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New America Education Policy Program  
**Issue Brief**

# **BUILDING AN AOTC MOVEMENT**

**Strengthening Outreach for a Reformed  
American Opportunity Tax Credit**



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### **About New America**

New America is a nonprofit, nonpartisan public policy institute that invests in new thinkers and new ideas to address the next generation of challenges facing the United States.

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# Introduction

The Consortium for Higher Education Tax Reform has offered a set of proposals aimed at making tax-based student aid more generous for low- and moderate-income students. Along with simplifying and better targeting higher education tax benefits to families and institutions, the Consortium has recommended preserving the American Opportunity Tax Credit (AOTC) as the primary vehicle for tax-based student aid, making it 100 percent refundable, and evaluating early delivery of the credit at the time college expenses are incurred.

These reforms would ensure that tax-based student aid goes to the students who struggle most with college costs, rather than to higher-income individuals who are already very likely to attend college without a tax incentive. But the changes will only be beneficial to these students if they are aware that the AOTC exists and know how to claim it.

Today, too many families fail to claim higher education tax benefits for which they are eligible. For example, a Government Accountability Office (GAO) study found that one in seven taxpayers – or 1.5 million tax filers – who were eligible for either the Tuition and Fees Deduction or the Lifetime Learning Credit (LLC) in 2009 failed to claim those benefits. Another 237,000 of these filers made a “suboptimal choice,” choosing a tax break that did not “maximize their potential benefits.”<sup>1</sup>

Additionally, the Tax Policy Center estimates that one in four filers who are eligible for the AOTC – an annual income tax credit of up to \$2,500 available to help students cover tuition, fees, and course materials for their first four years of college – don’t actually receive the credit.<sup>2</sup> While 75 percent may seem to be a relatively high take-up rate, it likely masks a much lower take-up rate for low-income households who may not know the credit exists and who may not earn enough to pay federal income taxes.

One major obstacle that financially-needy students and their parents face with tax credits, unlike with other federal financial aid programs, is that they can’t

rely on colleges to help them claim their credits. Most financial aid offices share (at most) general information about the tax credits with students, and few, if any, provide individualized advice or assistance. As a result, students are largely on their own to learn about the tax credits and know how to claim them. As the GAO has written, this is no easy task: “Unlike Title IV [federal student aid] programs, users must understand the rules, identify applicable tax preferences, understand how these tax preferences interact with one another and with federal student aid, keep records sufficient to support their tax filing, and correctly claim the credit or deduction on their return.”<sup>3</sup>

The federal government certainly doesn’t make it easy for low-income students and their families to navigate the process. The applicable guidelines are embedded in a nearly 90-page IRS publication on higher education tax benefits. The whole process is confusing and unduly complex for many students and families who are not well-versed in the tax code.

Moreover, the lowest-income taxpayers are not required to file a tax return and may not realize that only by filing one can they access a refundable higher education tax credit. These students risk losing out on a benefit available to help them cover the cost of college.

A concerted effort will be needed to make low-income families aware of and help them claim the refundable AOTC. In this paper, we look at what can be learned from the vigorous outreach movement for the Earned Income Tax Credit (EITC), another refundable tax credit aimed at low- and moderate-income families. We then explore how an AOTC outreach effort should involve higher education institutions, the Departments of Education and Treasury, college outreach programs like TRIO and GEAR UP, and benefit access programs at community colleges. Given their constituencies, these are natural partners in getting the word out about higher education tax benefits. Commercial tax preparers such as Intuit and H & R Block should also be involved in outreach efforts, but with consumer protections in place to ensure that students receive the benefit to which they are entitled.

At a time when college tuition is on the rise but family income is stagnating, financially needy students should not miss out on a benefit they are eligible for simply because they don’t know about it. A fully-refundable AOTC that is better targeted to low- and moderate-income students and that is delivered at the time college expenses are incurred could make the difference between whether or not a low-income student attends college.

# Lessons on Outreach: The Earned Income Tax Credit

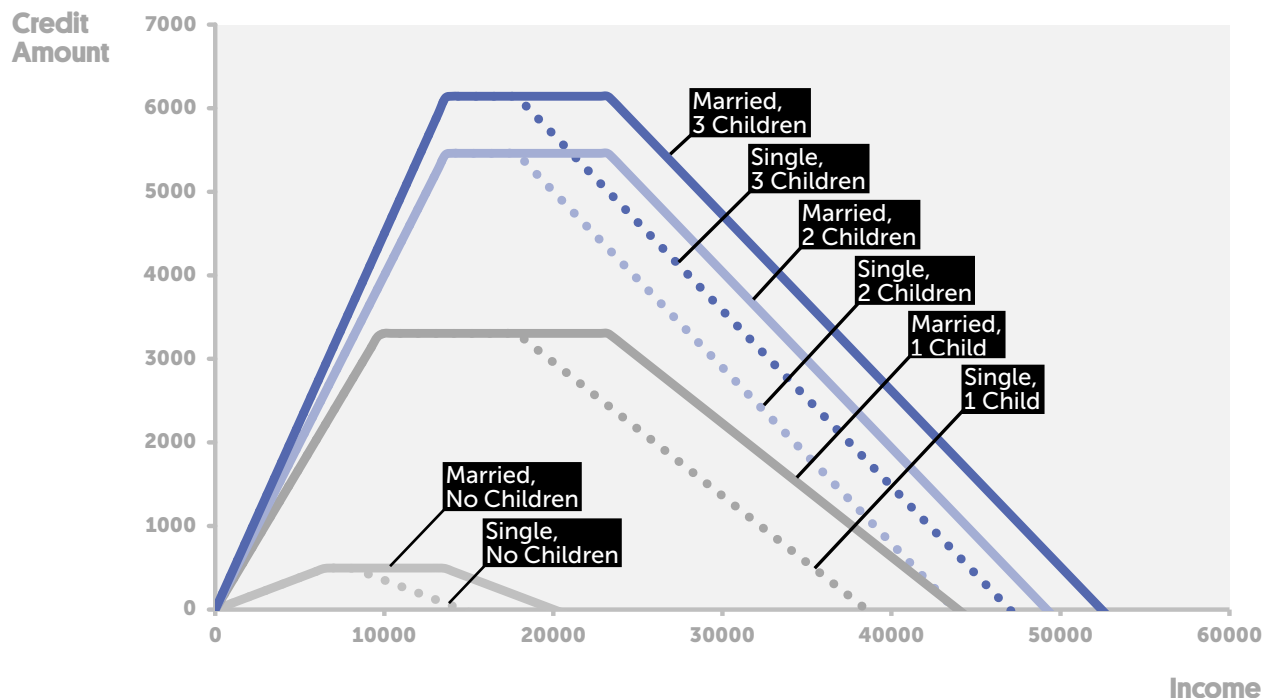
In looking for ways to increase outreach to low- and moderate-income households, it's helpful to look at the history of the EITC.

The EITC is a refundable, anti-poverty tax credit that works by supplementing the earnings of low-income workers, especially those with dependents, by reducing or eliminating their taxes.<sup>4</sup> The IRS estimates that the take-up rate for EITC in 2010 was 78 to 80 percent<sup>5</sup>, which is a much higher rate than other federal benefit programs to low-income families such as Temporary Assistance to Needy Families (40 percent in 2005) and the Supplemental Nutrition Assistance Program (60 percent in 2005).<sup>6</sup>

Congress established the refundable EITC in 1975.<sup>7</sup> While the initial credit was relatively small, several

bipartisan expansions starting in the 1980s caused it to become the largest federal aid program targeted toward the working poor.<sup>8</sup> Even though the United States has experienced numerous economic downturns since the creation of EITC, bipartisan support for the credit has increased over the years mainly because it provides financial support while offering incentives for being employed. For example, a family must have a wage earner in order to be eligible, and the more income a family earns, the larger credit received. Depending on family size and income, the credit reaches a maximum plateau that eventually declines as wages increase (see figure 1). In effect, the credit transfers supplemental income to low-income wage earners.<sup>9</sup> In 2012, for example, the EITC is estimated to have lifted at least 6.5 million individuals above the poverty line, including about 3.3 million children.<sup>10</sup>

**Figure 1: Earned Income Tax Credit**  
Earned Income Tax Credit by Income, Marital Status, and Number of Children



Source: 2013 EITC parameters taken from <http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=36>

EITC's relatively high take-up rate is impressive given that the Tax Reform Act of 1986 both expanded EITC while increasing the personal exemption and standard deduction. In other words, while more families became eligible for EITC, fewer households were required to file a tax return.<sup>11</sup> The take-up rate is due in large part to an EITC movement that included community outreach and promotion, the Internal Revenue Service's Volunteer Income Tax Assistance (VITA) sites, commercial tax preparation for low-income taxpayers, and philanthropy.<sup>12</sup> Each outreach method is discussed briefly below:

### Community Outreach and Promotion

The Center on Budget and Policy Priorities (CBPP), is a Washington-based, nonprofit policy organization that "works at the federal and state levels on fiscal policy and public programs that affect low- and moderate-income families and individuals."<sup>13</sup> In 1989, CBPP produced and distributed approximately 10,000 EITC English and Spanish outreach kits consisting of posters, fact sheets, and suggestions to community organizations such as the Center for Law and Human Services in Illinois and Children Now in California for conducting outreach campaigns. The kit was enhanced and expanded throughout the years to ensure optimal reach. In addition, the IRS created its own EITC materials for distribution at places such as public assistance agencies and grocery stores. Many mayors of large urban areas, like Richard Daley in Chicago, also created EITC outreach initiatives.<sup>14</sup>

### VITA and Other Community Tax Programs

VITA sites were established by Congress in 1969 to help low-income tax filers receive free preparation of their returns. Many community organizations working with low-income families often referred these families to VITA sites during tax season. But VITA didn't have the capacity to handle these referrals. Eventually, outreach campaigns not only promoted existing VITA sites but also recruited new volunteers to serve at additional sites. In 2000 the IRS created the Stakeholder Partnerships, Education and Communication (SPEC) which focused on developing and supporting these community partnerships rather than directly supporting VITA sites. In addition, volunteer assistance efforts

among tax professionals such as Community Tax Aid made inroads in various urban communities.<sup>15</sup>

### Commercial Tax Preparation for Low-Income Tax Payers

The commercial tax industry includes large national chains like H&R Block and Liberty Tax Services and smaller, locally-owned, fly-by-night businesses that pop up during tax season. With the growth of EITC, commercial tax preparers offered families "instant refund" products like "refund anticipation loans" (RALs). It's important to note that these "instant refund" products are predatory—the commercial preparer lends the filer the expected refund amount plus a preparation fee plus additional fees at a high interest rate. As EITC became more generous, commercial preparers ensured that as many people who were eligible for the EITC applied in order to maximize their profits through large refunds.<sup>16</sup> Even without RALs or similar products, it was in the interest of commercial preparers to deliver large refunds to keep customers happy and willing to come back year after year for help filing taxes.

### Philanthropy and National Networks

The Annie E. Casey Foundation (AECF) became a large funder of EITC outreach and policy work. The foundation supported CBPP's outreach efforts, provided financing to organizations such as the Brookings Institution to understand the impact of EITC, and funded local outreach campaigns in high-poverty urban areas like Milwaukee. National foundations and other interested national organizations also supported national networks to do EITC outreach work such as KIDS COUNT and the Economic Analysis and Research Network (led by the Economic Policy Institute).<sup>17</sup>

We can't isolate the variables that have contributed to the EITC's 78 to 80 percent take up rate, but it is likely that efforts like those mentioned above have helped. An outreach effort for AOTC can access existing infrastructure, like EITC did, and leverage it to better ensure low- and moderate-income families are claiming the benefits available to them.

## Partners in Outreach

A national outreach campaign for the AOTC would include some of the same players as those involved in the EITC movement. But it would also take advantage of partners that are uniquely positioned to

reach out to low- and moderate-income students and their families. The remainder of this paper will focus on these partners and what they can contribute to this effort.

# What Colleges Can Do

The largest form of federal student aid, excluding student loans, is delivered through the tax system. In 2012, the federal government spent nearly \$34 billion on tax-based aid -- \$1 billion more than the total spent on Pell Grants.

At a time when low- and moderate-income students are facing substantial amounts of unmet financial need at colleges, this tax-based student aid, if properly designed, could go a long way in helping them cover their funding gaps.<sup>18</sup> Colleges, however, generally do little to make financially needy students aware of higher education tax benefits. Colleges' only formal responsibility under these programs is to send students (and the Internal Revenue Service) a tax form that includes some of the information that they and their families can use when filing their

taxes to claim a credit.<sup>19</sup> The IRS 1098-T form lists the students' qualified tuition and related expenses and the amount of grant and scholarship assistance they have received (see image 1). Most colleges do not include information with this form that promotes the tax breaks or encourages students to try to claim them.

While college financial aid administrators help low-income students obtain federal grants and loans, they are not tax professionals and therefore choose not to help these students and their families claim the tax benefits. Many financial aid officials are loathe to even to talk to students about the availability of these tax breaks for fear of taking on the legal risks of providing tax advice. At most, financial aid offices may have a webpage that lists the different programs and advises students to consult with a tax advisor to see if they are eligible for these benefits. They may also link to the IRS' "Publication 970: Tax Benefits for Education," a dense

**Image 1: Colleges Send This 'IRS Form 1098-T Tuition Statement' to Students at Tax Time**

CORRECTED

|  |  |   |   |  |
|--|--|---|---|--|
| FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number |  | 1 Payments received for qualified tuition and related expenses<br><b>\$</b>   | OMB No. 1545-1574<br><b>2014</b><br>Form <b>1098-T</b>  | <b>Tuition Statement</b>   |
|  |  | 2 Amounts billed for qualified tuition and related expenses<br><b>\$</b>  |   |  |
| FILER'S federal identification no.   | STUDENT'S social security number                               | 3 If this box is checked, your educational institution has changed its reporting method for 2014 <input type="checkbox"/> |   | <b>Copy B For Student</b><br><br>This is important tax information and is being furnished to the Internal Revenue Service. |
| STUDENT'S name   |  | 4 Adjustments made for a prior year<br><b>\$</b>  | 5 Scholarships or grants<br><b>\$</b>   |  |
| Street address (including apt. no.)  |  | 6 Adjustments to scholarships or grants for a prior year<br><b>\$</b>   | 7 Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January - March 2015 <input type="checkbox"/> |  |
| City or town, state or province, country, and ZIP or foreign postal code   |  | 9 Checked if a graduate student . . . . <input type="checkbox"/>  | 10 Ins. contract reimb./refund<br><b>\$</b>   |  |
| Service Provider/Acct. No. (see instr.)  | 8 Check if at least half-time student <input type="checkbox"/> |   |   |  |

Form **1098-T** (keep for your records) [www.irs.gov/form1098t](http://www.irs.gov/form1098t) Department of the Treasury - Internal Revenue Service

90-page document that provides an overwhelming amount of information about the different higher education tax programs.<sup>20</sup>

In addition, aid administrators often don't talk about the tuition tax breaks because they generally don't consider these benefits to be a particularly useful form of financial aid – and for good reason. Overall, the government's multiple tuition tax credit and deduction programs are poorly targeted, with a substantial share of the tax-based aid going to higher income families. The current AOTC is only partially refundable, meaning that low-income households that don't earn enough to pay income taxes are not eligible for the full benefit. Perhaps most importantly for low-income students, tax-based aid does not

reach students at the time college expenses are incurred. Students and parents only receive this aid after filing their taxes – which could be as long as 15 months after college bills are due.<sup>21</sup>

Providing a fully refundable AOTC in a timelier manner as the Consortium for Higher Education Tax Reform has proposed is an important step forward in helping the lowest-income students pay for college. But unless colleges play a more active role in promoting the AOTC, these students may never hear of it or take advantage of it.<sup>22</sup> Colleges should not hide behind the excuse of not being able to provide individual tax advice. They can certainly alert students to the availability of the tax credits and explain how they work without fear of repercussions.

## Recommendations for Colleges

- Financial aid administrators should include a note on the financial aid award letters they send students alerting them to the availability of the AOTC and provide them a link to the IRS's information about the tax credits.<sup>23</sup>
- At tax time, financial aid administrators should organize "AOTC awareness" campaigns at their schools. They can put up posters and flyers in the aid office and around campus alerting students of their or their family's potential eligibility for benefits from this program. They can also use social media and text messaging to get the word out. And they can bring tax experts to their schools to talk to students about the program. Additionally, for traditionally-aged students whose parents might be claiming the credit, the financial aid office should offer sessions during parent orientations that explain the AOTC. Reminders should also be sent out to parents of dependent students during tax time.
- Financial aid administrators should contact low- and moderate-income students at their schools – and their parents or guardians – who have indicated on their FAFSAs that they did not receive a tuition tax credit to make sure that they are aware of the AOTC. During these conversations, aid officers can direct students and families to tax professionals (including VITA sites and year-round community tax programs) that can help families determine their eligibility and possibly claim the credit (even for prior years).
- Colleges should include supplementary material when they send the 1098-T form to students that highlights the benefits of a reformed AOTC and makes clear that the tax credit is fully refundable, and therefore available to low-income households who don't have any income tax liability. The document would also notify these households that they must file a tax return to receive the benefit.
- Colleges should support on-campus free tax preparation services, including classes that train accounting students to assist their peers.



# What the Education Department Can Do

Every January, the U.S. Department of Education releases the Free Application for Federal Student Aid (FAFSA). This is the official start of financial aid season, with many students filling out the application to apply for financial aid for the following year. Unfortunately, the Education Department doesn't let students know on the FAFSA that they may be eligible for tax credits.

This is a missed opportunity. Many students don't make the connection that tax-based aid is financial aid since it is often divorced from when education expenses are incurred. With the FAFSA, students are trying to get aid for the following year. With tax filing, students are getting aid for the previous year.

The Education Department's primary method of getting the word out about the higher education tax credits is through its main consumer information website, [studentaid.gov](http://studentaid.gov). There, the Department details the many forms student aid can take including grants, loans, and tax credits. When students navigate to the tax benefits page, they can learn about the AOTC and Lifetime Learning Credit, 529 plans, Coverdell Savings Accounts, and the Student Loan Interest Deduction (see image 2). While the site provides a thorough overview of higher education tax benefits for students and families, many of the links lead to IRS publications that are dense and difficult to understand. The website also assumes its users understand the value of tax credits and deductions and how they can actually help them—why, for example, a student or family would want to lower its income tax liability or why refundable credits are ideal.

**Image 2: Screen Capture of StudentAid.gov website.**  
 Website address: <http://studentaid.ed.gov/types/tax-benefits>. (Taken February 14, 2014.)

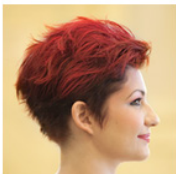
Federal Student Aid  
 AN OFFICE OF THE U.S. DEPARTMENT OF EDUCATION

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Search StudentAid.gov

Prepare for College ▾ Types of Aid ▾ Who Gets Aid ▾ FAFSA: Apply for Aid ▾ Repay Your Loans ▾

Home » [Types of Aid](#) » Tax Benefits

 Did you know that the Internal Revenue Service (IRS) provides tax benefits for education?  
*The tax benefits can be used to get back some of the money you spend on tuition or loan interest or to maximize your college savings.*

Read [IRS Publication 970, Tax Benefits for Education](#) to see which federal income tax benefits might apply to your situation. Here are some highlights:

**Tax Credits for Higher Education Expenses**

Two tax credits help offset the costs (tuition, fees, books, supplies, equipment) of college or career school by reducing the amount of your income tax:

- The [American Opportunity Credit](#) allows you to claim up to \$2,500 per student per year for the first four years of school as the student works toward a degree or similar credential.

**Quick Links**

- > [Who Gets Aid](#)
- > [FAFSA: Apply for Aid](#)
- > [Leave Us Feedback](#)

**Glossary**

[Interest](#)

Another way the Education Department provides financial aid information to students is through the Financial Aid Shopping Sheet. The Shopping Sheet is a standard financial aid disclosure form adopted by thousands of colleges and universities (see image 3). It gives students personalized information about

their financial aid packages to help them understand how much gift aid they're receiving compared to self-help aid. It also details other options to help pay for college. The Shopping Sheet, however, neglects to make any mention of the tax credits that are available.

**Image 3: Template of the U.S. Department of Education's Shopping Sheet**

MM / DD / YYYY

**University of the United States (UUS)**  
Student Name, Identifier

[Download](#)

**Costs in the 2014-15 year**

**Estimated Cost of Attendance** **\$X,XXX / yr**

|                       |          |
|-----------------------|----------|
| Tuition and fees      | \$ X,XXX |
| Housing and meals     | X,XXX    |
| Books and supplies    | X,XXX    |
| Transportation        | X,XXX    |
| Other education costs | X,XXX    |

**Graduation Rate**  
Percentage of full-time students who graduate within 6 years

XXX%

Low
Medium
High

**Grants and scholarships to pay for college**

**Total Grants and Scholarships ("Gift" Aid; no repayment needed)** **\$X,XXX / yr**

|  |          |
|--|----------|
| Grants and scholarships from your school | \$ X,XXX |
| Federal Pell Grant                       | X,XXX    |
| Grants from your state                   | X,XXX    |
| Other scholarships you can use           | X,XXX    |

**Loan Default Rate**  
Percentage of borrowers entering repayment and defaulting on their loan

This Institution

National

**What will you pay for college**

**Net Costs** **\$X,XXX / yr**  
(Cost of attendance minus total grants and scholarships)

**Options to pay net costs**

**Work options**

Work-Study (Federal, state, or institutional) \$ X,XXX

**Loan Options\***

|                                  |          |
|----------------------------------|----------|
| Federal Perkins Loan             | \$ X,XXX |
| Federal Direct Subsidized Loan   | X,XXX    |
| Federal Direct Unsubsidized Loan | X,XXX    |

\*Recommended amounts shown here. You may be eligible for a different amount. Contact your financial aid office.

**Median Borrowing**  
Students who borrow at UUS typically take out \$X,XXX in Federal loans for their undergraduate study. The Federal loan payment over 10 years for this amount is approximately \$X,XXX per month. Your borrowing may be different.

\$

**Other options**

**Family Contribution** **\$X,XXX / yr**  
(As calculated by the institution using information reported on the FAFSA or to your institution.)

- Payment plan offered by the institution
- Military and/or National Service benefits
- Parent or Graduate PLUS Loans
- Non-Federal private education loan

**Repaying your loans**

To learn about loan repayment choices and work out your Federal Loan monthly payment, go to:  
<http://studentaid.ed.gov/repay-loans/understandplans>

**For more information and next steps:**

**University of the United States (UUS) Financial Aid Office**  
123 Main Street  
Anytown, ST 12345  
Telephone: (123) 456-7890  
E-mail: financialaid@uus.edu

With a reformed and simplified AOTC, the Education Department should improve its outreach effort to ensure that low- and middle-income students are aware of the credit and how it can help them pay

for college. The Education Department should also inform students about how they can file for the credit.

## Recommendations for the Education Department

- Every student applying for federal financial aid must fill out a FAFSA. Recently, the Education Department released a “Data Retrieval Tool” on the electronic version of the FAFSA that allows students to link up with the IRS and retrieve their tax information to help pre-fill the FAFSA, greatly reducing the burden of filling out the application. The Education Department must let students and families know about the existence of the AOTC, either through this tool or by providing information about it on their Student Aid Report—a document students receive once their FAFSA has been processed.
- Studentaid.gov is a resource for students and families looking to get more information about federal financial aid. The Education Department recently overhauled the site to make it more user-friendly, including adding many graphics and videos along with clear and concise information. Even with the redesign, the tax benefits page could be much better. The Education Department should approach the information on this page as if a student or family has no idea what a tax credit is. Like the other “types of aid” pages on studentaid.gov, the tax benefits page should include helpful videos and infographics.
- The Department should also update the “Resource Center” of studentaid.gov. College access professionals and financial aid administrators access the Resource Center to print pamphlets and infographics that can be used to help inform students about the AOTC during tax time.
- Information about the AOTC should be included on the Financial Aid Shopping Sheet. If a reformed AOTC is delivered at the time expenses are incurred—as the Consortium has recommended—then the Financial Aid Shopping Sheet should include it as an option to pay for college during the academic year. If that change is not made, then the AOTC should still be mentioned so that students know it exists.

# What the IRS Can Do


**L**ow- and moderate-income families may not realize that education expenses they have incurred months earlier may be eligible for a refundable credit at tax time since the delivery timetable under current law is so removed from the rest of the financial aid process.

Even so, the Internal Revenue Service, as the public face of federal tax collection, has various methods to educate filers about higher education tax benefits. Since filing taxes can be complex, the IRS's efforts tend to over explain benefits with multiple caveats and thus don't help students and families quickly and easily understand whether they may be eligible and what benefit(s) they could claim.

Currently, the AOTC is claimed on a tax return once a filer fills out Form 8863, Education Credits. This complex two-page form has over 30 questions (see image 4). The instructions for filling out this form are seven pages. What's more, this form is just for credits and does not include any information about deductions. Since filers usually can't claim both an education deduction like the Tuition and Fees AOTC deduction and an education credit such as the AOTC, many filers who don't understand the difference between the two may make a decision that does not maximize their benefit. To help filers understand the different education tax benefits, the IRS annually publishes a guide, "Publication 970: Tax Benefits for Education." As previously mentioned, this guide is dense at over 90 pages long and does little to alleviate confusion for families.

## Images 4: IRS Form 8863

This is a portion of the two-page "IRS Form 8863 Education Credits." This form is overly complex and comes with seven pages of instructions.

|  |  |   |
|--|--|---|
| Form <b>8863</b>   | <b>Education Credits</b><br><b>(American Opportunity and Lifetime Learning Credits)</b>  | OMB No. 1545-0074                                   |
| Department of the Treasury<br>Internal Revenue Service (999)   | ▶ Information about Form 8863 and its separate instructions is at <a href="http://www.irs.gov/form8863">www.irs.gov/form8863</a> .<br>▶ Attach to Form 1040 or Form 1040A.   | <b>2013</b><br>Attachment<br>Sequence No. <b>50</b> |
| Name(s) shown on return  |  | Your social security number                         |
|  <b>Complete a separate Part III on page 2 for each student for whom you are claiming either credit before you complete Parts I and II.</b> |  |   |
| <b>Part I Refundable American Opportunity Credit</b>   |  |   |
| 1  | After completing Part III for each student, enter the total of all amounts from all Parts III, line 30   | <b>1</b>  |
| 2  | Enter: \$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying widow(er)   | <b>2</b>  |
| 3  | Enter the amount from Form 1040, line 38, or Form 1040A, line 22. If you are filing Form 2555, 2555-EZ, or 4563, or you are excluding income from Puerto Rico, see Pub. 970 for the amount to enter  | <b>3</b>  |
| 4  | Subtract line 3 from line 2. If zero or less, <b>stop</b> ; you cannot take any education credit   | <b>4</b>  |
| 5  | Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er)  | <b>5</b>  |
| 6  | If line 4 is:<br>• Equal to or more than line 5, enter 1.000 on line 6<br>• Less than line 5, divide line 4 by line 5. Enter the result as a decimal (rounded to at least three places)  | <b>6</b>  |
| 7  | Multiply line 1 by line 6. <b>Caution:</b> If you were under age 24 at the end of the year <b>and</b> meet the conditions described in the instructions, you <b>cannot</b> take the refundable American opportunity credit; skip line 8, enter the amount from line 7 on line 9, and check this box <input type="checkbox"/> | <b>7</b>  |
| 8  | <b>Refundable American opportunity credit.</b> Multiply line 7 by 40% (.40). Enter the amount here and on Form 1040, line 66, or Form 1040A, line 40. Then go to line 9 below.   | <b>8</b>  |
| <b>Part II Nonrefundable Education Credits</b>   |  |   |
| 9  | Subtract line 8 from line 7. Enter here and on line 2 of the Credit Limit Worksheet (see instructions)   | <b>9</b>  |
| 10   | After completing Part III for each student, enter the total of all amounts from all Parts III, line 31. If zero, skip lines 11 through 17, enter -0- on line 18, and go to line 19   | <b>10</b>   |
| 11   | Enter the smaller of line 10 or \$10,000   | <b>11</b>   |

The IRS does provide filing assistance to low-income families to help overcome deduction and credit confusion through such efforts as VITA tax-preparation sites. However, it's important to note that the reach of VITA and other IRS tax preparation efforts has become limited. Recently the IRS reduced its assistance to taxpayers by closing many Taxpayer Assistance Centers and only providing referrals for where to receive return preparation assistance.

This year the IRS has initiated a broader strategy to increase oversight and outreach on refundable claims like the AOTC.<sup>24</sup> In an effort to ensure

improved compliance among preparers that work with low- and moderate-income filers, the IRS has added a new section to its EITC website that clarifies the difference between the AOTC and the Lifetime Learning Education Credit. (For more on commercial preparers, see box on page 15.)

If policymakers make the AOTC fully refundable and better targeted to low- and middle-income families, the IRS would have to do much better outreach to ensure that the public is well-informed about the AOTC and knows where to turn for help both in claiming the credit and filing taxes.

## Recommendations for the IRS

- At tax time, institutions of higher education send out Form 1098-T Tuition Statement that students use to claim tax credits. This form is a half-page and on the back explains in small font that “You, or the person who can claim you as a dependent, may be able to claim an education credit on Form 1040 or 1040A, only for the qualified tuition and related expenses that were actually paid in 20XX.” This form does not go far enough in explaining what an education tax credit is. The IRS should consider making this form a full page with better explanations of education tax credits. Instead of naming it “Tuition Statement,” it should be renamed to give filers a better understanding that they can use this form to receive a refundable credit.<sup>25</sup>
- The IRS needs to simplify the form [8863] required by filers to determine their eligibility for higher education tax credits. As mentioned, the form is two pages and includes seven pages of directions. The Consortium’s proposed changes to the tax credits—such as the elimination of the Lifetime Learning Credit—would allow the IRS to make this form one page, and much more straightforward. The IRS could even explore whether in a reformed AOTC environment, Form 8863 would be necessary at all.<sup>26</sup>
- Currently the IRS informational website about VITA sites explains that volunteer preparers can “inform taxpayers about special tax credits for which they may qualify such as Earned Income Tax Credit, Child Tax Credit, and Credit for the Elderly or the Disabled.”<sup>27</sup> The AOTC must be added to the list.

# What TRIO and GEAR UP Can Do

Since the creation of the Higher Education Act in 1965, federal policymakers have supported multiple programs – including the federal TRIO and GEAR UP programs – aimed at raising the college aspirations and improving the academic preparation of disadvantaged students. These programs work with the very students that a redesigned AOTC would target. But due in part to financial advising concerns and the complexity of delivering financial aid through the tax code, neither the TRIO nor GEAR UP programs have made a concerted effort to let students know about higher education tax benefits.

The TRIO programs are the government’s oldest college readiness programs, with some of them dating back to the mid-1960s. TRIO’s eight college opportunity programs include many access and success initiatives that reach out to students before and during their college experience. TRIO’s Talent Search and Upward Bound, for example, help students as early as junior high school with financial aid, college counseling, and tutoring. The Student Support Services (SSS) program provides academic tutoring and college advising assistance while students are in college. In addition, the Educational Opportunity Center (EOC) program provides counseling and information about college

admissions and financial aid to traditionally-aged students as well as adult students looking to enroll in higher education.<sup>28</sup>

Congress has mandated that two-thirds of students served by the TRIO programs must be first-generation college enrollees and come from families with incomes at or below 150 percent of the federal poverty level.<sup>29</sup> As a result, TRIO programs currently serve almost 800,000 low-income students, including more than 7,000 students with disabilities, and 6,000 U.S. veterans.<sup>30</sup>

Created in 1998, the GEAR UP program is the first federal effort designed to focus primarily on helping better prepare and motivate low-income middle school students for college. GEAR UP is modeled mostly after the “I Have a Dream Program,” which was started in 1981 by Eugene M. Lang, a successful businessman who promised full college tuition to a class of sixth graders at his old elementary school in New York City’s East Harlem.<sup>31</sup>

Under the main part of GEAR UP, colleges, working with local educational agencies or school districts, apply to the Department of Education for grants to form partnerships with middle schools at which at least 50 percent of the students must be eligible for free or reduced price lunch. The colleges provide tutors and mentors who work with at least one entire grade of students at the school, starting no later than seventh grade, and then continue serving these students through high school graduation and, in many cases, through their first year of college.

Both the TRIO and GEAR UP programs should be important partners in outreach given the diverse and often difficult-to-reach students and families they work with.

**“TRIO programs currently serve almost 800,000 low-income students, including more than 7,000 students with disabilities, and 6,000 U.S. veterans.”**

## Recommendations for TRIO and GEAR UP

- Federal TRIO programs like Upward Bound are required to provide “education or counseling services designed to improve the financial literacy of students, including financial planning for postsecondary education.”<sup>32</sup> As such, staff members should be trained to include AOTC when discussing federal financial aid options to students. With proper training, TRIO programs can provide assistance to students and families looking to learn more about federal financial aid options, including tax benefits, without fear of the repercussions of giving financial advice.
- TRIO EOCs oftentimes act like drop-in centers for students looking for help during the college admissions process. Many EOCs help students complete their FAFSA during tax time. As EOC advisors are going through tax documents to help students and families fill out the FAFSA, they should look to see if the family has filed for higher education tax credits. If the family was eligible, but neglected to take AOTC, counselors should be trained to inform them about the AOTC and how they can go about filing an amended tax return, even referring them to local VITA sites or other reputable tax preparers.
- GEAR UP leaders are in a good position to alert high school seniors and first-year college students who have participated in the program – as well as their parents or guardians -- about the availability of the AOTC. They should make clear that the tax credit is at least partially refundable and therefore available to low-income tax filers. They should also notify these individuals that their families must file a tax return to receive the benefits.
- In addition, as part of TRIO and GEAR UP grant applications, the Education Department should make notification of the AOTC a competitive priority element. This would provide an incentive to grant applicants to promise to do outreach in the hope of getting an extra point or two to win the grant.

# What Benefit Access Programs Can Do

**W**hen it comes to serving low-income and working-class students, community colleges are the true workhorses of higher education. Many students who could benefit from refundable tax credits attend public two-year colleges. And there are organizations that try to help low-income community college students and their families claim the tuition tax breaks for which they are eligible, without charging them a cent.

One of the most ambitious is run by Single Stop USA, a New York-based non-profit organization. Since 2009, Single Stop has partnered with community colleges in seven states – including three of the largest community college systems in the country—to help low-income students on their campuses access all of the federal and state benefits they are entitled to, including the partially-refundable AOTC. These benefits are meant to supplement the federal student aid dollars these students have received from their schools’ financial aid offices.<sup>33</sup>

Under these arrangements, Single Stop works with the schools to hire full-time site coordinators to work directly with students to help them find the resources they need to remain in school. Single Stop uses proprietary software to screen students to determine their eligibility for benefits. When a site coordinator finds low-income students who have not filed tax returns but could benefit from a refundable tax break like the AOTC or the EITC, that individual will send them to local tax professionals who have agreed to provide Single Stop students with free tax preparation services.

The organization believes that even a little bit of help to the most financially needy students can make the difference between whether they can complete their programs or drop out. “We want to make sure students don’t have to make the tradeoff between attending college or putting food on the table or paying rent,” Elizabeth Mason, chief executive and co-founder of Single Stop, has stated.<sup>34</sup> The organization’s hope is that, in partnership with the schools and the Association of Community College Trustees, Single Stop will be a model that community colleges across the country will use to start their own “benefit access” programs.<sup>35</sup>

With funding from five foundations, the Center for Law and Social Policy (CLASP) and the American Association of Community Colleges (AACC) are leading a separate effort to increase low-income community college students’ access to public benefit programs. The Benefits Access for College Completion (BACC) program is essentially an experiment to determine whether “providing students who are struggling to make ends meet with information about public benefits and assistance in applying for them will improve student success and college completion rates and reduce material hardship.”<sup>36</sup>

The BACC program operates under the theory that many financially needy students don’t access public benefits, including refundable tax credits, because they don’t know the programs exist or that they are eligible for them. Others don’t know how to apply for the benefits or where to seek help.<sup>37</sup>

To try to address these problems, CLASP, which is also a member of the Consortium for Higher Education Tax Reform, and AACC have awarded two-year competitive grants to seven community and technical colleges that have come up with creative plans to integrate benefit access programs with services they already provide on their campuses, such as financial aid counseling and registration. By wrapping these practices into existing operations, BACC aims to institutionalize these efforts so that they are sustainable at the colleges even after funding runs out.

According to Amy Ellen Duke-Benfield, a senior policy analyst at CLASP and director of BACC, the program takes an “opt out” approach, meaning that it gets information to students “in ways they can’t avoid.” At some of the schools, information about benefits is included in financial aid discussions and in the curriculum of financial literacy courses, or orientation and student success courses. Some of the institutions go as far as placing flyers about different programs in bathroom stalls. One college, which is making a huge push on food stamps, includes a screensaver about the Supplemental Nutrition Assistance Program (SNAP) on all of the computers on campus.<sup>38</sup>

Duke-Benfield doesn’t see why similar efforts couldn’t be taken by community colleges to raise awareness about a fully refundable AOTC. “Simply telling someone that something exists is not giving tax advice,” she states.<sup>39</sup>



## Recommendations for Promoting Benefit Access Programs

- Congress can create a new competitive grant program encouraging community colleges to establish benefit access programs on their campuses. The schools would be able to use at least a portion of the grants to partner with outside organizations that have experience in this field. Alerting students to the availability of the AOTC would be part of the mission of this program.
- Alternatively, the Department of Education and federal lawmakers could encourage community colleges that receive funds through the Title III Part A Strengthening Institutions program in the Higher Education Act to use the money to establish benefit access programs on their campuses. The schools would be able to use at least a portion of the grants to partner with outside organizations that have experience in this field. Community colleges that use funds for these purposes would be required to alert students to the availability of the AOTC.<sup>40</sup>

## A Note about Commercial Tax Preparers

One reason that the EITC outreach campaign may have been successful was that the commercial tax preparation industry became aware of the refundable credit and ensured filers claimed it to maximize its own bottom line. The bigger the refund, the more satisfied the customer and the greater potential for fee income for the commercial preparer. Unfortunately, some of these fees have come from “early” or “instant” refund products that are predatory, siphoning money away from a low- or moderate-income family’s return so that these individuals are able to access needed money as soon as possible, even if it means losing some of it in the process.

For this reason, commercial tax preparers are not the best partners in AOTC outreach. But it’s important to keep in mind that they will be always be a player in outreach—families will continue to flock to commercial preparers for help during tax time. For example, during the 2012 filing season, 59 percent of EITC returns were from paid preparers whereas only 2 percent were volunteer-prepared. Commercial preparers (including software providers such as Intuit) are going to be a major force in AOTC credit awareness and delivery regardless. They constitute a broad and deep network that has proven effective with the EITC. However they also can present significant financial threats to low-income taxpayers.

Financial products and unscrupulous practices that prey on low-income families and cause them financial harm must be curbed. The IRS should make a concerted effort to ensure that families are aware of VITA sites, and communities must publicize any of their free filing options. Additionally, more must be done to increase public/private partnership models—such as Single Stop and the IRS Free File Alliance—which offer a balance of harnessing the power of the commercial sector while providing a level of consumer protection.

# Conclusion

**R**eforming the AOTC to make it more beneficial for low- and moderate-income students who need the most help to afford college would be a major step forward to ensure higher education tax benefits are better targeted. But these changes won't amount to much if these financially needy students don't realize that the tax credits exist or understand how to claim them.

A vigorous outreach campaign, borrowing from the EITC movement, will be needed to make students aware of the refundable AOTC. The movement should be made up of partners that are well-positioned to reach out to low-income students and their families: colleges, the Education Department, the IRS, the federal TRIO and GEAR UP programs, and benefit access programs at community colleges, such as Single Stop.

Students and families shouldn't be at a financial aid disadvantage just because they don't understand the complexities of the federal government's tax code. All students should know about the higher education tax benefits available to them so that they have the most resources possible when it comes to planning and paying for college.

# Notes

- 1 United States Government Accountability Office, "Improved Tax Information Could Help Families Pay for College," (Washington, DC: Government Accountability Office, 2012), accessed at <http://www.gao.gov/products/GAO-12-560>.
- 2 The Tax Policy Center provided this estimate to the Consortium for Higher Education Tax Reform.
- 3 Michael Brostek and George A. Scott, "Higher Education: Multiple Higher Education Tax Incentives Create Opportunities for Taxpayers to Make Costly Mistakes," Testimony before the U.S. House of Representatives Committee on Ways and Means' Subcommittee on Select Revenue Measures, May 2008.,
- 4 "Earned Income Tax Credit (EITC), Definition(s) of," Work and Family Researchers Network, accessed March, 11, 2014, <http://workfamily.sas.upenn.edu/glossary/e/earned-income-tax-credit-eitc-definitions>.
- 5 "EITC Participation Rate by States," Internal Revenue Service, accessed Marcy 3, 2014, <http://www.eitc.irs.gov/EITC-Central/Participation-Rate>.
- 6 "Taxation and the Family: What is the Earned Income Tax Credit?" Tax Policy Center, accessed October 22, 2013, <http://www.taxpolicycenter.org/briefing-book/key-elements/family/eitc.cfm>.
- 7 Alan Berube, Rewarding Work Through the Tax Code: The Power and Potential of the Earned Income Tax Credit in 27 Cities and Rural Areas (Washington, DC: The Brookings Institution, 2003), 2.
- 8 Ibid
- 9 Bruce D. Meyer, "The Effects of the Earned Income Tax Credit and Recent Reforms," in Tax Policy and the Economy, ed. Jeffrey R. Brown, vol. 24 (Chicago: University of Chicago Press: 2010), 154.
- 10 "Policy Basics: The Earned Income Tax Credit," The Center on Budget and Policy Priorities, accessed March 3, 2014, <http://www.cbpp.org/cms/?fa=view&id=2505>.
- 11 Steve Holt, Ten Years of the EITC Movement: Making Work Pay Then and Now (Washington, DC: Brookings, 2011), 2.
- 12 Holt, Ten Years of the EITC Movement, 2011, 2.
- 13 "What is the Center on Budget and Policy Priorities?" The Center on Budget and Policy Priorities, accessed October 22, 2013, <http://www.cbpp.org/about/>.
- 14 This is a synopsis of the community outreach and promotion subtopic in Holt, Ten Years of the EITC Movement, 2011, 2.
- 15 This is a synopsis of the community tax programs and IRS reorganization subtopic in Holt, Ten Years of the EITC Movement, 2011, 2-4.
- 16 This is a synopsis of the commercial tax preparation for low-income taxpayers subtopic in Holt, Ten Years of the EITC Movement, 2011, 3-4.
- 17 This is a synopsis of the philanthropy and national networks subtopic in Holt, Ten Years of the EITC Movement, 2011, 4-5.
- 18 The Reimagining Aid Design and Delivery (RADD) Consortium for Higher Education Tax Reform, "Higher Education Tax Reform: A Shared Agenda for Increasing College Affordability, Access, and Success," (Washington, DC: The Center for Law and Social Policy, 2013), accessed [http://www.clasp.org/resources-and-publications/publication-1/Nov2013RADD\\_TaxAid.pdf](http://www.clasp.org/resources-and-publications/publication-1/Nov2013RADD_TaxAid.pdf).
- 19 The 1098-T form is not as helpful to taxpayers trying to claim the AOTC as it may seem. For example, colleges tend to report the "payments received for qualified tuition and related expenses" or the "amounts billed for qualified tuition and related expenses" for the academic year, rather than the calendar year. Also, they do not include payments that students make for textbooks, even though this is an allowable expense under the AOTC.
- 20 IRS Publication 970, "Tax Benefits for Education," can be accessed at [www.irs.gov/pub/irs-pdf/p970.pdf](http://www.irs.gov/pub/irs-pdf/p970.pdf)
- 21 The Reimagining Aid Design and Delivery (RADD) Consortium for Higher Education Tax Reform, "Higher Education Tax Reform: A Shared Agenda for Increasing College Affordability, Access, and Success," (Washington, DC: The Center for Law and Social Policy, 2013), accessed [http://www.clasp.org/resources-and-publications/publication-1/Nov2013RADD\\_TaxAid.pdf](http://www.clasp.org/resources-and-publications/publication-1/Nov2013RADD_TaxAid.pdf).
- 22 There may be some concern that the more attuned an institution becomes to using a tax credits as financial aid, the more likely they will be to raise tuition to soak up the extra benefit (known as the Bennett hypothesis). Bridget Terry Long explored the effects of the Hope and Lifetime Learning Tax Credit to see whether institutions responded to these credits by raising net prices, with mixed results. She found that "States and institutions appear to have responded to the HTC and LLTC. The analysis suggests that many states reacted by reducing appropriations to public two-year colleges at which students faced a lower marginal cost due to lower tuition levels. These results are robust to analysis within region. Moreover, there is some evidence to support that public two-year colleges responded to incentives created by the tax credits by raising tuition price beyond what can be explained by fluctuations in state support, and the responses were stronger for schools with a greater proportion of credit-eligible students." She did note that some states with large aid programs continued their support efforts even after introduction of HTC and LLTC. And the effect on price increases at public four-year institutions was mixed. For more information, see Bridget Terry Long, "The Impact of Federal Tax Credits for Higher Education Expenses," in College Choices:

The Economics of Where to Go, When to Go, and How to Pay for It, ed. Caroline M. Hoxby (Chicago: University of Chicago Press, 2004), 161.

23 Steve Holt of the Center for Postsecondary and Economic Success at CLASP (a member of the Consortium for Higher Education Tax Reform) has suggested that the IRS create a tool that will help students and families understand the AOTC and help estimate a student's or family's benefit. As part of this tool, students could select an Advance AOTC option that would advance payments early each academic period through an electronic funds transfer. For more information about the proposed tool and timely delivery of AOTC, read Steve Holt, "Help When It's Needed: Advancing the AOTC," (Washington, DC: CLASP, 2014).

24 "IRS Outreach and Compliance Efforts for Education Credits," Crosslink Professional Tax Software, accessed February 14, 2014, [https://www.crosslinktax.com/support/tax\\_updates/IRS-Outreach-and-Compliance-Efforts-for-Education-Credits.asp](https://www.crosslinktax.com/support/tax_updates/IRS-Outreach-and-Compliance-Efforts-for-Education-Credits.asp)

25 In Holt, "Help When It's Needed: Advancing the AOTC," he recommends doing away with form 1098-T in lieu of a better reporting mechanism. For more information, read Steve Holt, "Help When It's Needed: Advancing the AOTC," (Washington, DC: CLASP, 2014).

26 Elimination of Form 8863 is also discussed in Steve Holt, "Help When It's Needed: Advancing the AOTC," (Washington, DC: CLASP, 2014).

27 "Free Tax Return Preparation for You by Volunteers," IRS, accessed February 14, 2014, <http://www.irs.gov/Individuals/Free-Tax-Return-Preparation-for-You-by-Volunteers>.

28 "Federal TRIO Programs – Home Page," U.S. Department of Education, Office of Postsecondary Education, accessed February 14, 2014, <http://www2.ed.gov/about/offices/list/ope/trio/index.html>

29 "TRIO History," Council for Opportunity in Education, accessed February 14, 2014, [http://www.coenet.us/coe\\_prod\\_imis/COE/TRIO/History/COE/NAV\\_TRIO/TRIO\\_History.aspx?hkey=89b3a80a-3a9e-4580-9fda-38156b9318f8](http://www.coenet.us/coe_prod_imis/COE/TRIO/History/COE/NAV_TRIO/TRIO_History.aspx?hkey=89b3a80a-3a9e-4580-9fda-38156b9318f8).

30 Ibid

31 "About GEAR UP," National Council for Community and Education Partnerships, accessed February 14, 2014, <http://www.edpartnerships.org/gear-up>

32 "Legislation for TRIO Programs," U.S. Department of Education, Office of Postsecondary Education, accessed February 14, 2014, <http://www2.ed.gov/about/offices/list/ope/trio/statute-trio-gu.pdf>.

33 Sara Goldrick-Rab, Katharine Broton, Christin Gates, "Clearing the Path to a Brighter Future," (Madison, WI: University of Wisconsin, N.D.), accessed <http://kresge.org/sites/default/files/White-paper-barriers-to-community-college%20access-success.pdf>.

34 Jennifer Gonzalez, "Antipoverty Group Works With Community Colleges to Graduate More Students," The Chronicle of Higher Education, September 4, 2011, accessed February 14, 2014, <http://chronicle.com/article/Antipoverty-Group-Works-With/128874/>.

35 Goldrick-Rab, Broton, Gates, "Clearing the Path to a Brighter Future."

36 Amy Ellen Duke-Benfield, "The Connection Between Benefits and College Persistence and Completion" PowerPoint presentation, the Center for Law and Social Policy's Center for Postsecondary and Economic Success," Dec. 13, 2012, accessed <http://www.wiche.edu/info/cacg/meetings/austin12/dukeBenfield.pdf>.

37 Ibid.

38 Interview with Duke-Benfield.

39 Ibid.

40 Goldrick-Rab, Broton, and Gates made a similar recommendation in "Clearing the Path to a Brighter Future."

41 Rates calculated from the "SPEC database" an IRS-generated data source. They reflect returns filed between January 1, 2012 and June 30, 2012. The data is available from "Earned Income Tax Credit (EITC) Interactive," Brookings, accessed March 13, 2014, <http://www.brookings.edu/research/interactives/eitc>.



