



September 3, 2021

The Honorable Richard Neal  
Chairman  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, DC 20515

The Honorable Kevin Brady  
Ranking Member  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, DC 20515

The Honorable Ron Wyden  
Chairman  
Committee on Finance  
U.S. Senate  
Washington, DC 20510

The Honorable Mike Crapo  
Ranking Member  
Committee on Finance  
U.S. Senate  
Washington, DC 20510

**RE: Repeal of the Taxability of Pell Grant Aid in Reconciliation**

Dear Chairman Neal, Ranking Member Brady, Chairman Wyden, and Ranking Member Crapo:

On behalf of the American Council on Education and the undersigned higher education associations, I am writing to urge you to repeal the taxability of Pell Grants by incorporating the “Tax-Free Pell Grant Act” in Reconciliation.

Since 1986, scholarships and grant aid used on non-tuition expenses like room and board have been taxed as a form of unearned income. Repealing the taxability of Pell Grant aid would permit low-income students to retain more of this critical financial aid. The impact of taxability of scholarship and grant aid 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.<sup>1</sup> According to the College Board, in the 2020-21 academic year, taxable higher education expenses make up 71.8 percent for two-year institutions, 56 percent for four-year public institutions, and 29 percent for private, four-year nonprofit institutions.<sup>2</sup>

In addition, Pell students—our lowest-income students—attending the lowest cost institutions receive little or no benefit of the American Opportunity Tax Credit (AOTC), which contains a grant/scholarship offset provision that has the unintended effect of sharply limiting or denying access to the tax credit for these students. Based on Department of

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

<sup>2</sup> <https://research.collegeboard.org/pdf/trends-college-pricing-student-aid-2020.pdf>, p. 11.

Education data, approximately 730,000 Pell students are adversely affected by this issue each academic year. The Obama Administration sought to address this issue in its FY 2015 and 2016 Budget Revenue Proposals.

We have endorsed two similar bills recently introduced in Congress—the House “Tax-Free Pell Grant Act” (H.R.4173) (lead sponsor Rep. Doggett (D-TX)) and the Senate “Tax-Free Pell Grant Act” (S. 2455) (lead sponsor Sen. Whitehouse (D-RI))—which would repeal the taxability of Pell Grants, fix the AOTC-Pell interaction issue, and expand the AOTC and the Lifetime Learning Credit (LLC) to include essential student expenses—dependent care and computers. These costs are core aspects of the federal student aid programs and represent financial hurdles for low-income students trying to balance college with other responsibilities. The estimated score of this legislation is \$1.9 billion over ten years, a modest amount in the context of the larger Reconciliation bill.

We strongly support increasing the maximum Pell Grant in the Reconciliation bill, which would make repealing the taxability of Pell Grants even more necessary. It makes no sense to provide low-income students more money for college by increasing the Pell Grant on the one hand while taking some of that money back in taxes on the other. Repealing the taxability of Pell Grants and fixing the AOTC-Pell interaction issue now in tandem with a Pell funding increase would only magnify the impact of this additional and badly needed money for low-income students.

We strongly urge Congress to repeal the taxability of Pell Grants by incorporating the “Tax-Free Pell Grant Act” in Reconciliation.

Sincerely,



Ted Mitchell  
President

On behalf of:

- 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 Jesuit Colleges and Universities
- Association of Public and Land-grant Universities
- Council for Christian Colleges & Universities
- National Association of Independent Colleges and Universities
- National Association of Student Financial Aid Administrators