



October 28, 2022

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

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

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

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

RE: Simplifying higher education assistance by better coordinating Pell Grants with higher education tax credits

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 incorporate the “Tax-Free Pell Grant Act,” which would better coordinate Pell Grants with the American Opportunity Tax Credit (AOTC), in any lame-duck tax package.

Pell students—our lowest-income students—attending the lowest cost institutions may qualify for AOTC but fail to claim it because of the complicated way it interacts with the tax treatment of Pell Grants. The AOTC contains a grant/scholarship offset provision requiring applicants to subtract their Pell Grant from eligible expenses (tuition, fees, and course materials) for which they can claim the credit. They could still claim the AOTC if they knew 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. Maximizing the AOTC requires a complicated calculation to determine how much of their Pell Grant to include in taxable income before the additional tax liability exceeds the amount of AOTC for which they qualify.¹ This issue only 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.

Pell Grants used on non-tuition expenses like room and board have been taxed as a form of unearned income since 1986. Repealing the taxability of Pell Grants would permit low-

¹ <https://www.irs.gov/pub/irs-utl/Pell%20AOTC%204%20pager.pdf>

income students to claim more of this critical financial aid while helping to simplify the tax code. 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.² 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.³

There have been bipartisan efforts to address this issue for years. For example, the Obama Administration sought to address this issue in its FY 2015 and 2016 Budget Revenue Proposals. In addition, the bipartisan [Student and Family Tax Simplification Act](#) (H.R. 3393), sponsored by former Rep. Diane Black (R-TN), included provisions to fix this problem. It passed the Republican-controlled House in the 113th Congress.

We have endorsed two similar bills introduced in this 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)). Both measures would repeal the taxability of Pell Grants and fix the AOTC-Pell interaction issue and expand the AOTC and the Lifetime Learning Credit (LLC) to include essential student expenses like 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 eliminating the AOTC offset and making Pell Grants tax free is \$1.9 billion over 10 years, a modest amount in the context of federal tax expenditures, including on higher education.

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 strongly urge Congress to repeal the taxability of Pell Grants by incorporating the “Tax-Free Pell Grant Act” in any lame-duck tax package.

Sincerely,



Ted Mitchell
President

On behalf of:

² <https://nces.ed.gov/datalab/index.aspx>.

³ <https://research.collegeboard.org/media/pdf/trends-college-pricing-student-aid-2021.pdf>, p. 11

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 Jesuit Colleges and Universities
Association of Public and Land-grant Universities
CCCU - Council for Christian Colleges & Universities
EDUCAUSE
HACU
National Association for Equal Opportunity in Higher education (NAFEO)
National Association of Independent Colleges and Universities
National Association of Student Financial Aid Administrators (NASFAA)
State Higher Education Executive Officers Association
The National Association of College and University Business Officers