



March 28, 2025

Representative Lloyd Doggett
U.S. House of Representatives
2307 Rayburn House Office Building
Washington, D.C. 20515

Representative Mike Kelly
U.S. House of Representatives
1707 Longworth House Office Building
Washington, D.C. 20515

Re: Endorsement of the Tax-Free Pell Grant Act

Dear Representative Doggett and Representative Kelly:

On behalf of the American Council on Education and the undersigned higher education organizations, I write to strongly endorse the Tax-Free Pell Grant Act, which would repeal the taxability of Pell Grants and help hundreds of thousands of low-income Pell Grant recipients access the American Opportunity Tax Credit (AOTC). This legislation will support the success of low-income students and improve the strong federal commitment to the Pell Grant program.

Since 1986, Pell Grants used for non-tuition costs like room and board have been taxed as a form of unearned income. The tax law could be made simpler while allowing low-income students to get more of this crucial financial aid if Pell Grants were no longer taxable. The impact of scholarship and grant aid taxability has grown over the past 35 years; as non-tuition higher education expenses has risen, around 3 million students now receive aid that is subject to taxation.¹ According to the College Board, in the 2023-24 academic year, taxable higher education expenses made up 78 percent of the cost of attendance for students at two-year institutions, 57 percent for four-year (in-state) public institutions, and 30 percent for four-year private nonprofit institutions.²

Unfortunately, Pell recipients—our lowest-income students—attending the lowest cost institutions receive little or no benefit of the AOTC. A grant/scholarship offset clause in the AOTC mandates that applicants deduct their Pell Grant from the eligible expenses (tuition, fees, and course materials) for which they are entitled for the credit. They can claim the AOTC if they know 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. For these low-income students, 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. This issue primarily impacts students whose tuition and related expenses after accounting for scholarships are less than \$4,000. Based on

¹ <https://nces.ed.gov/datalab/index.aspx>.

² <https://research.collegeboard.org/media/pdf/Trends-in-College-Pricing-and-Student-Aid-2024-ADA.pdf>, p. 11

Department of Education data, approximately 550,000 Pell students are adversely affected by this issue each academic year.

In addition, the Tax-Free Pell Grant Act expands the AOTC and the Lifetime Learning Credit to include essential student expenses like dependent care and computers. These costs, which are often a hurdle for low-income students trying to balance college with other responsibilities, are covered by direct federal financial aid programs like Pell and should also be part of higher education tax credits.

Fixing the AOTC-Pell interaction issue by repealing the taxability of Pell Grants and the AOTC-Pell offset would simplify the tax code, and ensure low-income students access a critical tax benefit for which they qualify, and makes it easier for these students to navigate their tax obligations.

We are pleased to endorse the Tax-Free Pell Grant Act and look forward to working with you to advance this important legislation.

Sincerely,



Ted Mitchell, President

On behalf of:

American Association of Community Colleges
American Association of State Colleges and Universities
American Council on Education
Association of American Universities
Association of Public and Land-grant Universities
National Association of Independent Colleges and Universities