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 pay for college each year, 90 percent of whom come from families with incomes of $60,000 or less.[1]
- Since 1986, scholarship and grants, including Pell Grants, used for non-tuition costs like 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 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 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.

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[1] Title IV Program Volume Reports, Department of Education, https://studentaid.gov/data-center/student/title-iv