EXTENDING THE EARNED INCOME TAX CREDIT TO STUDENTS: A COMPARISON OF AID POLICIES
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Postsecondary education can be a critical step on the path toward economic independence, but many low-income students who are independent for tax purposes face tremendous financial difficulties when trying to complete postsecondary school. In light of this, the Economic Security Project has proposed a large expansion of the earned income tax credit (EITC), called the cost-of-living refund, that is designed to provide additional support to low- and middle-income people. Among other changes to the EITC, the cost-of-living refund would provide a credit of up to $4,000 annually to single people and $8,000 to married couples; reduce the age of eligibility for the credit to 18 from 25 for workers without children living at home; and pay the credit in advance through monthly payments. Low-income students who are in school at least half time and independent for tax purposes would receive the maximum credit even if their earnings are too low to qualify for that maximum. Essentially, being in school would be treated as meeting the earnings requirements in place for most credit recipients.

The total proposal would provide about $300 billion in tax benefits annually to all recipients. We estimate that independent students would receive about $41 billion in new benefits annually in addition to the almost $6 billion received under current law. Most of the new benefits, $34 billion, would go to independent undergraduate students, and $7 billion would go to graduate students. Almost all of the new benefits go to students because they earn enough to benefit from the larger credit. But extending the maximum benefit to low-income independent students regardless of earnings would account for about $4 billion of those benefits and would be highly concentrated among very low-income students, including some graduate students. Families of dependent students would receive $11.3 billion in benefits from the proposed expansion, up from $4.9 billion in benefits under the existing EITC.
Benefits from the cost-of-living refund could be used for any expense, including child care costs and emergencies. We discuss why including students in an EITC expansion can provide them an important source of aid. Unlike aid added to existing programs such as the Pell grant, benefits from the cost-of-living refund would not add complications to an already-complex student aid system.

Completing postsecondary education can be a critical step toward economic independence. Doing so often leads to higher lifetime earnings, more stable jobs, and reduced reliance on public benefit programs (Barrow and Malamud 2015; Belfield and Bailey 2017; Blagg and Blom 2018). The broader community also benefits from greater rates of postsecondary education: those with higher levels of education are less likely to commit crimes and tend to be healthier, and they experience less-quantifiable benefits, such as better decision making and greater work enjoyment (Carroll and Erkut 2009; Lochner and Moretti 2004; Oreopoulos and Salvanes 2011).

In recent years, college costs have risen much faster than household incomes, making completion difficult for low- and moderate-income students. Students who have left college without a degree cited financial instability as the most common reason (Johnson et al. 2015). Students who are independent for tax purposes tend to be particularly disadvantaged: they include non-traditional-age students (those age 24 and older) who often have responsibilities outside of school or may be married and have children; others include traditional-age students who are no longer supported by parents or other relatives. Students who are in foster care, have aged out of foster care, or were adopted out of foster care after reaching age 13 are automatically considered independent for purposes of calculating student aid, and they are likely independent for tax purposes as well (box 1).

In 2015–16, almost one-third of undergraduate students came from households with 2014 incomes below the federal poverty level, and more than half came from families with incomes below 200 percent of the federal poverty level. Students who are independent for purposes of determining student aid are about twice as likely as dependent students to live in poor households (just over 40 percent versus around 20 percent). Most of these students will also be independent for tax purposes because they are not being supported by their parents.

Independent students cannot rely on assistance or aid from extended family to complete their education. Just over two-thirds of independent undergraduate students without their own children receive no support for college from their parents, and over four-fifths of independent students with their own children receive no support from their parents. Many more receive only modest support (less than $2,000 a year). Many of these students will qualify for traditional student aid such as subsidized loans or Pell grants, but these programs often fall short of covering all student need, especially when considered over the entire period needed to complete a degree or certificate program. Moreover, most traditional aid that is designed to help low-income households broadly, such as the Supplemental Nutrition Assistance Program (formerly food stamps) and refundable tax credits, may leave students out.

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1 Author’s tabulations based on data from the 2016 National Postsecondary Student Aid Study by the National Center for Education Statistics; see https://nces.ed.gov/surveys/npsas/.

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In response to a concern for struggling low- and moderate-income families and the need demonstrated by postsecondary students, the Economic Security Project has proposed to broadly reform the EITC with a proposal called the cost-of-living refund. Key pieces of their proposal that would particularly affect postsecondary students by expanding eligibility and the size of awards are:

- providing a credit of up to $4,000 for single people or $8,000 for married couples;\(^3\)
- reducing the minimum age for credit eligibility for people without children at home from 25 to 18 and eliminating the upper age limit for this group;
- allowing beneficiaries to receive a portion of the credit each month rather than after filing tax returns at the start of the next year; and
- for low-income independent postsecondary students who are in school at least half-time, providing the maximum credit without a minimum earnings requirement.

These changes would increase eligibility, increase the size of the credit, and help recipients receive the subsidy when it would be most helpful. The changes could be especially helpful for students who might need to delay or stop their education if faced with unexpected financial needs. We estimate that in a typical year, 10.4 million tax units with independent students would receive $47 billion in tax benefits from the cost-of-living refund, up from just under $6 billion under the current EITC. This

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\(^3\) Single parents with children that qualify for an EITC of greater than $4,000 would continue to receive the larger credit. For more details on the cost-of-living refund see Maag, Marron, and Huffer (2019).
amounts to about $41 billion in new benefits. The proposal would deliver about $34 billion in new benefits to undergraduate students who are independent for tax purposes and $7 billion in new benefits to graduate students. Though not specifically targeted by the proposal, other provisions in the cost-of-living refund would deliver about $11 billion to families with undergraduate students who are dependents for tax purposes, up from almost $5 billion under current law, delivering about $6 billion in new benefits. These benefits are a small portion of the estimated $300 billion in tax benefits all recipients would receive in an average year under the cost-of-living refund proposal (a figure discussed by Maag, Marron, and Huffer 2019). But focusing on students highlights how this expansion and its changes could be especially effective for increasing the short-term fiscal health of students and recipients’ broader lifetime income trajectories as they invest in themselves through education.

This policy brief describes the cost-of-living refund, focusing on benefits for postsecondary students. In theory, if policymakers wanted to help only low-income independent postsecondary students with existing student aid programs, they could instead expand the Pell grant, the key aid program for low-income students. As an exercise, we compared benefits from the cost-of-living refund that would go to undergraduate students who are independent for tax purposes to a similar-sized expansion of the Pell grant. To deliver $34 billion in new benefits to undergraduate students who are independent for tax purposes with the Pell grant, the maximum Pell grant would need to more than double, from $6,195 to $15,000 (in 2019). But Pell grants are not targeted only to independent students, so an expansion of this magnitude would be more expensive and deliver about $20 billion in additional benefits to undergraduate students who are dependent for tax purposes. The Pell grant also does not benefit graduate students, so assistance to help these students would need to be accomplished in a different manner. Although benefits to independent undergraduate students from the two proposals would be similar, benefits from Pell grants face some limitations on how they can be used. Pell grants can interact in complex ways with other types of student aid, such as the American Opportunity Tax Credit, ultimately reducing the value of that aid. By instead targeting students in EITC reforms, including through provisions that ensure very low-income postsecondary students can benefit, policymakers can reduce the possibility that other student aid will be offset, recognize that attending school has value on par with working, and make sure students are fully included in this important antipoverty tool.

**HOW THE EARNED INCOME TAX CREDIT WORKS**

The EITC provides substantial support to low- and moderate-income working parents but very little support to workers without qualifying children (often called childless workers). Workers receive a credit equal to a percentage of their earnings, up to a maximum credit. Both the credit rate and the maximum credit vary by family size, with larger credits available to families with more children. After the credit reaches its maximum, it remains flat until earnings reach the phaseout point. Thereafter, it declines with each additional dollar of income until no credit is available (figure 1).

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4 We estimate the effect of the proposal using 2019 incomes, which are likely more representative of the program’s reach than estimates that include disruptions to the labor market caused by the COVID-19 pandemic starting in 2020.
Benefits are concentrated among low-income households. Annually, the EITC lifts about 5.6 million people out of poverty (CBPP 2019; Fox 2019).

By design, the EITC only benefits working families. Families with children receive a much larger credit than workers without qualifying children. (A qualifying child must meet requirements based on relationship, age, residency, and tax filing status.) In 2019, the maximum credit for families with one child was $3,526; the maximum credit for families with three or more children was $6,557. Each year, the maximum credit grows with inflation.

Students who are either under age 19 or ages 19 to 23 and attend school full time for at least five months of the year may be considered qualifying children when calculating the EITC. Families with part-time students can be missed by the EITC under current law unless the family also has other children that qualify them for benefits. For example, if a 20-year-old student attends college full time for six months in a year, he or she could qualify that family for EITC benefits, but that same student would not qualify that family for benefits if he or she attended college half time over the entire year.

Students who have children of their own can qualify for the EITC if they work and have eligible earnings and a child of qualifying age. But education can interfere with work, which may mean their earnings are too low to get the maximum benefit. Students with their own children are often determined to be independent from their parents irrespective of their age.

Other students who are independent from their parents for tax purposes are those who receive little or no assistance from their parents. Taxpayers without children living at home can only qualify for the EITC if they are ages 25 to 64. Even then, the benefits for workers without children at home tend to be very small. In contrast to the substantial credit for workers with children, workers without children at home can receive a maximum credit of only $538. The maximum credit for these workers phases out at much lower incomes and, as noted, is not available for people younger than 25, including independent students.
In 2019, the EITC delivered an estimated $4.8 billion in benefits to undergraduate students who were independent for tax purposes, $4.9 billion in additional benefits to families with undergraduate students who were dependent for tax purposes, and $820 million in benefits to graduate students, totaling about $10.5 billion.

EXPANDING THE EARNED INCOME TAX CREDIT FOR STUDENTS

In recognition of the importance of attending postsecondary school and that some use it to retrain for new careers, the Economic Security Project has proposed making students who are considered independent for tax purposes eligible for the maximum cost-of-living refund, which is an expansion of the EITC. Among other changes to the EITC, the cost-of-living refund would base benefits largely on marital status rather than the number of qualifying children in the household, increase the maximum credit to $4,000 if single and $8,000 if married, and extend the maximum credit to postsecondary students who are independent for tax purposes whose earnings are too low to qualify for the maximum benefits (figure 2; see also Maag, Marron, and Huffer 2019). Students who receive a Pell grant or report family adjusted gross income at or below 250 percent of the federal poverty level would automatically be considered eligible for the maximum cost-of-living refund as long as they attend postsecondary school at least half time for one semester during the year. These criteria build on prior research on low-income students (Rueben, Gault, and Baum 2015). Families with students who are considered dependent for tax purposes would continue to be eligible for the credit as long as the family’s income remains within the expanded eligible range. The credit could be delivered monthly throughout the year for people who would likely be found eligible for benefits.

FIGURE 2
Replacing the EITC with the CLR (2019)

Note: CLR = the cost-of-living refund; EITC = the earned income tax credit. Students must be Pell-eligible and independent for tax purposes to claim the maximum CLR. The Economic Security Project has also proposed a "patch" (not shown) to the CLR that would provide a boost for parents with at least two children; this would guarantee their benefits under the proposal would be at least equal to those under the EITC. The EITC is shown in grey; the dashed lines show the extended income phase-out for married couples who file jointly. Assumes all income comes from earnings.
Advantages of Expanding the Earned Income Tax Credit for Students Who Are Independent for Tax Purposes

The cost-of-living refund provides substantial financial benefits to many groups of people (Maag, Marron, and Huffer 2019). Three provisions would be most helpful to students who are independent for tax purposes: (1) basing benefits on marital status rather than the number of children living at home, (2) allowing low-income students to receive the maximum benefits even if they did not have earnings large enough to qualify for that maximum benefit, and (3) reducing the age of eligibility for people without children from 25 to 18.

Expanding the EITC by adopting the cost-of-living refund to include students has several advantages over traditional financial aid. The credit would provide flexible cash, allowing people to use the money for their most pressing needs. Unlike loans, the credit does not need to be paid back. If grant aid is used for an expense other than a “qualified education expense” (typically tuition, fees, books and other course-related expenses), it becomes taxable. If grant aid does pay for qualified education expenses, it can make students ineligible for other types of aid, such as the American Opportunity Tax Credit. Aid from the cost-of-living refund would not be taxable. Because benefits from the cost-of-living refund can be used for anything, they do not run the risk of overlapping aid from other sources, such as scholarships, that can only be used for a dedicated purpose such as tuition and fees. That overlap can create unnecessary complexity as students attempt to maximize benefits by allocating various forms of aid to specific expenses. The credit is based solely on having income low enough to qualify.

TRADITIONAL AID FORMULA UNDERESTIMATES COSTS AND OVERESTIMATES STUDENT RESOURCES

When determining traditional financial aid, colleges consider two main components: a student’s cost of attendance, or COA, which is the institution’s estimate for the total student budget, including tuition, fees, books and supplies, and living costs; and the student’s expected family contribution, or EFC, which is an estimate of how much the student and their family (if the student is considered dependent for financial aid purposes) can contribute. There is no guarantee that the estimated COA actually covers a student’s total expenses, and some analysis suggests that COAs routinely underestimate actual budgets, failing to keep up with changes in typical living expenses.5 For example, housing costs for older students typically exceed that calculated in the COA formula (Palacios, Goldvale, and Tatum 2020). Indirect expenses are calculated inconsistently between colleges (Kelchen, Goldrick-Rab, and Hosch 2017) and can become an unexpected burden on students (Coles, Keane, and Williams 2020). The average nine-month budgets for housing, food, transportation, books and supplies, and other expenses separate from tuition for full-time students in 2019–20 ranged from $14,780 at community colleges to $17,100 at private nonprofit four-year institutions (Ma et al. 2019). Not surprisingly, many students run short of funds over the course of the academic year. A critical issue that independent students with dependents frequently face is the extra expense of child care, which may not be fully covered in the COA. About one-third of this group of students paid an average of $484 a month for child care in 2015–16.6

Similarly, EFCs may be too high. Precollege income levels and the EFCs based on them underestimate the financial problems many students face. For dependent students, precollege family incomes tend to be a reasonable approximation of their parents’ incomes while the students are in school. But precollege incomes for independent students reflect their earnings (and those of their spouses if they are married) before they enrolled in college, when they were more likely to have been working full time. Some students do work full time while in college, but completing

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6 In some cases, students can request additional loans for child care and a small number of students receive child care assistance from the Department of Education’s Child Care Access Means Parents in School program. Author’s tabulations based on data from the 2016 National Postsecondary Student Aid Study by the National Center for Education Statistics; see https://nces.ed.gov/surveys/npsas/.
college while working full time—much less doing so in a timely manner—is very difficult. As a result, the EFCs for independent students may be unrealistically high.

Even after students’ COAs are calculated, their aid may not cover the difference between the COA and the EFC. For example, the gap between college costs and what Pell grants can cover has expanded since 1975. In the 2016–17 academic year, the maximum Pell Grant covered less than 30 percent of the average cost of tuition, fees, and room and board at public four-year colleges; that is the lowest share since 1975, when it covered almost 80 percent (Protopsaltis and Parrott 2017).

Moreover, the cost-of-living refund can benefit students as long as they are in school at least half-time. Pell grants, on the other hand, are limited to six years of full-time enrollment, which may leave out people who go back to school to retrain for new careers. And as noted, Pell grants are not available for graduate students.

EVEN WITH AID, STUDENT NEED IS NOT MET FOR MANY

Adding grant aid to EFCs left an average gap of about $8,600 for undergraduates in 2015–16 (table 1). Nearly half of the students had gaps exceeding $6,000. Gaps are largest for independent students with dependents. Federal loans can fill some of this gap: dependent students can borrow $5,500 their first year, $6,500 their second year, and $7,500 thereafter, up to a maximum of $31,000. Students considered independent for financial aid determination (and students who are considered dependent for financial aid determination whose parents do not qualify for federal parent loans) can borrow $9,500, $10,500, and $12,500 a year, with a maximum total of $57,500. These loans will fill the gap for some students, but many will be short of funds even if they are willing to incur these relatively large amounts of debt. Even when loans are available, not all students, particularly those in community colleges, will be aware they are eligible to receive these loans because the college either does not make the information easily available or does not participate in the loan program.7

TABLE 1
Share of Students with $0 EFC and Need Remaining After Grant Aid, 2015–16

<table>
<thead>
<tr>
<th></th>
<th>Zero EFC</th>
<th>Average need not met by grants</th>
<th>Median need not met by grants</th>
</tr>
</thead>
<tbody>
<tr>
<td>All undergraduates</td>
<td>39%</td>
<td>$8,563</td>
<td>$5,958</td>
</tr>
<tr>
<td>Public four-year</td>
<td>29%</td>
<td>$9,363</td>
<td>$8,045</td>
</tr>
<tr>
<td>Private nonprofit four-year</td>
<td>29%</td>
<td>$13,433</td>
<td>$9,531</td>
</tr>
<tr>
<td>Public two-year</td>
<td>43%</td>
<td>$4,948</td>
<td>$3,638</td>
</tr>
<tr>
<td>For-profit degree-granting</td>
<td>62%</td>
<td>$14,095</td>
<td>$11,413</td>
</tr>
<tr>
<td>Other</td>
<td>55%</td>
<td>$11,515</td>
<td>$9,422</td>
</tr>
<tr>
<td>Dependent for financial aid determination</td>
<td>24%</td>
<td>$8,122</td>
<td>$5,368</td>
</tr>
<tr>
<td>Public four-year</td>
<td>19%</td>
<td>$8,639</td>
<td>$7,017</td>
</tr>
<tr>
<td>Private nonprofit four-year</td>
<td>16%</td>
<td>$13,560</td>
<td>$10,414</td>
</tr>
<tr>
<td>Public two-year</td>
<td>31%</td>
<td>$4,241</td>
<td>$2,864</td>
</tr>
<tr>
<td>For-profit degree-granting</td>
<td>47%</td>
<td>$14,663</td>
<td>$11,701</td>
</tr>
<tr>
<td>Other</td>
<td>35%</td>
<td>$8,901</td>
<td>$5,509</td>
</tr>
<tr>
<td>Independent for financial aid determination without dependents</td>
<td>41%</td>
<td>$8,315</td>
<td>$5,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Institution</th>
<th>Default Financial Aid Percentage</th>
<th>Average EFC</th>
<th>Average Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public four-year</td>
<td>47%</td>
<td>$11,083</td>
<td>$10,008</td>
</tr>
<tr>
<td>Private nonprofit four-year</td>
<td>41%</td>
<td>$13,453</td>
<td>$8,353</td>
</tr>
<tr>
<td>Public two-year</td>
<td>37%</td>
<td>$4,535</td>
<td>$2,837</td>
</tr>
<tr>
<td>For-profit degree-granting</td>
<td>45%</td>
<td>$13,855</td>
<td>$10,841</td>
</tr>
<tr>
<td>Other</td>
<td>43%</td>
<td>$11,576</td>
<td>$9,983</td>
</tr>
<tr>
<td>Independent for financial aid determination with dependents</td>
<td>67%</td>
<td>$9,729</td>
<td>$7,734</td>
</tr>
<tr>
<td>Public four-year</td>
<td>60%</td>
<td>$10,658</td>
<td>$9,682</td>
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<tr>
<td>Private nonprofit four-year</td>
<td>56%</td>
<td>$13,045</td>
<td>$8,880</td>
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<tr>
<td>Public two-year</td>
<td>66%</td>
<td>$6,445</td>
<td>$5,019</td>
</tr>
<tr>
<td>For-profit degree-granting</td>
<td>77%</td>
<td>$14,027</td>
<td>$11,700</td>
</tr>
<tr>
<td>Other</td>
<td>78%</td>
<td>$13,296</td>
<td>$10,599</td>
</tr>
</tbody>
</table>

Source: Author’s tabulations based on data from the 2016 National Postsecondary Student Aid Study by the National Center for Education Statistics; see [https://nces.ed.gov/surveys/npsas/](https://nces.ed.gov/surveys/npsas/).

Note: EFC = expected family contribution.

**INCREASING CASH AVAILABLE FOR STUDENTS CAN HELP**

Increasing the cash college students have on hand will not eliminate all financial barriers, because those barriers accumulate over students’ lives, but it can help. Gaps in economic circumstances create dramatic differences in how prepared students are to enroll and succeed in college. Students from low-income households also face greater uncertainty about the costs and benefits of attending college (Scott-Clayton 2012) and once admitted are much less likely to complete their degrees.

It is difficult to determine exactly what share of the completion problem is attributable to a simple lack of funds and how much results from academic issues, uncertainty about goals, competing demands on time, and other factors. But shortages of money make other problems more difficult to deal with and may subsequently increase the likelihood that students leave school without a degree and reduce their future earnings. Evidence shows that students with access to more cash (through greater loan limits) have a better chance of completing college and earning more (Black et al. 2020; Marx and Turner 2019). Presumably, increasing cash available to students through the cost-of-living refund would work similarly, providing a chance to stay in school and finish a degree and earn more later in life.
Few debate that financial barriers contribute to the difficulty many students face enrolling and succeeding in college. Students struggle with food and broader financial security (Blagg, Rainer, and Washington 2020). Some discussions of students’ financial hardship focus specifically on food and housing insecurity (box 2). An Urban Institute report found that 11 percent of students at four-year colleges and 13 percent of those at two-year colleges experienced food insecurity in 2015—rates similar to the overall population (Blagg et al. 2017). This study, based on data from the Current Population Survey, found lower incidence of this problem than several student surveys. These student surveys, which report rates of food insecurity as high as 56 percent, may be unreliable because they often have very low response rates, and the students responding are likely those facing the problem asked about.8 The nationally representative data indicate that although students who are unemployed and looking for work are most likely to report not being able to afford adequate food, significant numbers of those working full time while in school also reported this problem.

In reality, food and housing insecurity are symptoms of inadequate financial resources. Focusing on providing more reasonable funding to students is a more constructive approach than attempting to meet needs for specific goods and services. Students with ample funding will not go hungry.

**Relatively Modest Aid Can Help**

Even small amounts of additional money have been found to have a significant impact on the college success of students with very limited resources. Evidence on the effectiveness of small grants that colleges sometimes provide to students facing unforeseen expenses confirms the importance of supplementing students’ available aid. One study found that providing one-time small grants to randomly selected students who were close to graduation and facing financial difficulties appeared to raise graduation rates significantly above those of students in similar circumstances who did not receive the aid (Clark 2020). Several colleges and universities have found measurable impact from a range of small grant programs designed to help students during emergencies and to cover small expenses (Anderson and Steele 2016).

**Many Public Programs for Low-Income People Miss Students**

Postsecondary students and their families cannot reliably count on current programs designed to broadly help low-income people, including the EITC, to fill their unmet need. In some cases, work requirements prevent students from receiving benefits. For example, although income-eligible students receiving federal work-study funds can frequently qualify for Supplemental Nutrition Assistance Program benefits, those who are not among the 600,000 federal work-study recipients (9 percent of the number of Pell grant recipients) must work 20 hours a week to qualify, or they must meet other criteria, such as caring for a young child (Duke-Benfield and Sponsler 2019). In addition to some students not qualifying for

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8 See, for example Trawver and Hedwig (2020) with a 6 percent response rate; Freudenberg et al. (2011) with a 16 percent response rate; Broton and Goldrick-Rab (2018) with a 4 percent response rate; and Goldrick-Rab, Richardson, and Hernandez (2017) with a 4.5 percent response rate.
Supplemental Nutrition Assistance Program benefits, the Government Accountability Offices estimates that two million students who likely qualify for benefits do not receive them (GAO 2018).

Unless students have children, they are typically ineligible for Temporary Assistance for Needy Families. Even when students do have children, eligibility rules for TANF tend to be very restrictive, vary by state, and generally provide support well below the federal poverty level. Students generally must also work 20 hours a week to qualify. States can choose whether attending postsecondary school counts toward meeting this work requirement, and in general, those states that do count it allow it for only one year. Therefore, few students benefit from the program (Duke-Benfield and Sponsler 2019). In the case of child care subsidies, federal rules might allow for students to benefit, but states do not always provide subsidies for students. States may also require students to work in addition to attending school or they may impose rules surrounding degree type, impose time limits, require particular grades, or impose other rules that can ultimately restrict participation (Duke-Benfield 2015).

INCREASING THE EARNED INCOME TAX CREDIT THROUGH ADOPTION OF THE COST-OF-LIVING REFUND AND EXTENDING THE MAXIMUM BENEFIT TO INDEPENDENT STUDENTS COULD PROVIDE SIGNIFICANT AID

Results

We focus our analysis first on tax units with students who are independent for tax purposes. These students, as noted, face an acute lack of support as well as unique expenses and are specifically targeted by the cost-of-living refund to receive the maximum benefit even if they do not have sufficient earnings. These students are the ones most likely to be missed by other support programs for low-income people, which tend to benefit low-income families with children still at home. We show results for both undergraduate and graduate students. All graduate students are categorized as independent.

We divide the population into five roughly equal groups, or quintiles, based on household incomes, to see the effects of the policy on various income groups. These include tax units that pay taxes and those that do not. We then analyze households with students in each of those groups. About two-thirds of independent students are in the bottom two income quintiles, something that is true of only one-quarter of dependent students. Almost all independent students in the bottom two income quintiles (i.e., the bottom 40 percent of the income distribution) would benefit from the cost-of-living refund (figure 3). Over 80 percent of independent students in the lowest income quintile and roughly 90 percent of students in the second income quintile would benefit. In some cases, students are unable to benefit from the proposal because they are not in school at least half-time. This is true for both undergraduate and graduate students.

We estimate that about 8.7 million tax units with independent undergraduate students would benefit and 1.6 million tax units with graduate students would benefit. This represents 73 percent of all tax units with independent undergraduate students and 64 percent of all graduate students.
The cost-of-living refund would deliver a substantial amount of assistance. On average, students in the lowest two income quintiles would receive a benefit of about $3,500 (figure 4). These benefits would go a long way toward meeting unmet need for many students.

We estimate that the cost-of-living refund would deliver about $41.5 billion in new benefits to independent students in 2019, up from $5.6 billion under the EITC, or about $47.1 billion in total benefits. The proposal would deliver about $34 billion in new benefits to undergraduate students who are independent for tax purposes and $7 billion in new benefits to graduate students.

Independent students receive most of these benefits as part of the proposed expansions that would affect many low- and moderate-income families. A key feature of the cost-of-living refund is guaranteeing that the most vulnerable students are not left out of benefits. Extending the maximum benefit to very low-income independent students who attend school at least half time but who do not have enough earnings to receive the maximum credit increases proposal benefits by $3.5 billion. In other words, if the maximum credit were not extended to low-income independent students but the rest of the cost-of-living refund reforms were implemented, benefits would be reduced by $3.5 billion. Almost all of those benefits go to tax units in the lowest income quintile.
Given that the Pell grant is the backbone of federal aid, we also modeled what change would be needed to deliver roughly $34 billion in new benefits to independent undergraduate students. To do this, we estimate the maximum Pell would need to be raised to $15,000. Benefits would be distributed to about half of all independent undergraduate students. Almost two-thirds of tax units with independent students in the bottom income quintile would benefit, and just over half of tax units with independent students in the second income quintile would benefit. Benefits would be shifted somewhat up the income distribution, with the top two income quintiles seeing greater average benefits from a Pell grant increase than under the cost-of-living refund. Moreover, the increase in Pell grants would not benefit graduate students.

Both proposals would also benefit tax units with dependent students. In the case of the cost-of-living refund, benefits from the general expansion of the credit would go to some families with dependent students, particularly those with dependent students who attend school less than half time and do not qualify their families for benefits under the existing EITC. This happens because benefits from the cost-of-living refund are based primarily on marital status rather than the number of qualifying children in the household. Thus, these benefits go to families with postsecondary students in them, but the expansion is not related to the characteristics of the students. We estimate an additional $11.3 billion would be delivered to families with undergraduate students who are dependents for tax purposes, up from $4.9 billion under current law. This equals about $6.5 billion in new benefits, but again these particular taxpayers qualify because the parents have low incomes, not because these students are present in the household.

Expanding Pell grants, however, would provide substantial benefits to all low-income undergraduate students whether they are independent or dependent for tax purposes. We estimate that increasing the maximum benefit to $15,000 would increase benefits for dependent undergraduate students by $31 billion.
DISCUSSION

The two policies we analyze—the cost-of-living refund and the expanded Pell grant—would both increase the amount of cash available to students. Including students in an expanded EITC allows low-income students to benefit from the same policies that help other low-income people who work. By allowing low-income independent students to receive the maximum benefit, the policy would essentially value going to school on par with working. Those funds would be unrestricted, able to be used for any need faced by a student. Expanding the Pell grant would provide aid that must be used to cover tuition, fees, room and board, and other education expenses and would interact in a complex way with other student aid. Students would have access to the full value of the cost-of-living refund. In contrast, some low-income students would not be able to access the full value of the expanded Pell grant simply because their COA would not be calculated to be as high as the maximum expanded Pell grant, even if they faced financial challenges beyond the amount of their Pell grant.

Pell grant funds are also more complicated than programs that would provide unrestricted cash. Under current rules, Pell grants must be used to pay for tuition and fees or books and supplies to be tax free. If students use the grant to pay for other items, those funds must be reported as taxable income. Depending on the mix of aid a student has, he or she may need to carefully allocate expenses to various restricted sources to maximize the benefit of the aid.

Pell grants can also miss some populations because the amounts are based on income two years before enrollment. An analysis of homeless students or students at risk of being homeless shows that only 54 percent received a Pell grant (box 2). Critically, the cost-of-living refund would also benefit graduate students, people not eligible for the Pell grant.

Extending the cost-of-living refund to postsecondary students would not interfere with other aid. It would also be available to cover whatever expenses a student has, without tax implications. This flexibility may be critical to allowing students to complete their education.

Finally, the student-specific expansion of the cost-of-living refund, allowing students to be eligible for the maximum benefit even if they had low earnings, would increase the total cost of the policy, but doing so would direct almost all expanded benefits to the very lowest-income students.
REFERENCES


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