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

**College is a Great Investment**

A college education is a valuable investment. Over a lifetime, a person with a bachelor’s degree will earn, on average, a million dollars more than a less-educated worker. Even with record-high tuition prices, a bachelor’s degree pays for itself several times over, in the form of higher income, lower unemployment, better health and enhanced civic engagement.

**Growing Gaps in Educational Attainment**

But as college has grown more valuable, it has also grown more unequal. Low-income children are very unlikely to earn a BA when they grow up: just 9% manage to do so. The odds are *six times higher* for children from high-income families: 54% go on to earn a BA. Troublingly, this gap is not shrinking – if anything, it is growing.¹

**Expanding College Access**

I give you these statistics to get us thinking about our goals for the education tax incentives. Whether they have been a success depends on the goals we set for them.

Is our goal to ease the pinch of college costs for middle- and upper income families whose children attend expensive colleges? If so, then the tax incentives do a passable job. I give them a C-.

But I think our goal is far more ambitious. I believe we want to open the doors of college to anyone who can benefit. If *this* is our goal, then the current tax incentives are a failure.

Why? The tax incentives can *increase schooling* only if they put money into the hands of those for whom price is a barrier.

- Who are these potential college students? They are overwhelmingly from low-income families.
- Where might these potential college students go to school? The local community college, where tuition and fees average $3,800, or a state university, where they average $10,600.²

This is who we should keep in mind as we design tax incentives for college: a low-income person attending a public college.
The student admitted to Yale or Harvard whose family earns over $200,000, is going to college with or without a tax incentive. We should not build our education policy around the prices she faces.

In my opinion, it is not the job of government to make Harvard and Yale affordable to the handful who can attend those elite institutions. It is the job of government to make a solid college education affordable to the millions for whom a degree 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 very little for low-income students at public colleges. Perversely, the tax incentives provide the most money to upper-income students at the most expensive colleges, who least need our help

- The *tax credits* are only partially refundable. Because of limited refundability, a low-income student can get an AOTC benefit of only $1,000 each year, while a middle- or upper-income student can get $2,500.

- Only students who pay tuition and fees over $10,000 a year can get the full *Lifetime Learning Credit*. Community colleges, which enroll the majority of undergraduates, charge less than half that.

- The *tuition deduction* and *student-loan interest deduction* pay the most to families with the highest tax rates. Deductions from taxable income are far more valuable for those in the top brackets than lower brackets.

- The *Coverdell* and *529* saving plans benefit those who can afford to put money into savings and who face high tax rates – that is, the wealthy. Further, assets in Coverdell and 529 accounts count against eligibility for both federal student aid and safety-net programs such as SNAP.

**The Education Tax Incentives Are Complex and Confusing**

The regressivity of the tax incentives is not all that hampers their effectiveness. They are simply too complicated and confusing to affect schooling decisions. The IRS publication devoted to explaining them fills 95 pages! Families can't respond to a price subsidy if they do not know about or understand it.

Informing people about the tax incentives doesn’t help. A randomized trial in Texas showed that getting more information to people about the tax incentives for college had zero effect on college enrollment and persistence.³ We are better off funding simple programs that work than trying to educate people about complex programs that don’t work.
The Limits of Tax Policy as Education Policy

If the goal is expanded college access, the tax incentives for higher education are very bad policy. Traditional student aid (and free college programs) can change schooling decisions, by cutting prices at the time of enrollment. By contrast, the tax benefits arrive month or even years after students pay their bills.

If we want aid to be effective, it needs to uncomplicated and arrive when students need to pay their bills. Evidence shows that simple, easily communicated financial aid programs can have a large impact on college entry and completion. Complicated programs don’t.4

We have very strong evidence that the tax credits and tuition deduction do nothing to increase schooling.5 We should set aside any fiction that the tax benefits for higher education increase education.

Simplify and Focus the Education Tax Incentives

The education tax incentives are, at best, a transfer program. They get money to households that have sent people to college. To do this job well, they should impose minimal paperwork and go to families who most need the money.

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 likely credit well in advance.

- Make the credit fully 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, which have lower tuitions but the same living expenses as private schools.

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

- Families need the credit when tuition is due, not a year or more later when taxes are filed. The Department of Education delivers grants and loans to students and their colleges at the time of enrollment, so this can be done.

- IRS can use previous year's income to define eligibility for the education tax credit, so that eligibility is known early.
The Endowment Tax

The endowment tax falls on colleges that have large endowments but do not make sufficient effort to keep their schools affordable. Here is a straightforward measure we can use to gauge such effort:

Does a college meet the full financial need of its students, as captured by the FAFSA and the federal methodology?

Many private colleges (and a handful of public schools) use the PROFILE and the institutional methodology to measure need. This doubles the paperwork burden on students and increases uncertainty for families. The PROFILE is focused on distinguishing between the rich and extremely rich, and it should not be required of low-income students.

Conclusion

The federal government could do better with its tax incentives for college. The education tax benefits provide relief for middle- and high-income people who have gone to college. But they provide comparatively little relief for low-income families.

And the evidence is clear is that the tax incentives do nothing to get more people into college. They arrive too late to serve that purpose. They are no substitute for federal financial aid, or free college programs, both of which change prices when students are making schooling decisions.
Endnotes


5 Two researchers analyzes data from millions of tax returns to reach this conclusion:
