

# TAX REFORM AND HIGHER EDUCATION

WHAT STUDENTS, FAMILIES, AND INSTITUTIONS NEED TO KNOW

## Talking Points: Repealing the Taxability of Pell Grants

**Repealing the taxability of Pell Grants would permit low-income students to retain more of this critical financial aid to cover the cost of college.**

- Repealing the taxability of Pell Grants would support low-income students and strengthen the bipartisan federal commitment to the Pell Grant program.
- The Pell Grant program helps more than 6 million students—90 percent of whom come from families with incomes of \$60,000 or less—pay for college each year.<sup>1</sup>
- Since 1986, scholarships and grants, including Pell Grants, used for non-tuition costs such as room and board and childcare have been taxed as a form of unearned income, limiting needed aid for students from the lowest incomes.
- Eliminating the tax on Pell Grants would simplify the tax code and allow low-income students to retain more of their awards, helping them to better cover the cost of college. By law, all Pell Grant funds must be used for educational expenses.

**Fixing the interaction issue between Pell Grants and the American Opportunity Tax Credit (AOTC) would help hundreds of thousands of low-income students.**

- Pell Grant recipients attending the lowest-cost institutions receive little or no benefit from the AOTC due to a grant/scholarship offset provision that has the unintended effect of sharply limiting or eliminating the benefit for these students.
- Based on data from the U.S. Department of Education, approximately 550,000 Pell-eligible students are adversely affected by this issue each academic year.
- Fixing the AOTC-Pell interaction issue by repealing the taxability of Pell Grants and the AOTC-Pell offset simplifies the tax code and ensures that low-income students qualify for a benefit that many of their peers can access.

---

<sup>1</sup> “Title IV Program Volume Reports,” Office of Federal Student Aid, U.S. Department of Education, February 22, 2024, <https://studentaid.gov/data-center/student/title-iv>.