

November 28, 2022

The Honorable Richard Neal
Chairman
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 20515

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

The Honorable Mike Crapo
Ranking Member
Committee on Finance
U.S. Senate
Washington, DC 20515

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

On behalf of the undersigned organizations, we urge you to end the taxation of Federal Pell Grants to make higher education more affordable and simplify the tax code for students and families with low and middle incomes. As you assemble a year-end tax relief package, we request that Congress adopt the bipartisan *Tax-Free Pell Grant Act*.

Since 1986, the portion of grants and scholarships students use on the “non-tuition” costs of college, such as food, housing, and child care, has been taxed as unearned income. The negative impact of taxing college grants and scholarships has grown as the costs of these non-tuition expenses have also risen.

Today, non-tuition higher education expenses make up 80 percent of the annual cost of attending a community college, 61 percent of the cost of a public four-year institution, and 32 percent of the cost at a private non-profit four-year institution.¹ The full implications of taxing Pell Grants were likely unanticipated when the policy was first adopted. Approximately three million students now have their grants and scholarships taxed each year.

Repealing the taxability of Pell Grants would permit students with low and middle incomes to retain more of the critical financial aid they need to succeed in higher education. Students must be able to afford the rising costs of living at a time when research shows that three in five students already struggle to find enough to eat or maintain a stable place to live.² Taxing Pell Grants undermines students’ financial security and harms their ability to complete a degree or credential. And only when students can afford to graduate can they use their education and talent to contribute to their local, state, and regional economies.

Additionally, Pell Grant recipients—among the students with the lowest incomes in higher education—often receive little benefit from the American Opportunity Tax Credit (AOTC).

¹ The College Board. (2022, October). [Trends in College Pricing 2022](#). Figure CP-1.

² The Hope Center for College, Community, and Justice. (2021, March) [#RealCollege 2021: Basic needs security during the ongoing pandemic](#).

Students can choose to allocate their Pell Grant (and other grants or scholarships) to either tuition and fees or living expenses—but they may lose either way.³ Students who choose to apply their Pell Grants to tuition and fees thereby reduce the amount of education expenses they can claim toward the AOTC. If students instead allocate their Pell Grants to essential costs of living like food and housing, their grants are then taxed as income.

This confusing interaction between Pell and AOTC creates a complicated calculation for students and families trying to decide on the best way to maximize their federal grant and tax benefits. As a result of this complexity, many taxpayers inadvertently reduce their eligibility for AOTC or forgo trying to claim it altogether, leaving an estimated hundreds of millions of dollars unclaimed each year, according to the Internal Revenue Service.⁴ Approximately 730,000 Pell students are adversely affected by this Pell-AOTC interaction issue each academic year.⁵

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 supports student success and improves the federal commitment to the Pell Grant program. We urge you to include this legislation in a year-end tax package.

It is also critical that Congress repeal the denial of the AOTC to students with a drug conviction. This step would align the AOTC with the bipartisan *FAFSA Simplification Act* (Title VII, Division FF of P.L. 116-260), which reinstated federal student aid eligibility for students with a drug conviction. Giving students all students the opportunity to attend and afford higher education expands access and reduces recidivism. Furthermore, simplifying higher education tax benefits will improve the take-up of tax benefits among eligible students and families and relieve institutions of higher education from the significant burden of explaining conflicting eligibility rules for tax benefits and financial aid.

We strongly urge Congress to repeal the taxability of Pell Grants and improve the AOTC before concluding the 117th Congress.

Sincerely,

The Hope Center for College, Community, and Justice
American Association of Community Colleges
American Association of University Professors
Association of Community College Trustees
Benefits Data Trust
Center for American Progress
Center for Law and Social Policy (CLASP)
Consumer Action
Generation Hope

³ Internal Revenue Service. (2014). [Fact Sheet: Interaction of Pell Grants and Tax Credits: Students May Be Foregoing Tax Benefits by Mistake.](#)

⁴ *Ibid.*

⁵ Analysis by the American Council on Education of data from the U.S. Department of Education, National Center for Education Statistics (NCES), National Postsecondary Student Aid Study (NPSAS) 2015-16.

Higher Learning Advocates
Institute for Higher Education Policy (IHEP)
Los Angeles Regional Food Bank
Mass Law Reform Institute
National Association of Student Financial Aid Administrators
National College Attainment Network
National Consumer Law Center (on behalf of its low-income clients)
National Young Farmers Coalition
New America Higher Education Program
Ohio Student Association
Scholarship America
Student Debt Crisis Center
The Education Trust
The Institute for College Access & Success (TICAS)
The Institute of Student Loan Advisors
The Young Invincibles
Third Way
uAspire

CC: The Honorable Kevin McCarthy
The Honorable Nancy Pelosi
The Honorable Charles E. Schumer
The Honorable Mitch McConnell
The Honorable Virginia Foxx
The Honorable Robert C. “Bobby” Scott
The Honorable Patty Murray
The Honorable Richard Burr
The Honorable Bernard Sanders
The Honorable Bill Cassidy, M.D.