



September 22, 2021

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 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 in the FY 2022 reconciliation process. Last week, the House Ways and Means Committee included a provision to repeal the taxability of Pell Grants in its portion of the Build Back Better Act.

While the bill contains a number of tax provisions important to higher education, we are particularly pleased that the Ways and Means Committee bill takes the historic step of repealing the taxability of Pell Grants. Since 1986, the portion of Pell Grants spent on non-tuition expenses like room and board has been taxable. Unfortunately, these expenses have become a great part of the cost of attendance for many low-income students. According to the College Board, in the 2020-21 academic year such taxable higher education expenses made up 71.8 percent for two-year public institutions and 56 percent for four-year public institutions.¹ Repealing the taxability of Pell Grant aid would permit low-income students to retain more of this critical financial aid to cover the cost of college.

In addition, the bill fixes a highly problematic, unintended interaction between the American Opportunity Tax Credit (AOTC) and Pell Grants, which results in Pell students attending community colleges and other low tuition institutions receiving little to no benefit from the AOTC. Based on Department of Education data, nearly 730,000 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.

As you know, we strongly support increasing the maximum Pell Grant through the reconciliation process. The Pell Grant increases anticipated through this process make repealing the taxability of Pell Grants and fixing the AOTC-Pell interaction issue now even more important, and will magnify the positive impact for low-income students of these

¹ <https://research.collegeboard.org/pdf/trends-college-pricing-student-aid-2020.pdf>, p. 11.

badly needed additional funds to cover college costs. The estimated score to take this step as specified in the Ways and Means provision is \$1.9 billion over ten years, a modest amount in the context of the larger reconciliation bill.

We strongly urge you to repeal the taxability of Pell Grants in reconciliation by retaining the provision included in the Ways and Means portion of the Build Back Better Act.

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
American Indian Higher Education Consortium
Association of American Universities
Association of Governing Boards of Universities and Colleges
Association of Jesuit Colleges and Universities
Association of Public and Land-grant Universities
Council for Advancement and Support of Education
Council for Christian Colleges & Universities
Council for Opportunity in Education
EDUCAUSE
HACU - Hispanic Association of Colleges and Universities
NASPA - Student Affairs Administrators 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