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United States Government Accountability Office
Washington, DC 20548

March 22, 2005

The Honorable David R. Obey
Ranking Minority Member
Committee on Appropriations
House of Representatives

*Subject: Department of Education's Update of the State and Other Tax Allowance
for Student Aid Award Year 2005–2006*

Dear Mr. Obey:

This letter responds to your request concerning our January 21, 2005, report *Student Financial Aid: Need Determination Could Be Enhanced through Improvements in Education's Estimate of Applicants' State Tax Payments* (GAO-05-105). As you know, in 2003, the Department of Education (Education) proposed an update to the state and other tax allowance, a part of the federal need analysis for student financial aid. Most federal aid, including Pell Grants and student loans, and some state and institutional aid are awarded based on a student's cost of attendance less the student's and/or family's ability to pay these costs—known as the expected family contribution (EFC). The allowance, which accounts for the amount of state and other nonfederal taxes paid by students and families, effectively reduces the EFC. Education proposed to update the allowance on the basis of information compiled by the Internal Revenue Service's Statistics of Income (SOI) Division, specifically state and other taxes paid by taxpayers and reported on their federal income tax returns for tax year 2000. Our January 2005 report discussed (1) the factors that had affected the updating of the tax data on which the allowance is based, (2) the effects Education's proposed 2003 update would have had on financial assistance for student aid applicants for the 2004–2005 award year, (3) the limitations associated with the method used to derive the allowance, and (4) various strategies available to address the limitations. Although the proposed 2003 update to the state and other tax allowance did not take effect, shortly before we issued our report—on December 23, 2004—Education updated the state and other tax allowance for award year 2005–2006 on the basis of information compiled by SOI for tax year 2002, which was collected in the same manner as the tax year 2000 data. For this update, Education used the same methodology that was used for the proposed 2003 update. As of January 2005, Education has begun processing student aid applications for the 2005–2006 award year using the updated allowance.

In light of Education's 2004 update of the state and other tax allowance for award year 2005–2006, you asked us to update certain analyses included in our January 2005 report, which focused on Education's prior proposal. In particular, you asked us to determine how Education's update will affect, with respect to the 2005–2006 award

year, (1) the state and other tax allowance, by state and dependency status; (2) the average EFC, by state; (3) eligibility for Pell Grants, by state, household income, and dependency status; (4) the amount of the average Pell Grant award, by state, household income, and dependency status; and (5) aggregate Pell Grant expenditures and overall student eligibility for Pell Grants. You also asked us to include the effects if Education had adopted one of the strategies discussed in our report for addressing the limitations associated with calculating the allowance.

Education's 2004 update decreases the state and other tax allowance for most states for the 2005–2006 award year and will, thereby, increase the expected family contribution (EFC) for a majority of student aid applicants; the increase in expected family contribution will, in turn, affect the allocation of federal aid. Specifically, we estimate that the 2004 update to the state and other tax allowance will increase EFCs by about \$440 on average for those with an increase, with EFC changes being larger for students from states with larger changes in their allowance. With respect to Pell Grants, our national analysis shows that the 2004 update will likely result in a decrease in Pell Grants for about 35 percent of students, and an additional 81,000 applicants (1.5 percent) will no longer be eligible for the grant; taken together, the average reduction amongst those with a decrease in their amount will be about \$130. Collectively, this will decrease overall Pell Grant expenditures by about \$250 million. Because these EFC changes will affect Pell and other grant aid, Stafford and PLUS loan award amounts will be affected as well. Our analysis shows that, as EFCs increase, those with income above \$25,000 are most likely to have their subsidized Stafford loan awards affected. The overall impacts on EFC, Pell Grants, and loans will be slightly less when compared to what would have occurred under the proposed update of 2003.

In our January 2005 report, we identified four strategies to address some of the limitations associated with the tax allowance. Using an updated sample of aid applicants and tax data, these options would have ranged in their impact on federal expenditures for the Pell Grant and other federal programs. For example, depending on the option chosen, the effect would have ranged from a \$200 million decrease in Pell Grant expenditures to a \$200 million increase in the 2005–2006 award year.

We are providing this information more specifically in nine enclosures.

In providing updated information for this letter, we replicated the methodology we used for our January 2005 report. For that report, we used Education's aid applicant sample file from the 2002–2003 award year to estimate changes to the expected family contribution and Pell Grant awards nationally that would have resulted from Education's 2003 update. In providing information for this letter, however, we used Education's aid applicant sample file from the 2003–2004 award year to provide updated information. We also analyzed Education's Cost Estimation and Analysis Division's Statistical Abstract (CEAD STAB) data to estimate the proportion of financial aid applicants who could experience a change in their federal loans as a result of the update. We also reviewed and analyzed state and other tax data from the Internal Revenue Service (Statistics of Income Division), Bureau of the Census (Census), Bureau of Economic Analysis (BEA), and the Institute on Taxation and Economic Policy (ITEP). We conducted reliability assessments on the datasets used

from Census, BEA, and ITEP, and they are disclosed in the appropriate enclosures. We conducted our work in February 2005 in accordance with generally accepted government auditing standards. We provided Education with a copy of our draft letter for review and comment. Education provided a technical comment, which we incorporated.

As agreed with your office, unless you publicly announce its content earlier, we plan no further distribution of this letter until 30 days after its date. At that time, we will send copies of this letter to the Secretary of Education and other interested parties. The letter will also be available on GAO's home page at <http://www.gao.gov>.

If you have any questions about this letter, please contact me at (202) 512-8403 or Jeff Appel, Assistant Director, at (202) 512-9915. You may also reach us by e-mail at AshbyC@gao.gov or AppelC@gao.gov. Tranchau Nguyen and Jeff Weinstein were also key contributors to this letter.

Sincerely yours,



Cornelia M. Ashby
Director, Education, Workforce,
and Income Security Issues

Enclosures

Enclosures

- Enclosure I: Comparison of Prior State and Other Tax Allowance, Published in 1993, with That Proposed in 2003 and That Published in 2004, by Income Level, for Parents and Independents with Children.
- Enclosure II: Comparison of Prior State and Other Tax Allowance, Published in 1993, with That Proposed in 2003 and That Published in 2004, for Dependents and Independents without Children.
- Enclosure III: Difference between Prior Allowance, Published in 1993, and Education's 2004 Updated Allowance and Estimated EFC Impact, by State.
- Enclosure IV: Percentage of Recipients That Will Experience a Decrease in Pell Grant Awards As a Result of Education's 2004 Updated Allowance, Average Pell Grant Received Based on Prior Allowance, and Average Decrease as a Result of Updated Allowance, Including Those No Longer Eligible for an Award, by State.
- Enclosure V: Percentage of Recipients with a Decrease in Pell Award Based on a Change from the Prior Allowance, Published in 1993, to Education's 2004 Updated Allowance, by Household Income and Dependency Status.
- Enclosure VI: Median Percentage Change in Amount of Pell Award for Those with a Decrease Based on Change from the Prior Allowance, Published in 1993, to Education's 2004 Updated Allowance, by Household Income and Dependency Status.
- Enclosure VII: Percentage of Students Likely to Have a Change in Subsidized Stafford Loans Based on Change from the Prior Allowance, Published in 1993, to Education's 2004 Updated Allowance, by Household Income and Dependency Status.
- Enclosure VIII: Framework for Evaluating Options Identified to Change the State and Other Tax Allowance relative to the Prior Allowance.
- Enclosure IX: Simulation of Tax Allowances under Various Options, by State—Families with Adjusted Gross Income of \$15,000 or More.

Enclosure I

Comparison of Prior State and Other Tax Allowance, Published in 1993, with That Proposed in 2003 and That Published in 2004, by Income Level, for Parents and Independents with Children

State of Residence	Allowance Percentage					
	Income less than \$15,000			Income \$15,000 or more		
	1993	2003	2004	1993	2003	2004
Alabama	5	3	3	4	2	2
Alaska	3	2	2	2	1	1
Arizona	6	4	4	5	3	3
Arkansas	6	3	3	5	2	2
California	8	6	7	7	5	6
Colorado	7	4	4	6	3	3
Connecticut	6	6	7	5	5	6
Delaware	8	4	4	7	3	3
District of Columbia	10	7	7	9	6	6
Florida	4	2	2	3	1	1
Georgia	7	5	5	6	4	4
Hawaii	8	4	4	7	3	3
Idaho	7	5	5	6	4	4
Illinois	6	4	5	5	3	4
Indiana	6	4	4	5	3	3
Iowa	8	4	5	7	3	4
Kansas	7	4	5	6	3	4
Kentucky	7	5	5	6	4	4
Louisiana	4	2	2	3	1	1
Maine	9	6	6	8	5	5
Maryland	9	7	7	8	6	6
Massachusetts	9	6	6	8	5	5
Michigan	9	5	5	8	4	4
Minnesota	9	6	6	8	5	5
Mississippi	5	3	3	4	2	2
Missouri	6	4	4	5	3	3
Montana	8	5	5	7	4	4
Nebraska	8	4	5	7	3	4
Nevada	3	2	2	2	1	1
New Hampshire	7	4	4	6	3	3
New Jersey	8	7	8	7	6	7
New Mexico	6	3	4	5	2	3
New York	11	8	8	10	7	7
North Carolina	8	5	6	7	4	5
North Dakota	6	2	2	5	1	1
Ohio	8	5	6	7	4	5
Oklahoma	6	4	4	5	3	3
Oregon	10	7	7	9	6	6
Other areas	4	3	3	3	2	2
Pennsylvania	7	4	5	6	3	4

State of Residence	Allowance Percentage					
	Income less than \$15,000			Income \$15,000 or more		
	1993	2003	2004	1993	2003	2004
Rhode Island	9	6	7	8	5	6
South Carolina	8	4	5	7	3	4
South Dakota	4	1	1	3	0	0
Tennessee	3	1	1	2	0	0
Texas	3	2	2	2	1	1
Utah	8	5	5	7	4	4
Vermont	8	5	6	7	4	5
Virginia	8	5	5	7	4	4
Washington	4	2	2	3	1	1
West Virginia	6	3	3	5	2	2
Wisconsin	10	6	7	9	5	6
Wyoming	3	1	1	2	0	0

Source: 1993, 2003, and 2004 *Federal Registers*.

Note: This enclosure corresponds to table 1, found on page 12 of our January 2005 report.

Enclosure II

Comparison of Prior State and Other Tax Allowance, Published in 1993, with That Proposed in 2003 and That Published in 2004, for Dependents and Independents without Children

State of Residence	Allowance Percentage		
	1993	2003	2004
Alabama	3	2	2
Alaska	0	0	0
Arizona	3	3	2
Arkansas	4	3	3
California	5	5	5
Colorado	4	3	3
Connecticut	2	4	4
Delaware	5	3	3
District of Columbia	7	6	6
Florida	1	0	0
Georgia	4	3	3
Hawaii	6	4	4
Idaho	5	4	3
Illinois	2	2	2
Indiana	4	3	3
Iowa	5	3	3
Kansas	4	3	3
Kentucky	5	4	4
Louisiana	2	1	2
Maine	5	4	4
Maryland	6	5	5
Massachusetts	5	4	4
Michigan	4	3	3
Minnesota	6	4	4
Mississippi	3	2	2
Missouri	3	3	3
Montana	5	3	3
Nebraska	4	3	3
Nevada	0	1	1
New Hampshire	1	1	1
New Jersey	3	4	4
New Mexico	4	3	3
New York	7	5	5
North Carolina	5	4	4
North Dakota	2	1	1
Ohio	5	4	4
Oklahoma	4	3	3
Oregon	6	5	5
Other areas	2	2	2
Pennsylvania	3	3	3
Rhode Island	4	4	4
South Carolina	5	3	3
South Dakota	0	0	0
Tennessee	0	0	0

Texas	0	0	0
Utah	5	4	4
Vermont	4	3	3
Virginia	4	3	3
Washington	0	0	0
West Virginia	4	2	2
Wisconsin	5	4	4
Wyoming	0	0	0

Source: 1993, 2003, and 2004 *Federal Registers*.

Note: This enclosure corresponds to table 2, found on page 13 of our January 2005 report.

Enclosure III

Difference between Prior Allowance, Published in 1993, and Education’s 2004 Updated Allowance and Estimated EFC Impact, by State

State	Percentage point change in the state and other tax allowance		Estimated percentage of students with an increase in their EFC ^c	Average EFC, in dollars, under the prior allowance for those with an increase ^d	Estimated average EFC dollar increase for those with an increase ^e
	Families ^a	Individuals ^b			
Alabama	-2	-1	61	\$ 7,602	\$ 319
Alaska	-1	0	62	16,350	274
Arizona	-2	-1	67	9,014	328
Arkansas	-3	-1	63	6,898	430
California	-1	0	46	10,180	209
Colorado	-3	-1	75	11,408	578
Connecticut	+1	+2	0	10,230	70
Delaware	-4	-2	77	10,583	858
District of Columbia	-3	-1	61	8,938	484
Florida	-2	-1	66	8,311	310
Georgia	-2	-1	68	9,994	388
Hawaii	-4	-2	70	9,118	763
Idaho	-2	-2	69	7,902	351
Illinois	-1	0	59	11,915	238
Indiana	-2	-1	74	10,299	415
Iowa	-3	-2	78	9,751	632
Kansas	-2	-1	76	9,951	397
Kentucky	-2	-1	66	8,206	340
Louisiana	-2	0	52	13,032	463
Maine	-3	-1	79	10,276	630
Maryland	-2	-1	76	11,637	473
Massachusetts	-3	-1	80	12,357	724
Michigan	-4	-1	74	9,873	765
Minnesota	-3	-2	81	11,419	706
Mississippi	-2	-1	55	6,913	301
Missouri	-2	0	60	10,842	445
Montana	-3	-2	71	8,156	531
Nebraska	-3	-1	78	9,658	580
Nevada	-1	+1	49	9,837	195
New Hampshire	-3	0	73	13,701	828
New Jersey	0	+1	1	16,076	70
New Mexico	-2	-1	64	7,514	304
New York	-3	-2	69	10,068	653
North Carolina	-2	-1	69	8,160	344
North Dakota	-4	-1	79	10,155	758
Ohio	-2	-1	73	10,286	421

State	Percentage point change in the state and other tax allowance		Estimated percentage of students with an increase in their EFC ^c	Average EFC, in dollars, under the prior allowance for those with an increase ^d	Estimated average EFC dollar increase for those with an increase ^e
	Families ^a	Individuals ^b			
Oklahoma	-2	-1	65	7,132	300
Oregon	-3	-1	69	9,530	536
Pennsylvania	-2	0	67	12,073	502
Rhode Island	-2	0	63	11,723	490
South Carolina	-3	-2	69	9,341	581
South Dakota	-3	0	64	9,716	595
Tennessee	-2	0	53	9,195	381
Texas	-1	0	52	9,341	192
Utah	-3	-1	73	6,185	366
Vermont	-2	-1	79	10,815	449
Virginia	-3	-1	74	10,703	627
Washington	-2	0	54	11,440	437
West Virginia	-3	-2	68	8,827	564
Wisconsin	-3	-1	81	10,830	640
Wyoming	-2	0	60	12,275	436
Total USA^f	N/A	N/A	61	\$ 9,964	\$ 443

Source: GAO analysis of the 2003–2004 Free Application for Federal Financial Aid (FAFSA) applicant file.

Notes: This enclosure generally corresponds to table 3, found on pages 17–18 of our January 2005 report. N/A indicates “not applicable.” We assessed the reliability of the FAFSA applicant file by conducting electronic testing of key variables for obvious problems in accuracy and completeness, interviewing appropriate Education officials, and reviewing related documentation, and we determined that the data were sufficiently reliable for our purposes.

^aFamilies are defined to include parents of dependent students and independent students with children.

^bIndividuals are defined to include independent students without children and dependent students. Dependent students whose state of residence is different from that of their parents were counted as being from their parents' state. Since the EFC for a family is based upon both the parents' and the student's income, the EFC changes reported above for each state may reflect not only the change in the allowance for that state but also the change for the state of residence for students attending school in another state. For example, Connecticut, which has an increased allowance, may have families with an EFC increase because the children of those families may be attending school and residing in another state with a decreased allowance.

^cThe sampling errors for the percentage of students with an increase in their EFC are at or below 5 percentage points for all states.

^dThe sampling errors for the average EFC—under the current allowance—for those with an increase are at or below 5 percent for all states.

^eThe sampling errors for the average EFC increase for Connecticut, the District of Columbia, and New Jersey are above 10 percent. The sampling errors for Alaska, Delaware, Hawaii, Maine, Montana, Nevada, North Dakota, Rhode Island, South Dakota, Vermont, West Virginia, and Wyoming are above 5 percent but no more than 10 percent. All other state figures have a sampling error at or below 5 percent.

^fThe total row includes the 50 U.S. states, the District of Columbia, American Samoa, the Federal States of Micronesia, Guam, the Marshall Islands, Northern Marianas, Palau, Puerto Rico, the Virgin Islands, and other U.S. territories.

Enclosure IV

Percentage of Recipients That Will Experience a Decrease in Pell Grant Awards As a Result of Education's 2004 Updated Allowance, Average Pell Grant Received Based on Prior Allowance, and Average Decrease as a Result of Updated Allowance, Including Those No Longer Eligible for an Award, by State

State	Estimated percentage of recipients with a decrease in Pell Grant^a	Average dollar Pell Grant under the prior allowance for those with a decrease^b	Estimated average Pell Grant dollar decrease for those with a decrease^c
Alabama	37	\$ 1,937	-\$ 109
Alaska	24	1,401	-65
Arizona	41	1,791	-111
Arkansas	44	1,933	-145
California	21	1,794	-86
Colorado	44	1,743	-156
Connecticut ^d	0	N/A	N/A
Delaware	54	1,611	-193
District of Columbia	41	1,874	-154
Florida	42	1,816	-108
Georgia	43	1,634	-105
Hawaii	46	1,893	-210
Idaho	47	1,879	-126
Illinois	26	1,690	-86
Indiana	45	1,728	-119
Iowa	55	1,715	-184
Kansas	48	1,766	-124
Kentucky	40	1,743	-116
Louisiana	33	1,972	-113
Maine	51	1,806	-173
Maryland	47	1,746	-112
Massachusetts	49	1,738	-178
Michigan	47	1,707	-197
Minnesota	55	1,700	-180
Mississippi	36	1,951	-115
Missouri	38	1,770	-119
Montana	48	1,911	-172
Nebraska	50	1,731	-166
Nevada	22	1,573	-76
New Hampshire	52	1,682	-182
New Jersey ^e	0	1,530	-93
New Mexico	39	1,767	-110
New York	46	1,978	-171

State	Estimated percentage of recipients with a decrease in Pell Grant ^a	Average dollar Pell Grant under the prior allowance for those with a decrease ^b	Estimated average Pell Grant dollar decrease for those with a decrease ^c
North Carolina	45	1,898	-118
North Dakota	48	1,858	-224
Ohio	43	1,692	-116
Oklahoma	42	1,834	-113
Oregon	41	1,824	-156
Pennsylvania	42	1,743	-127
Rhode Island	43	1,829	-114
South Carolina	48	1,870	-159
South Dakota	45	1,785	-165
Tennessee	36	1,895	-108
Texas	24	1,758	-82
Utah	46	1,854	-144
Vermont	48	1,687	-130
Virginia	49	1,806	-163
Washington	34	1,804	-115
West Virginia	46	1,938	-168
Wisconsin	52	1,706	-173
Wyoming	36	1,877	-117
Total USA^d	36	\$ 1,806	-\$ 131

Source: GAO analysis of the 2003–2004 FAFSA applicant file.

Notes: This enclosure generally corresponds to Table 4, found on pages 19–20 of our January 2005 report. N/A indicates “not applicable.”

^aThe sampling errors for the percentage of students with a decrease in their Pell Grant for the District of Columbia and Vermont are just over 5 percentage points. All other state figures have a sampling error at or below 5 percentage points.

^bThe sampling errors for the average Pell Grant—under the current allowance—for those with a decrease for Alaska and New Jersey are over 10 percent. The sampling errors for Delaware, the District of Columbia, Hawaii, Maine, Montana, Nevada, New Hampshire, North Dakota, Rhode Island, South Dakota, Vermont, and Wyoming are above 5 percent but no higher than 10 percent. All other state figures have a sampling error at or below 5 percent.

^cThe average reflects the reduction for those with a decrease, including both those who would have retained and those who would have lost eligibility. The sampling errors for the average Pell Grant decrease for Alaska, the District of Columbia, New Jersey, and Vermont are above 10 percent. The sampling errors for Delaware, Hawaii, Idaho, Maine, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Dakota, Rhode Island, South Dakota, and Wyoming are above 5 percent but no higher than 10 percent. All other state figures have a sampling error at or below 5 percent.

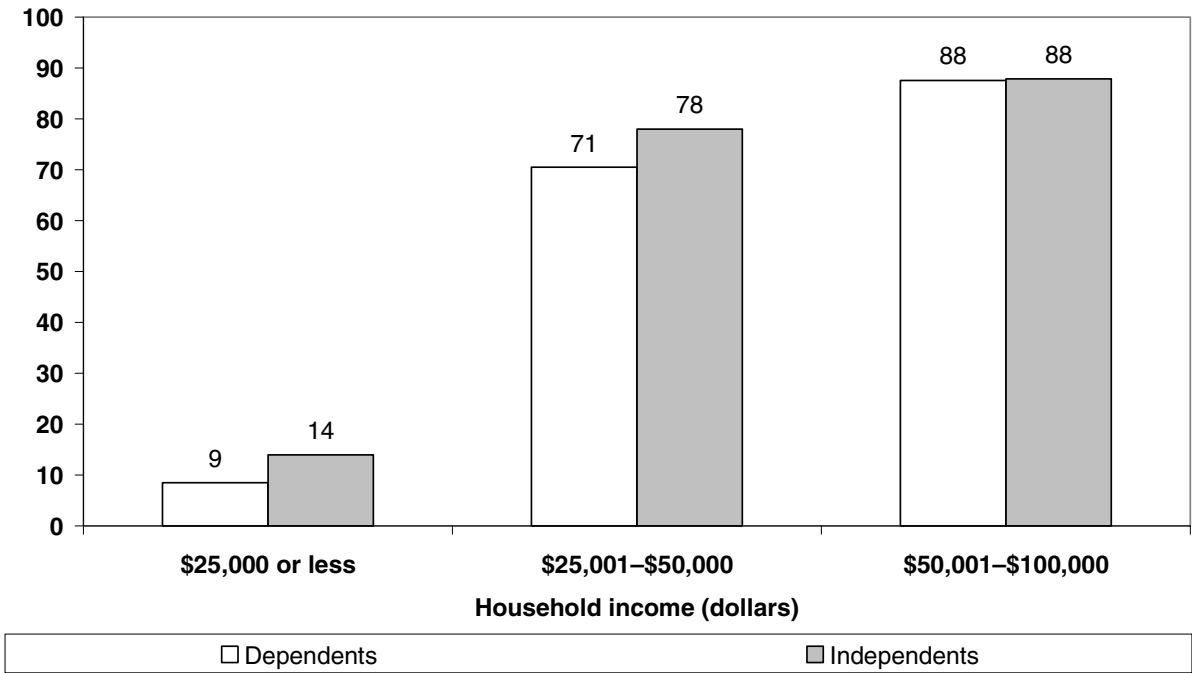
^dNo one in the sample from Connecticut exhibits a decrease in his or her Pell Grant.

^eThe actual figure for New Jersey is 0.1 percent, which rounds to 0 percent for the purposes of this table.

^fThe total row includes the 50 U.S. states, the District of Columbia, American Samoa, the Federal States of Micronesia, Guam, the Marshall Islands, Northern Marianas, Palau, Puerto Rico, the Virgin Islands, and other U.S. territories.

Enclosure V

Percentage of Recipients with a Decrease in Pell Award Based on a Change from the Prior Allowance, Published in 1993, to Education's 2004 Updated Allowance, by Household Income and Dependency Status

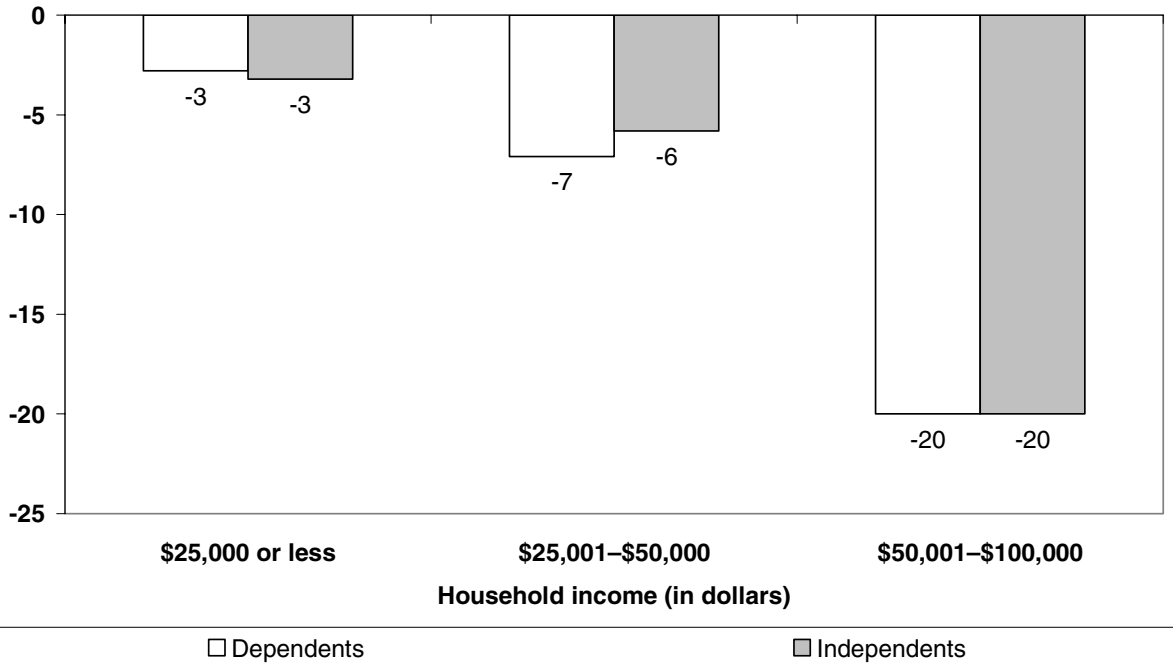


Source: GAO analysis of the 2003-2004 FAFSA applicant file.

Notes: This enclosure corresponds to figure 3, found on page 21 of our January 2005 report. The sampling errors are all 5 percentage points or less.

Enclosure VI

Median Percentage Change in Amount of Pell Award for Those with a Decrease Based on Change from the Prior Allowance, Published in 1993, to Education's 2004 Updated Allowance, by Household Income and Dependency Status

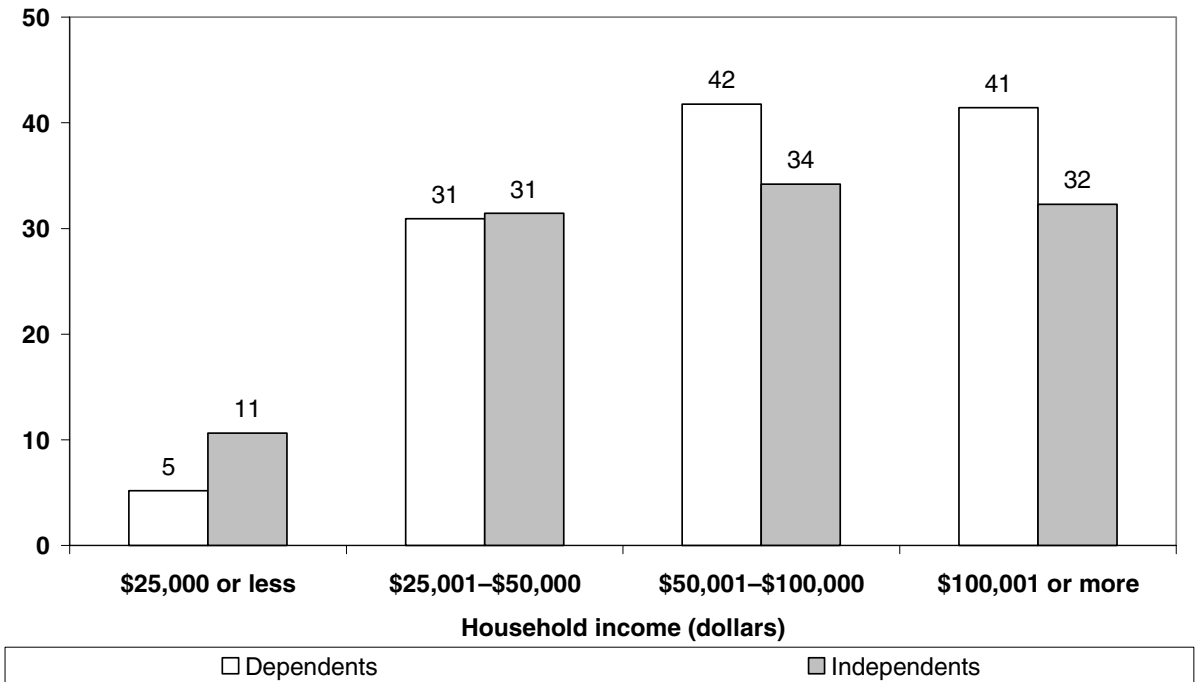


Source: GAO analysis of the 2003-2004 FAFSA applicant file.

Notes: This enclosure corresponds to figure 4, found on page 22 of our January 2005 report. The sampling errors are all 5 percentage points or less.

Enclosure VII

Percentage of Students Likely to Have a Change in Subsidized Stafford Loans Based on Change from the Prior Allowance, Published in 1993, to Education's 2004 Updated Allowance, by Household Income and Dependency Status



Source: GAO analysis of 2004 CEAD STAB data.

Notes: This enclosure corresponds to figure 5, found on page 24 of our January 2005 report. The sampling error for independents with household income of \$100,001 or more is just over 5 percentage points. All other figures have sampling errors of 5 percentage points or less. We assessed the reliability of the CEAD STAB file by conducting electronic testing of key variables for obvious problems in accuracy and completeness, interviewing appropriate Education officials, and reviewing related documentation, and we determined that the data were sufficiently reliable for our purposes.

Enclosure VIII

Framework for Evaluating Options Identified to Change the State and Other Tax Allowance relative to the Prior Allowance

	Updated Updated 2005–2006 tables	Strategy I SOI with revised methodology ^a	Strategy II alternative data sources			Strategy III Standard allowance (4%) ^e
			BEA / Census ^b	CPS (ASEC) ^c	ITEP ^d	
Change in federal Pell Grant expenditure ^f	–\$0.3 billion	–\$0.1 billion	–\$0.05 billion	–\$0.2 billion	+ \$0.2 billion	–\$0.2 billion
Percentage of students facing a reduction in Pell Grant award	36.0	23.9	18.6	33.8	2.3	28.5
Percentage retaining eligibility	34.5	23.0	17.8	32.5	2.2	26.9
Percentage not retaining eligibility (number of students affected) ^g	1.5 (81,000)	0.9 (46,000)	0.8 (45,000)	1.3 (72,000)	0.1 (4,000)	1.6 (88,000)
Average dollar change in Pell Grant award for those with a decrease ^h	–\$131	–\$108	–\$142	–\$123	–\$94	–\$175
Change in expected family contribution ⁱ	+\$3.2 billion	+\$1.7 billion	+\$1.0 billion	+\$2.8 billion	–\$2.8 billion	+\$3.0 billion
Percentage of students facing an increase in EFC	60.8	46.8	35.4	60.2	4.7	48.4
Average dollar change in EFC for those with an increase ^j	+\$443	+\$308	+\$477	+\$391	+\$261	+\$633

Source: GAO analysis.

Notes: This enclosure corresponds to table 9, found on page 37 of our January 2005 report. All alternatives are based on information that would have been available to Education as of June of 2004 for publication in the December 2004 *Federal Register*. We assessed the reliability of the BEA, Census, CPS, and ITEP data by reviewing information available online from the associated websites, interviewing relevant officials, and reviewing related documentation, and we determined that the BEA data were sufficiently reliable for our purposes in this analysis. However, we were unable to determine if the Census, CPS, and ITEP data were reliable for our purposes.

^aThe *SOI with Revised Methodology* figures are based on the Internal Revenue Service’s (IRS) 2002 Statistics of Income (SOI) data and were calculated for each income band by dividing the aggregate *total taxes paid deduction* by the aggregate *adjusted gross income* for families and by dividing the aggregate *state and local income taxes* by the aggregate *adjusted gross income* for individuals.

^bThe *BEA/Census* figures are based on 2003 Bureau of Economic Analysis and U.S. Census data and were calculated by dividing the sum of *property taxes, general sales and gross receipts taxes, and individual income taxes* from the U.S. Census by *personal income* from the BEA for families and by dividing the sum of *general sales and gross receipts and individual income taxes* from the U.S. Census by *personal income* from the BEA for individuals. Note that BEA and U.S. Census data are not provided separately by income band.

^cThe *CPS* figures are based on the Current Population Survey’s (CPS) Annual Social and Economic Supplement (ASEC) and were generated based on a 3-year average of the median effective tax rate, by state, across 2001, 2002, and 2003 CPS (ASEC) data, as prescribed by CPS documentation for the study of state-based information in the CPS. The median effective tax rate reflects the median across households of the sum of *state income taxes paid and household property taxes* divided by *total personal income* for families and of *state income taxes paid* divided by *total personal income* for individuals.

^dThe *ITEP* figures are based on the Institute on Taxation and Economic Policy's (ITEP) analysis of tax data, which presents tax rates that already take personal income into account. ITEP figures were calculated for each income band by summing *general sales tax rates*, *other sales and excise tax rates*, *property tax rates*, and *personal income tax rates* for families and by summing *general sales tax rates*, *other sales and excise tax rates*, and *personal income tax rates* for individuals. As explained in the GAO report *Student Financial Aid: Need Determination Could Be Enhanced through Improvements in Education's Estimate of Applicants' State Tax Payments*, GAO-05-105, Washington, DC, January 21, 2005, we were unable to determine the reliability of the ITEP data.

^eThe standard allowance of 4 percent is based on an estimate of the median household across states using CPS data.

^fThe estimated expenditure of the Pell Program in award year 2005–2006 is about \$13 billion under the current allowance.

^gThe sampling error of those not retaining eligibility for ITEP is above 10 percent. All others have a sampling error of 5 percent or less. Figures for the number of students not retaining eligibility are rounded to the nearest \$1,000.

^hThe estimated average Pell award for award year 2005–2006 is about \$2,430 under the current allowance, which was published in the 1993 *Federal Register*.

ⁱThe estimated sum of EFCs across all FAFSA applicants in award year 2005–2006 is about \$82 billion under the current allowance, which was published in the 1993 *Federal Register*.

^jThe estimated average EFC in award year 2005–2006 is about \$6,850 under the current allowance, which was published in the 1993 *Federal Register*.

Enclosure IX

Simulation of Tax Allowances under Various Options, by State—Families with Adjusted Gross Income of \$15,000 or More

State	Prior	Updated	Strategy I	Strategy II		
	Tables published in 1993	Updated 2005–2006 tables	SOI with revised methodology	BEA / Census	CPS / (ASEC) ^a	ITEP
Alabama	4	2	3	5	3	7
Alaska	2	1	2	1	1	2
Arizona	5	3	4	5	4	7
Arkansas	5	2	4	7	5	8
California	7	6	7	6	5	8
Colorado	6	3	5	4	4	7
Connecticut	5	6	7	6	4	8
Delaware	7	3	4	4	6	5
District of Columbia	9	6	7	9	8	8
Florida	3	1	2	4	1	5
Georgia	6	4	5	5	5	8
Hawaii	7	3	5	9	13	8
Idaho	6	4	5	6	5	8
Illinois	5	4	5	4	4	8
Indiana	5	3	4	6	4	8
Iowa	7	4	5	5	6	8
Kansas	6	4	5	6	4	9
Kentucky	6	4	5	7	5	8
Louisiana	3	1	2	5	2	7
Maine	8	5	6	6	6	9
Maryland	8	6	7	5	6	8
Massachusetts	8	5	6	5	6	8
Michigan	8	4	5	6	5	8
Minnesota	8	5	6	7	6	9
Mississippi	4	2	3	6	3	7
Missouri	5	3	5	5	4	8
Montana	7	4	5	5	6	6
Nebraska	7	4	5	6	5	8
Nevada	2	1	2	5	1	4
New Hampshire	6	3	4	3	2	4
New Jersey	7	7	7	5	6	9
New Mexico	5	3	4	6	3	8
New York	10	7	8	5	7	9
North Carolina	7	5	6	6	5	8
North Dakota	5	1	3	5	2	6

State	Prior	Updated	Strategy I	Strategy II		
	Tables published in 1993	Updated 2005–2006 tables	SOI with revised methodology	BEA / Census	CPS / (ASEC) ^a	ITEP
Ohio	7	5	6	5	4	9
Oklahoma	5	3	5	5	5	9
Oregon	9	6	7	5	8	9
Other areas ^b	3	2	3	4	3	6
Pennsylvania	6	4	5	5	4	7
Rhode Island	8	6	7	6	4	9
South Carolina	7	4	5	5	5	8
South Dakota	3	0	1	4	2	5
Tennessee	2	0	1	4	1	5
Texas	2	1	2	4	1	5
Utah	7	4	5	6	6	8
Vermont	7	5	6	7	5	8
Virginia	7	4	6	5	5	7
Washington	3	1	2	6	1	6
West Virginia	5	2	3	7	4	8
Wisconsin	9	6	7	6	8	10
Wyoming	2	0	1	4	0	4

Source: GAO analysis.

Notes: This enclosure corresponds to appendix IV, found on pages 55–56 of our January 2005 report. Under strategy III, the standard allowance would be 4 percent for every state, based on the median family in the CPS.

^aThe CPS (ASEC) tax rates were generated based on a 3-year average of 2001, 2002, and 2003 CPS (ASEC) data.

^b*Other areas* includes American Samoa, the Federal States of Micronesia, Guam, the Marshall Islands, Northern Marianas, Palau, Puerto Rico, the Virgin Islands, and other U.S. territories.

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