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## Tax Credits and Grants for Undergraduates

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The nation's 16.5 million postsecondary students can receive financial aid that does not need to be repaid from federal and state governments, institutions, and other private sources. During the 1970s and 1980s as college costs increased dramatically, these grants tended to focus on increasing access to college for low-income students. Since then, much of the grant aid from states and institutions has shifted to rewarding academic merit, which tends to help middle- and high-income students more than in the past.

In 1997, federal tax credits emerged as another source of aid for students that does not need to be repaid. Tax credits can be used to offset required tuition and fees. Under 2003 tax law, the HOPE credit, available for the first two years of postsecondary education, provides up to \$1,500 and the lifetime learning credit provides up to \$2,000. Both are for students from families with incomes less than \$103,000 (\$51,000 if single), adjusted annually for inflation. Before 2003 the

maximum lifetime learning credit was \$1,000. Students may claim one educational credit per year.

Lower-income students may receive little or no benefit from the tax credits for two reasons. First, only tuition and fees not covered by another grant can be applied toward credit eligibility. Second, the HOPE and lifetime learning credits are not refundable, so only a person who owes income tax can benefit from the credit. Recent proposals have considered making the tax credits refundable.

The table below shows the distribution of grant and tax credit aid to undergraduates at various income levels. In total, 70 percent of undergraduates received some benefit from a grant or tax credit. Federal tax credits provide aid to the largest number of people, with the largest average credits going to students with incomes between \$50,000 and \$100,000. The federal grant programs (Pell and Supplement Education Opportunity Grants) primarily assist students with incomes below \$30,000. Institutional aid provides a substantial amount of assistance for higher-income students. Institutional aid is distributed to all income groups with the highest average amounts going to the highest income students. A small amount of private aid is also available (not shown). Public colleges and universities provide a substantial amount of assistance to all students by providing low-cost tuition, especially to in-state residents.

Average Amount of Grants and Tax Credits to Undergraduates, 1999-2000, by Family Income

	All Students Receiving Grants or Tax Credits	Total Grants and Tax Credits (in millions)	Federal Aid				State Aid		Institutional Aid	
			Pell Grants and SEOG		HOPE and Lifetime Learning Credits		Number of Students	Average Grant	Number of Students	Average Grant
			Number of Students	Average Grant	Number of Students	Average Credit				
0 - \$30,000	5,295,539	\$12,266	3,016,409	\$2,246	2,242,908	\$423	1,251,787	\$1,600	1,050,907	\$2,415
\$30,000 - \$50,000	3,196,849	5,252	695,381	1,415	2,435,588	505	510,636	1,821	543,631	3,875
\$50,000 - \$100,000	4,290,255	6,896	82,125	1,204	3,496,135	575	421,483	1,773	848,781	4,761
\$100,000 +	596,959	1,865	1,187	871	0	0	84,613	1,878	338,155	5,043
Total	13,379,602	\$26,280	3,795,102	\$2,071	8,174,631	\$512	2,268,519	\$1,692	2,781,474	\$3,736

Source: 1999-2000 National Postsecondary Student Aid Survey (NPSAS). The NPSAS classifies grant aid as all grants, scholarships, fellowships, and tuition reimbursements. The HOPE and lifetime learning credits are calculated using data from the NPSAS and 2000 tax law. Assumes all tax units use the standard deduction and take no other nonrefundable credits.



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