the subsidy.

- Who are these potential college students? They are disproportionately nonwhite or Hispanic. They are from low-income families: just half of low-income youth go to college right after high school, compared to 80 percent of their upper-income classmates.²
- Where might these potential college students go to school? The local community college, where tuition and fees average \$2,300, or a state university, where costs average \$6,200.³

This is who we should keep in mind as we design tax incentives for college: a low-income person attending an inexpensive, public college.

The fortunate student admitted to Yale, or Williams, or Swarthmore, whose family earns upward of \$100,000, is going to college with or without a tax incentive. We should

not build our education policy around the prices she faces. It is not the job of government to make Harvard affordable to the handful who can attend that elite institution each year. It is the job of government to make a solid college education affordable to the millions for whom a BA or AA from a public college is a ticket into the middle class.

The Education Tax Incentives Don't Reach the Right Students

The education tax incentives do just about nothing for low-income students at inexpensive public colleges. Perversely, the tax incentives are focused on upper-income students at the most expensive private colleges. For the vast majority of these students, going to college was never in question. For their families, the education tax benefits are a windfall, not an incentive.

- Because the education tax credits are not refundable, many low- and middle-income families can't get them. A family of four must have an income above \$40,000 to get the maximum credit.⁴ One-third of all families, and half of families with kids, have no tax liability and so can get no credit at all.⁵
- Only students who pay tuition and fees over \$10,000 a year get the full Lifetime Learning Credit. This is nearly double the cost of the typical, public four-year college and four times that of the typical community college. Nearly 75 percent of college students attend these inexpensive, public colleges.
- Tuition deductions are least valuable to those in lower tax brackets. A \$1,000 tuition deduction is worth \$330 for someone in the 33 percent bracket but only \$150 for someone in the 15 percent bracket.

The Education Tax Incentives Are Complex and Confusing

The regressivity of the tax incentives is not all that hampers their effectiveness. They are too complicated and confusing to affect schooling decisions. Families can't respond to a price subsidy if they do not understand it.

Again, let's keep our target student firmly in mind. Those on the margin of college entry are disproportionately low-income, nonwhite and Hispanic, with parents who did not go to college or graduate from high school. For many of these families, English is the second language.

Viewed in this context, it is clear that the education tax incentives are far too complicated to do their job. The IRS publication devoted to explaining them is 82 pages long! The consequences of this complexity extend beyond mere annoyance and frustration. Evidence shows that simple, easily communicated financial aid programs have a robust impact on college entry and completion, but complicated programs do not.⁶

Simplify and Focus the Education Tax Incentives

The goals of reform should be to *focus* the incentives on those who are on the margin of attending college and *simplify* the incentives so that families can understand and respond to them.

- 1) Create a single, refundable tax credit for tuition, fees, room, and board.
 - Merge the Hope and Lifetime Learning Credits into a *single credit*. A single credit would significantly reduce complexity, enabling families to estimate their credit well in advance.
 - Make the credit *refundable* so families in lower tax brackets are eligible for the maximum benefits.
 - Count tuition, fees, room and board as eligible expenses for the purposes of the credit. This matches the definition used for the 529 and Coverdell accounts. It also extends the full credit to the vast majority of students who attend public colleges.

2) Deliver the credit at the time of college enrollment.

The student who needs the credit most is the one who drops out because she can't find the money to pay the registrar in September. She is not helped by a credit that arrives a year or more after the bills are due.

We need to put our heads together and find a way to get the credits to students at the time of enrollment. Otherwise, we are excluding the very students whose enrollment depends on the credit. That's no way to design an incentive program!

- The following current or past federal aid programs pay college students prospectively, rather than after the fact:
 - Pell Grant and Stafford Loan
 - Veterans' education benefits
 - Social Security student benefits
- One suggestion is to use income from a previous year to determine eligibility. Eligibility for the credit for the 2008-09 school year would be based on 2007 income. This is the approach used in determining eligibility for the Pell Grant and Stafford loan.

A Simplified Credit Families Can Count On

The simpler and more streamlined the tax benefits, the easier they are to communicate to families and students.⁷ Just as workers are annually sent projections of their Social Security benefits to help them plan for retirement, families could be sent estimates of their tax benefits to help them plan for college. This early, clear information would give students and families confidence they can afford college, and encourage them to work hard in elementary school and high school.

We could even more radically simplify federal benefits for college by consolidating *all* federal subsidies for college students into one streamlined system. College students and their families now face two parallel, duplicative and unwieldy bureaucracies that provide aid for college: the tax system and the aid system.

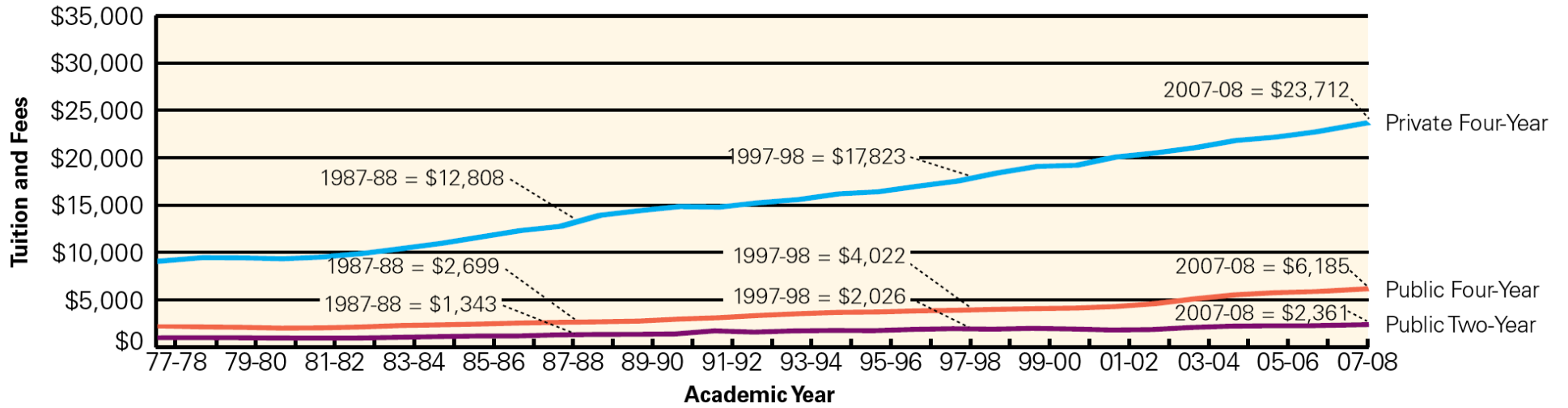
Consolidating this process would substantially simplify life for the families of college students, saving them tens of millions of hours now spent filling out repetitive, mind-

numbering forms. Consolidation would also save billions of tax and tuition dollars that are essentially spent moving pieces of paper back and forth between different agencies of the federal government.⁸ Along with my co-author Judith Scott-Clayton, I have developed a detailed simplification proposal, which I have entered into the record.⁹

Conclusion

A well-educated workforce is key to the economic competitiveness of the United States and the well-being of its families. The federal government could do better with its tax incentives for college. Although the education tax benefits provide relief for middle- and high-income families with children in college, they do little to get more people into college. Simplifying and focusing the tax incentives will allow them to serve their goal: opening the doors of college to those who have the ability but not the means to further their education.

Figure 1: Average Published Tuition and Fees in Constant (2007) Dollars, 1977-78 to 2007-08 (Enrollment-Weighted)



Source: *Trends in College Pricing 2007*, College Board

References and Further Reading

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Endnotes

¹ Tabulations of completed education of 25-29-year-olds from 2007 March Current Population Survey. College attendance statistics by income and test score are from U.S. Department of Education (2005).

² College Board, 2005. Figures are for the top quintile of family income (above \$78,000) and bottom two quintiles (below \$31,000).

³ College Board, 2007.

⁴ Badchelder *et al*, 2006.

⁵ Center on Budget and Policy Priorities, 2007.

⁶ Dynarski and Scott-Clayton (2006) review the empirical evidence on the types of aid programs that increase education. Long (2004a, 2004b) shows that the current tax credits do not increase college attendance.

⁷ In Georgia and Arkansas, simple aid programs have increase college attendance and completion (Dynarski, 2000, 2004, 2008). Ninety percent of high school freshmen can name the Georgia program and a majority know its eligibility rules, because they are easy to explain and remember.

⁸ The federal aid application (the FAFSA) makes the IRS tax forms look svelte. The IRS 1040EZ is a single page with 37 questions. Form 1040A is two pages, with 83 questions. Form 1040 is also two pages, with 118 questions. The FAFSA is *five* pages, with 127 questions. A handful of these questions determine most of the variation in aid. Earnings, marital status, family size, and number of family member in college explain 80 percent of the variation in Pell Grants (Dynarski and Scott-Clayton, 2006).

⁹ Dynarski and Scott-Clayton, 2007