



May 5, 2023

Representative Lloyd Doggett
U.S. House of Representatives
2307 Rayburn House Office Building
Washington, D.C. 20515

Representative Mike Kelly
U.S. House of Representatives
1707 Longworth House Office Building
Washington, D.C. 20515

Re: Endorsement of the Tax-Free Pell Grant Act (H.R. 3000)

Dear Representative Doggett and Representative Kelly:

On behalf of the American Council on Education and the undersigned higher education organizations, I write to strongly endorse the Tax-Free Pell Grant Act (H.R. 3000), which would repeal the taxability of Pell Grants and help hundreds of thousands of low-income Pell Grant recipients access the American Opportunity Tax Credit (AOTC). The legislation will support student success and improve the strong federal commitment to the Pell Grant program.

Since 1986, Pell Grants used for non-tuition costs like room and board have been taxed as a form of unearned income. The tax law could be made simpler while allowing low-income students to get more of this crucial financial aid if Pell Grants were no longer taxable. The impact of scholarship and grant aid taxability has grown over the past 35 years as the cost of non-tuition higher education expenses has risen so that now approximately 3 million students receive aid that is subject to taxation.¹ According to the College Board, in the 2021-22 academic year, taxable higher education expenses make up 72 percent for two-year institutions, 56 percent for four-year public institutions, and 29.5 percent for private, four-year nonprofit institutions.²

Unfortunately, Pell recipients—our lowest-income students—attending the lowest cost institutions receive little or no benefit of the AOTC. A grant/scholarship offset clause in the AOTC mandates that applicants deduct their Pell Grant from the eligible expenses (tuition, fees, and course materials) for which they are entitled for the credit. They can claim the AOTC if they know to use their Pell Grant to cover non-tuition expenses like room and board, but then that portion of their Pell Grant would be taxable. For these low-income students, maximizing the AOTC requires a complicated calculation to determine how much of their

¹ <https://nces.ed.gov/datalab/index.aspx>.

² <https://research.collegeboard.org/media/pdf/trends-college-pricing-student-aid-2021.pdf>, p. 11.

Pell Grant to include in taxable income before the additional tax liability exceeds the amount of AOTC for which they qualify.³ This issue primarily impacts students whose tuition and related expenses after accounting for scholarships are less than \$4,000. Based on Department of Education data, approximately 730,000 Pell students are adversely affected by this issue each academic year.

In addition, the Tax-Free Pell Grant Act expands the AOTC and the Lifetime Learning Credit to include essential student expenses like dependent care and computers. These costs, which are often a hurdle for low-income students trying to balance college with other responsibilities, are covered by direct federal financial aid programs like Pell and should also be part of higher education tax credits.

Fixing the AOTC-Pell interaction issue by repealing the taxability of Pell Grants and the AOTC Pell offset advances efforts to simplify the tax code by ensuring low-income students access a tax benefit they qualify for and which many of their peers are utilizing and makes it easier for these students to navigate their tax obligations.

We are pleased to endorse the Tax-Free Pell Grant Act and look forward to working with you to advance this important legislation.

Sincerely,



Ted Mitchell
President

On behalf of:

American Association of Collegiate Registrars and Admissions Officers
American Association of Community Colleges
American Association of State Colleges and Universities
American Council on Education
Association of American Universities
Association of Catholic Colleges and Universities
Association of Governing Boards of Universities and Colleges
Association of Public and Land-grant Universities
CCCU - Council for Christian Colleges & Universities
College and University Professional Association for Human Resources
Council for Higher Education Accreditation

³ <https://www.irs.gov/pub/irs-utl/Pell%20AOTC%204%20pager.pdf>.

Council for Opportunity in Education
EDUCAUSE
Hispanic Association of Colleges and Universities
NASPA - Student Affairs Administrators in Higher Education
National Association for Equal Opportunity in Higher Education
National Association of College and University Business Officers
National Association of Independent Colleges and Universities
National Association of Student Financial Aid Administrators
State Higher Education Executive Officers Association