

June 27, 2022

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
H-232, the Capitol
Washington, DC 20515

The Honorable Charles E. Schumer
Majority Leader
U.S. Senate
S-221, the Capitol
Washington, DC 20510

The Honorable Richard Neal
Chairman
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Ron Wyden
Chairman
Committee on Finance
U.S. Senate
219 Dirksen Senate Office Building
Washington, DC 20515

Dear Speaker Pelosi, Leader Schumer, Chairman Neal, and Chairman Wyden:

On behalf of the undersigned higher education organizations, we write to urge you to repeal the taxation of Federal Pell Grants to make higher education more affordable for low-income students. As your chambers continue to develop potential reconciliation legislation this Congress, we hope you will maintain critical provisions contained in Sections 137703 and 137704 of H.R.5376, the reconciliation vehicle passed by the House, and in the *Tax-Free Pell Grant Act*. This legislation has broad support from higher education.

Since 1986, the portion of grants and scholarships students use on their essential “non-tuition” living costs like housing and food has been taxed as unearned income. The negative impact of taxing students’ grants and scholarships has grown over the past 35 years as non-tuition expenses—such as rent, food, child care, and health care—have also risen. The full implications of the current tax treatment of Pell Grants were likely unanticipated when this policy was put into effect. Today, approximately 3 million students have their grants and scholarships taxed.¹

For students receiving grants or scholarships, their taxable non-tuition higher education expenses make up 72 percent of the total cost of attending a two-year institution, 56 percent at a four-year public institution, and 30 percent at a private, four-year nonprofit institution.²

Repealing the taxability of Pell Grants would permit low-income students to retain more of the critical financial aid they need to meet these and succeed in higher education. It is essential that students be able to afford the costs of living at a time when research shows that three in five students struggle to find enough to eat or maintain a stable place to live.³ Taxing Pell Grants undermines students’ financial security, which in turn decreases their ability to complete a degree or credential.

¹ Information derived from <https://nces.ed.gov/datalab/index.aspx>, accessed June 2022.

² The College Board (2021). *Trends in College Pricing 2021*. Figure CP-1.

³ The Hope Center for College, Community, and Justice. (2021). *#RealCollege 2021: Basic needs insecurity during the ongoing pandemic*.

Additionally, Pell Grant recipients—who are among the students with the lowest incomes in higher education—often receive little benefit from the American Opportunity Tax Credit (AOTC). AOTC’s eligible expenses are reduced by any non-taxable grant funds received. A student or family who applies their entire Pell Grant to tuition and fees is not eligible for any AOTC, but if they apply their Pell Grant toward costs of living instead, their grant aid is taxed. This policy creates confusion and is financially harmful to students with low incomes. Based on U.S. Department of Education data, approximately 730,000 Pell students are adversely affected by this Pell-AOTC interaction issue each academic year.

The bipartisan *Tax-Free Pell Grant Act* (H.R.4173 and S. 2455) would repeal the taxability of Pell Grants and help hundreds of thousands of low-income Pell Grant recipients access the AOTC. The legislation will support student success and improve the strong federal commitment to the Pell Grant program. We are grateful for its inclusion in H.R.5376 as passed by the House and urge you to maintain it in a final reconciliation vehicle.

An additional tax provision contained in H.R.5376 would repeal the denial of the AOTC to students who have had a prior drug conviction. This would align AOTC policy with federal student aid eligibility changes that were adopted in the *FAFSA Simplification Act*, passed in December 2020. Denying students aid based on a prior drug conviction reduces the chance that they can benefit from higher education and has severe negative implications for equity, given the disproportionate enforcement of drug-related offenses. Furthermore, simplifying the higher education tax benefit process will help to improve the take-up of the benefit among students and families with low incomes.

We strongly urge Congress to repeal the taxability of Pell Grants and include other key changes to the AOTC in any reconciliation bill passed this Congress.

Sincerely,

The Hope Center for College, Community, and Justice
American Association of Community Colleges

American Association of State Colleges and Universities
Americans for Financial Reform
Association of Community College Trustees
Association of Public and Land-grant Universities
Association of Young Americans (AYA)
Center for American Progress
Center for Law and Social Policy (CLASP)
National Association of Independent Colleges and Universities
National Association of Student Financial Aid Administrators
Scholarship America
The Education Trust
The Institute for College Access & Success
The Institute of Student Loan Advisors
Third Way
Young Invincibles