Progressive Taxation Strategies to Strengthen State Financial Aid

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Introduction

Higher education is a public good that benefits individuals, communities, states, and the nation. The typical bachelor's degree holder earns $1.2 million more over their lifetime than someone with only a high school diploma.[1] Associate degree holders earn $400,000 more, and individuals with some college but no degree earn $300,000 more over their lifetimes.[2] Compared to individuals with only a high school diploma, bachelor's degree holders are 24% more likely to be employed, 3.5 times less likely to live in poverty, and nearly five times less likely to be incarcerated.[3] Higher education is associated with improved health and well-being and a lower risk of premature death.[4] It also opens doors to higher-paying careers and plays a fundamental role in strengthening society.

Despite the benefits of a college degree, most families cannot afford the costs. Over the past several decades, the price of college has surged dramatically, due, in large part, to declining state investment in public colleges and universities. As states have reduced funding, colleges have shifted more of the financial burden onto students and families in the form of higher tuition.[5] In today's dollars, the average total cost of tuition, room, and board at a four-year public college increased from $8,984 in 1980 to $22,389 in 2023.[6] These increases matter because 77% of all college students attend public colleges and universities.[7]

Federal financial aid has not kept pace with rising college costs. The Pell Grant, the nation's most important need-based financial aid grant, has lost significant purchasing power over the years. In 1975, the Pell Grant covered more than 75% of the total cost of attending a public four-year college. Today, it covers only about one-third of that cost.[8] Meanwhile wages have stagnated, making it harder for families to keep up with rising costs.

Higher education is unaffordable for many families because college costs have risen much faster than wages. Since 1980, the cost of tuition, fees, and room and board at public four-year colleges has increased by 153.8%.[9] By comparison, average annual wages, adjusted for inflation to 2019 dollars, increased by only 44.6% from 1979 to 2019, while wages for the bottom 90% of earners grew just 26%.[10]

The One Big Beautiful Bill Act was passed by Republicans in Congress and signed into law by President Donald Trump in July 2025. OBBBA gives significant tax cuts to the wealthy and corporations at the expense of public services, including higher education. Federal cuts to food assistance, healthcare, and student financial aid are expected to strain state budgets and increase students' need for state financial aid. State funding for higher education is particularly vulnerable during economic downturns and periods of fiscal stress. Total higher education funding, including state funding for public colleges and universities and state financial aid, accounts for 9% of state spending on average, making it the third largest state expenditure, behind K-12 education (34%) and Medicaid (20%).[11]

OBBBA includes $4.5 trillion in tax cuts over the next 10 years, largely benefiting wealthy individuals and corporations. These provisions include: reductions in the top marginal tax rate, estate taxes, taxes on pass-through business income, taxes on qualified small-business stock and opportunity zones, taxes on international businesses, as well as tax breaks for special interests, domestic corporations, and businesses.[12] Of those tax cuts, $2.3 trillion benefits the richest 10% of Americans by income, and $1 trillion of that goes to the top 1%.[13]

To offset these tax cuts, Republicans in Congress enacted deep reductions in funding for food assistance, healthcare, student aid, income-driven loan repayment programs, clean energy, and other public services. The law includes approximately $1.2 trillion in cuts to SNAP, Medicaid, Affordable Care Act coverage, Graduate PLUS loans, Parent PLUS loans, income-driven repayment plans, and clean energy incentives. The reductions to SNAP and Medicaid will put pressure on state budgets, potentially forcing state policymakers to make difficult budget choices, including reductions in higher education funding, even as cuts to federal student aid increase students' need for state financial aid.

State policymakers have a vested interest in ensuring that residents can pursue higher education and stay in state to complete their education. Postsecondary attainment boosts state economies by increasing gross domestic product (GDP), creating jobs, expanding the tax base, increasing transportation spending and investment in capital assets, and raising home values.[14] What's more, lifetime government expenditures are $82,000 lower for college graduates than for those with only a high school diploma.[15]

States play an important role in making higher education affordable. Most states provide financial aid because it benefits both students and state economies. To maximize the impact of those investments, state policymakers should prioritize aid for students who are least able to afford college and design financial aid programs to meet the needs of today's students, who are more likely to be older adults, full-time workers, parents, people of color, veterans, rural students, and students from low-income backgrounds.[16] To provide the level of support that students need, states must ensure robust funding for state financial aid programs.

As changes from OBBBA start to strain state budgets, state policymakers should seriously consider progressive revenue raising strategies to strengthen state budgets and better fund state financial aid. Additionally, OBBBA increases the need for state financial aid by prorating federal student borrowing for students enrolled less than full time and makes student loan repayment more costly. States should use progressive tax policies to raise revenue for financial aid by doing the following:

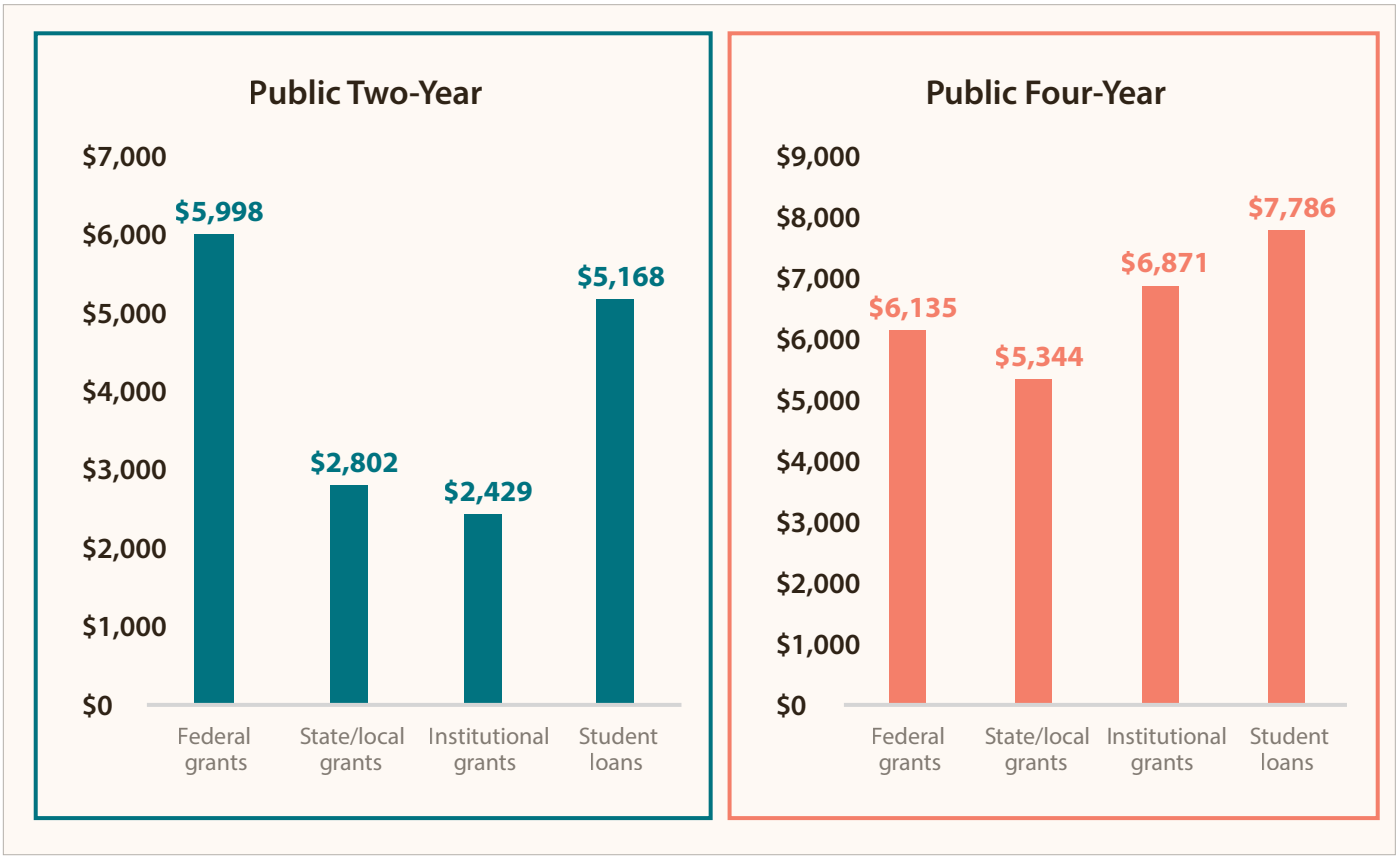
- Make state tax systems more progressive to increase general revenue
- Adopt dedicated progressive revenue sources to support state higher education and state financial aid
- Prioritize progressive tax sources over more regressive funding mechanisms, such as lotteries
- Prioritize need-based, student-centered financial aid
- Create institutional emergency aid grant programs to help students facing unexpected financial hardships

The reductions to SNAP and Medicaid will put pressure on state budgets, potentially forcing state policymakers to make difficult budget choices, including reductions in higher education funding, even as cuts to federal student aid increase students' need for state financial aid

The Role of State Financial Aid

For the purposes of this report, state financial aid refers to grants and scholarships that states provide to residents to help pay for postsecondary education. For the 2023-24 academic year, the average state financial aid award received by first-time, full-time degree- or certificate-seeking undergraduates at four-year colleges was $5,344 and at two-year degree-granting postsecondary institutions it was $2,802 (Graph 1). Average awards for state and local financial aid were typically smaller than the awards for federal grants, institutional grants, and student loans, which include private loans issued in a student's name. For public four-year students, student loans had the largest average award, and the second largest award for public two-year students.[17]

Graph 1: Average Financial Aid Awarded to First-Time, Full-Time Degree-/Certificate-Seeking Undergraduates at Public Two- and Four-Year Institutions, 2023-24



Source: National Center for Education Statistics 2023

Note: Student loans only include loans made directly to a student and do not include Parent PLUS loans or other loans made directly to parents.

Grant and scholarship aid generally falls into three categories: need-based, merit-based, and combination assistance. Need-based aid determines eligibility based on a student's financial situation, as measured via the FAFSA, an alternative FAFSA, income, or the receipt of public benefits. Merit-based aid, on the other hand, is awarded based on academic achievement, such as GPA and test scores. Some aid programs require students to meet additional goals or milestones, such as completing a certain number of community service hours, participating in internships or working, or taking college preparation courses. Most state financial aid programs are designed for undergraduate students.[18]

Emergency aid is a form of financial assistance designed to help students navigate short-term, unexpected financial crises.[19] Traditional financial aid is designed to cover students' anticipated cost of attendance, including tuition and fees, housing, food, transportation, and books and supplies. However, as the cost of living and college continues to outpace wage growth, the purchasing power of financial aid has eroded, leaving many students without a financial safety net. As a result, unforeseen emergencies, such as a medical crisis or unexpected car repair, can force students to leave school or abandon their pursuit of a degree or credential.[20]

Financial aid is intended to reduce cost as a barrier to enrolling in and completing higher education. To achieve this, state financial aid must respond to the needs of today's students, keep pace with rising college costs, and provide flexibility to help students weather unexpected financial emergencies. Ensuring that state financial aid is effective requires sufficient and sustainable funding, so residents have a meaningful opportunity to obtain a higher education.

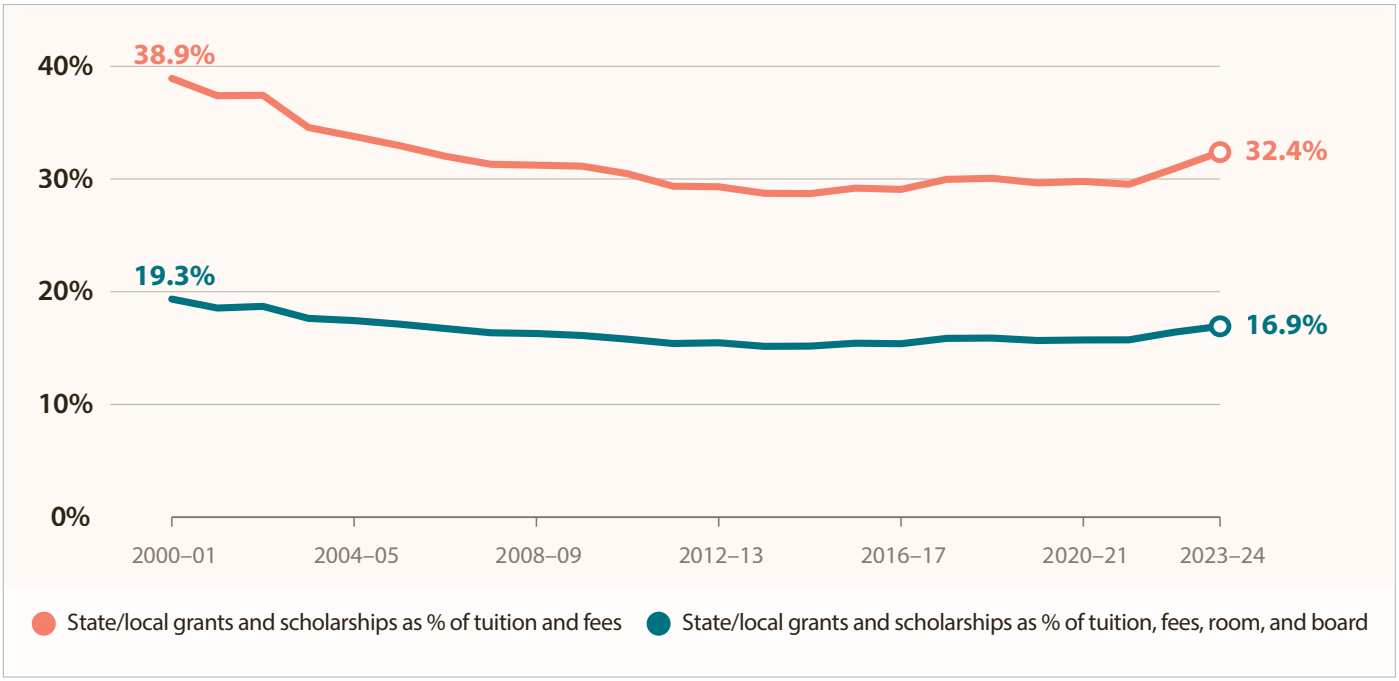
State Financial Aid Has Not Kept Pace With Rising College Costs

State financial aid has failed to keep up with rising college costs. Nationally, tuition and required fees for first-time, full-time degree-seeking undergraduates increased 57.4% between the 2000-01 and 2023-24 academic years (adjusted to 2023-24 dollars). During that same period, average state grant and scholarship awards increased by only 31%, while average federal aid increased by 38.6%.[21]

Nationally, average state grant and scholarship awards for first-time, full-time degree- and certificate-seeking undergraduate students have increased more slowly than tuition, fees, and room and board since 2001. In inflation-adjusted 2024 dollars, the average financial aid award increased from $3,631 in the 2000-21 academic year to $4,724 in 2023-24 (Graph 2). During the same period, average tuition and required fees rose from $9,576 to $14,966, while the total cost of tuition, required fees, and room and board increased from $19,270 to $28,627.[22]



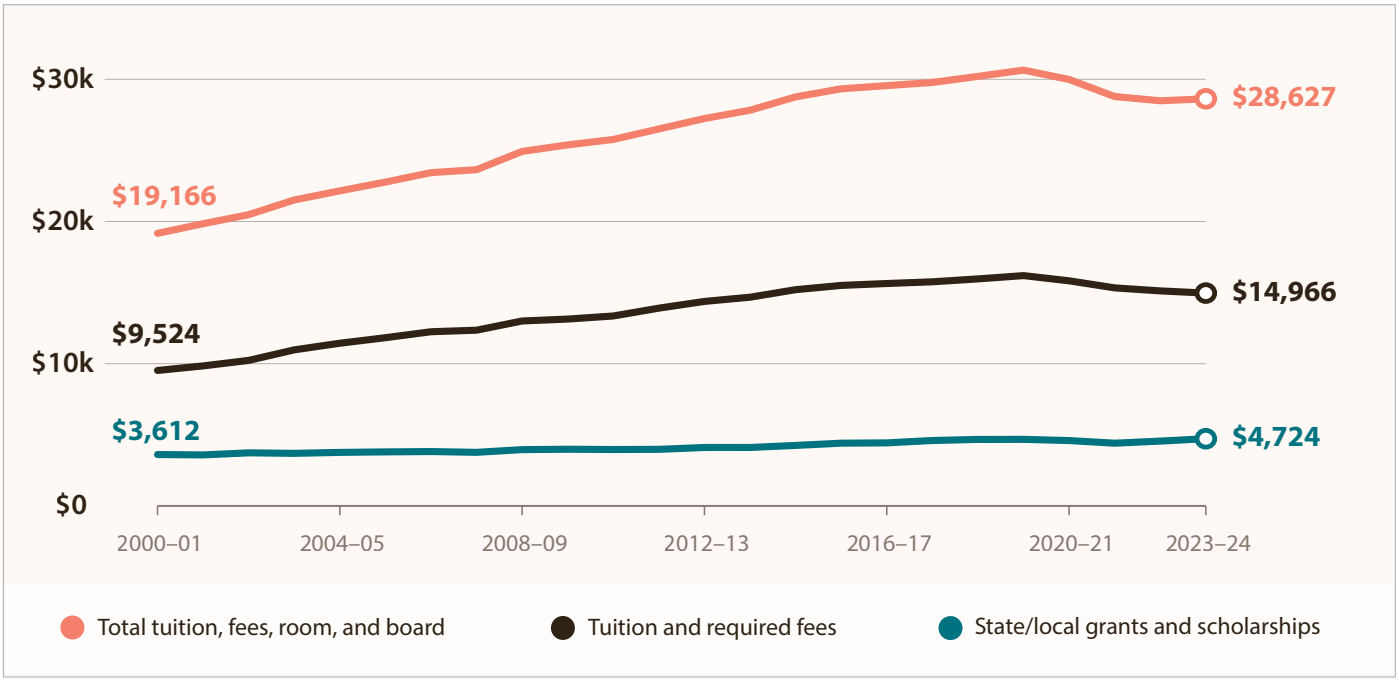
Graph 2: Average State Financial Aid Awards to First-Time, Full-Time Degree-/Certificate-Seeking Undergraduates at Degree-Granting Postsecondary Institutions, as a Share of Tuition & Fees and Room & Board for Academic Years 2000–01 Through 2023–24 (in 2024 Dollars)



Source: EdTrust analysis of National Center for Education Statistics data

As college costs have risen faster than state aid, the purchasing power of state financial aid has declined. In 2001, average state financial aid awards for first-time, full-time degree-seeking undergraduate students covered 38.9% of the combined cost of tuition, fees, room, and board. By 2024, that share had fallen to 32.4% (Graph 3).

Graph 3: Average State Financial Aid Awards to First-Time, Full-Time Degree-/Certificate-Seeking Undergraduates at Degree-Granting Postsecondary Institutions and Tuition & Fees and Room & Board for Academic Years 2000–01 Through 2023–24 (in 2024 Dollars)



Source: EdTrust analysis of National Center for Education Statistics data

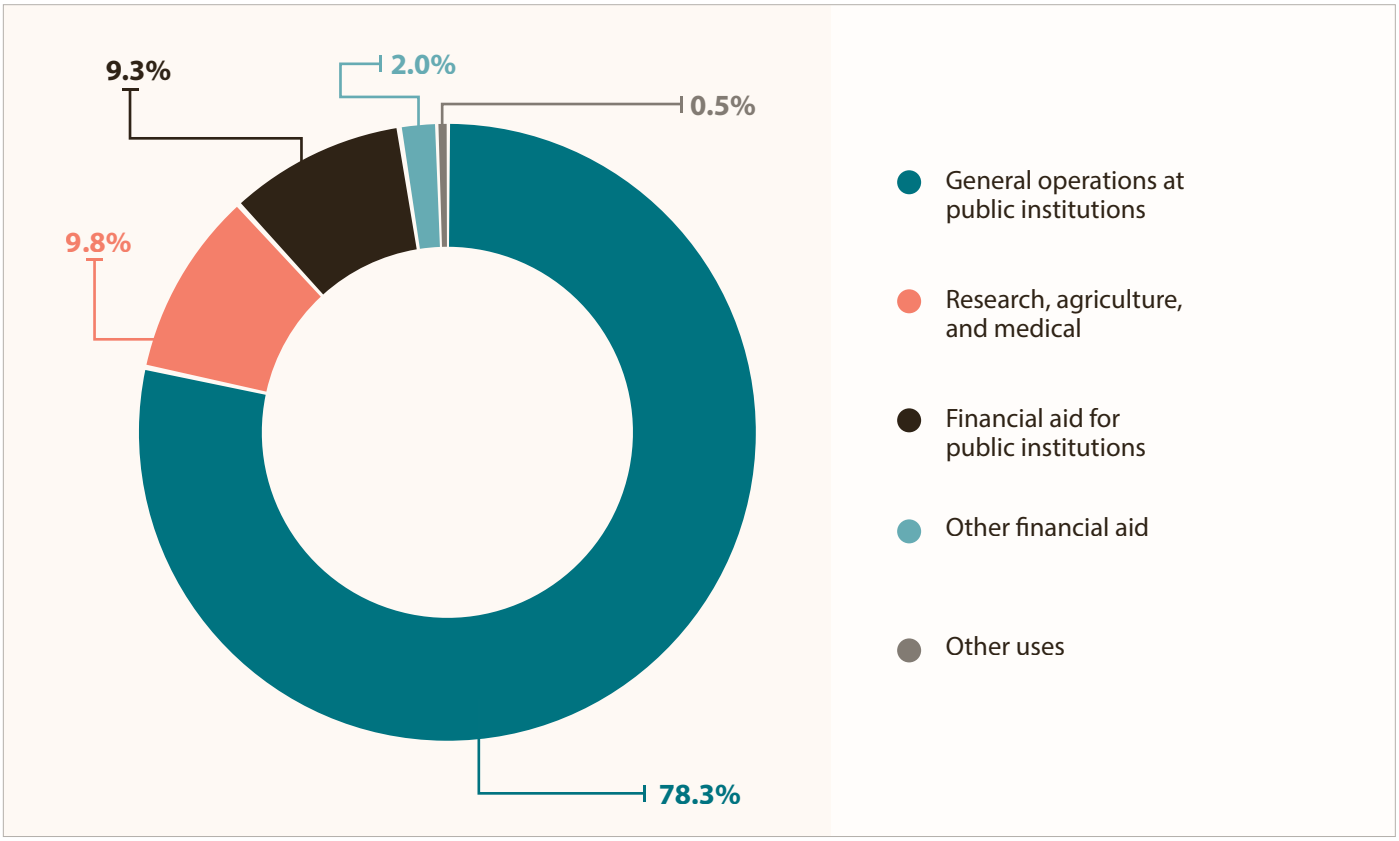
State grant and scholarship programs have had the smallest increase in student participation compared with federal and institutional grant programs.[23] During the 2000-01 academic year, 31.6% of first-time, full-time degree-seeking undergraduate students received federal grants, 31.2% received state grants, and 31.1% received institutional grants. By 2023-24, participation had increased to 41.9% for federal grants and 54.9% for institutional grants, but only 37.3% for state grants.[24]

How State Financial Aid Is Funded

State financial aid depends overwhelmingly on state and local appropriations, making it vulnerable to shifting budget priorities and economic downturns. Although these appropriations fund a wide range of higher education investments, only a small share goes to helping students pay for college. State and local appropriations are the main source of funding for programs. Financed largely through state and local tax revenues, these appropriations support institutional operations, research, agriculture and medical programs, and financial aid for students attending public and private institutions. Despite the importance of financial aid for college affordability, it represents only a small portion of overall higher education appropriations.

Nationally, 11.3% of state and local higher education appropriations support state financial aid programs, while 9.3% specifically fund state financial aid for students attending public institutions (Graph 4).[25] Public four-year colleges receive a larger share of state financial aid than public two-year institutions, 11.5% compared to 7.0%.[26] In fiscal year 2025, state financial aid comprised 13.8% of appropriations allocated to four-year institutions and 7% of those allocated to two-year institutions.[27]

Graph 4: How Higher Education Funds Are Spent Nationally in 2025



Source: State Higher Education Executive Officers Association SHEF Report

Few states rely heavily on non-tax revenue, which includes lottery proceeds, other gaming revenue, and tobacco settlement funds, to support state financial aid. [28] Although tax revenues provide the vast majority of funding for state financial aid, a small portion also comes from non-tax revenue sources. In fiscal year 2022, non-tax support accounted for only 4% of total state and local support for higher education nationwide, and 23 states and the District of Columbia reported no non-tax support.[29] By contrast, non-tax support represented at least 10% of higher education funding in Florida, Georgia, Kentucky, Missouri, South Carolina, and Tennessee.

As of fiscal year 2022, 11 states used lottery proceeds to fund state financial aid programs: Arkansas, Florida, Georgia, Kentucky, Maine, Montana, Nebraska, New Mexico, Oregon, South Carolina, and Tennessee. In Maine and Tennessee, lottery proceeds are the only non-tax source of higher education funding.[30]

Declining State Funding Has Increased Students' Financial Burden

According to the State Higher Education Officers (SHEEO) Association, average financial aid per full-time equivalent (FTE) student in 2025 was $1,535 at four-year colleges and $780 at two-year colleges, nationally.[31] Total financial aid per FTE varied considerably across states, ranging from $3,461 in New Mexico to just $46 in Montana.[32]

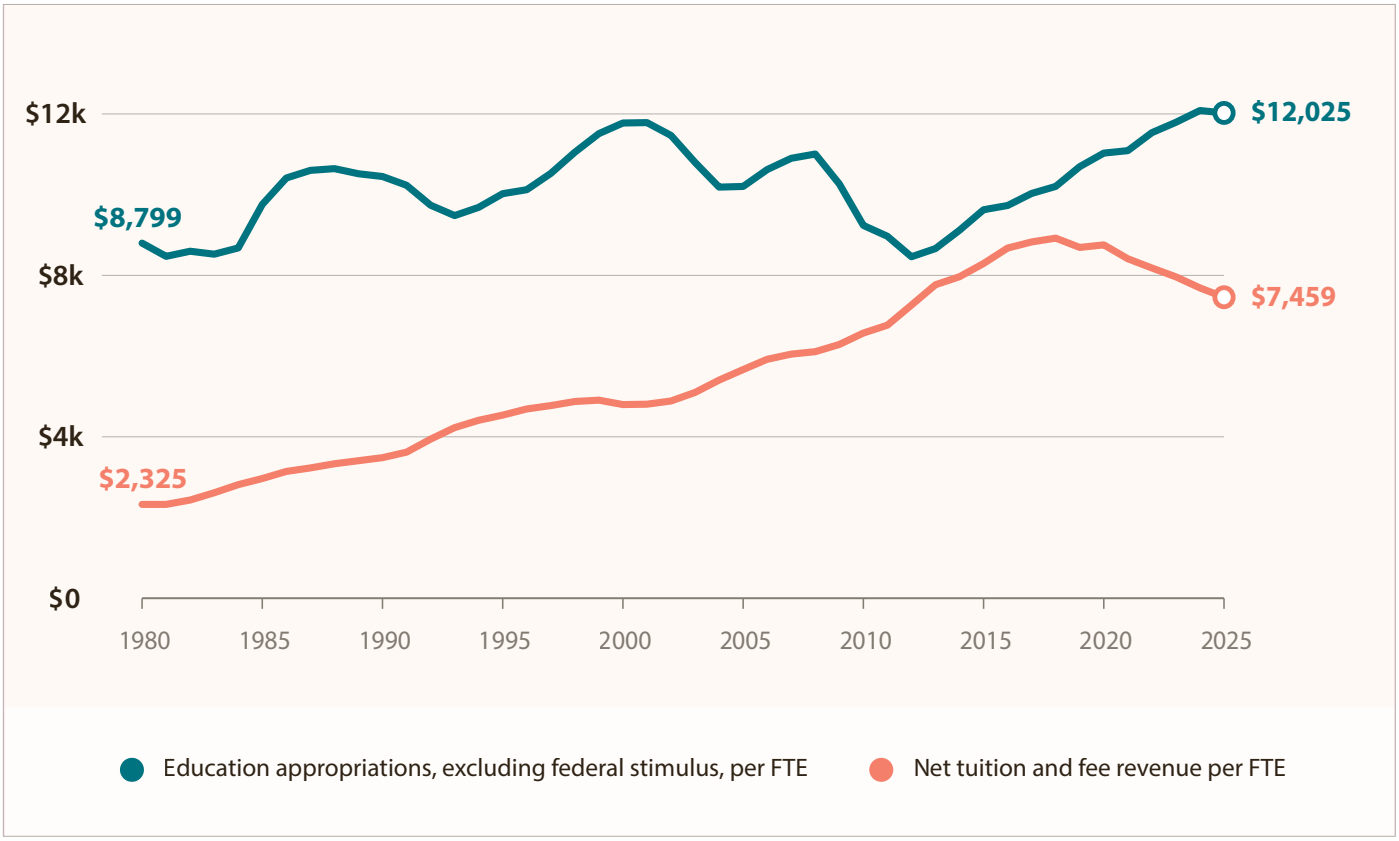
Funding for state financial aid has climbed steadily over time and has increased at roughly the same pace as net tuition revenue since 2001. Net tuition revenue, defined as gross tuition and fee revenue at public institutions less state-funded financial aid, institutional discounts and waivers, and tuition revenue paid by medical students, represents the share of institutional tuition costs paid by students. From 2001 to 2025, net tuition and fee revenue per FTE increased 52.7%,[33] while total financial aid per FTE increased 56.5%.

State funding for higher education and tuition prices are closely related. When funding levels fail to keep up with the cost of delivering higher education, costs are often transferred to students in the form of higher tuition and fees. As tuition increases, so does the need for state financial aid.

Recessions and economic downturns often lead to decreased state funding for higher education. Because higher education spending is typically the third largest portion of state spending — after Medicaid and K-12 education — it is often viewed as an area to cut, in part because institutions can offset some of those reductions by raising tuition.[34] During the Great Recession and the recovery years that followed it, state funding for higher education declined.[35] The average state spent 16% less per student in 2017 than in 2008.[36]

To illustrate the relationship between state higher education funding and tuition, Graph 5 compares education appropriations — comprising state and local support for public higher education operating expenses and student financial aid (excluding research, hospitals, and medical education) — and net tuition revenue over time. Since 1980, net tuition revenue has increased faster than education appropriations, reflecting the growing share of college costs borne by students. Although education appropriations have begun to recover in recent years and net tuition revenue has leveled off, the long-term trend shows a substantial shift in who pays for college. From 1980 to 2025, education appropriations per FTE increased by only 36.7%, while net tuition revenue per FTE increased by 220.8% (Graph 5).[37]

Graph 5: Education Appropriations Excluding Federal Stimulus per FTE and Net Tuition and Fee Revenue per FTE in 2025 Dollars



Source: EdTrust analysis of SHEEO SHEF Data

Another way to understand this shift is through "student share," which measures the portion of public higher education revenue that comes from net tuition rather than state appropriations. Nationally, this share increased from 20.9% in 1980 to 38% in 2025. In that same year, the student share was 19.4% at public two-year colleges and 48.8% at public four-year colleges.[38] Student share peaked at 50% directly after the Great Recession.[39] From 2001 to 2025, education appropriations (excluding federal stimulus funds) increased by just 0.4%, while net tuition revenue per FTE increased by 52.7% and total financial aid per FTE increased by 56.5%, nationwide (Table 1). Student share also rose from 29% in 2001 to 38.4% in 2025. Table 1 shows state-by-state data on total financial aid, net tuition revenue, education appropriations, and student share in 2025.

Since 1980, net tuition revenue has increased faster than education appropriations, reflecting the growing share of college costs borne by students

Table 1: Percentage Change in Total Financial Aid per FTE, Net Tuition Revenue per FTE, Education Appropriations per FTE, State Public Financial Aid as a Share of Education Appropriations and Student Share From 2001–2025

State	Percentage Change in Education Appropriations 2001–2025	Percentage Change in Net Tuition 2001–2025	Percentage Change in Total Financial Aid 2001–2025	State Public Financial Aid as a Percentage of Education Appropriations 2001	State Public Financial Aid as a Percentage of Education Appropriations 2025	Student Share 2001	Student Share 2025
AL	11.24%	98.30%	66.59%	1.8%	3.0%	42.4%	59.4%
AK	34.79%	29.42%	1122.32%	0.0%	5.5%	18.2%	17.6%
AZ	-41.69%	115.47%	325.57%	0.3%	4.3%	32.8%	65.0%
AR	-19.58%	96.80%	112.80%	6.3%	14.1%	25.4%	50.5%
CA	20.89%	127.23%	100.78%	4.1%	9.9%	10.8%	18.7%
CO	1.65%	121.58%	69.05%	10.3%	18.2%	41.6%	61.3%
CT	-30.51%	77.14%	-42.62%	3.1%	4.0%	25.4%	41.4%
DE	-32.09%	64.28%	6.43%	5.1%	7.8%	53.9%	74.5%
FL	-3.07%	-30.77%	24.95%	8.1%	12.7%	23.4%	18.0%
GA	-24.82%	70.64%	21.70%	12.6%	21.1%	15.1%	29.1%
HI	49.85%	70.53%	1729.47%	0.1%	1.1%	19.6%	22.2%
ID	-21.96%	96.20%	249.56%	0.8%	3.1%	23.5%	44.2%
IL	55.25%	133.63%	19.72%	7.4%	6.6%	18.6%	26.2%
IN	-39.05%	38.52%	39.27%	6.4%	17.9%	41.4%	62.9%
IA	-44.04%	74.68%	-5.53%	0.5%	5.8%	35.2%	63.3%
KS	-10.47%	49.91%	233.33%	1.1%	4.4%	28.4%	37.5%
KY	-28.16%	47.71%	593.84%	2.5%	23.2%	29.8%	47.8%
LA	-21.96%	53.89%	117.92%	10.3%	28.7%	26.3%	41.9%
ME	-21.25%	-2.66%	52.13%	4.2%	10.4%	37.2%	41.5%
MD	22.14%	25.53%	10.36%	3.7%	3.5%	37.2%	37.9%
MA	17.21%	20.81%	138.67%	5.5%	12.8%	29.0%	29.7%
MI	-25.45%	83.25%	12.80%	5.7%	12.2%	37.7%	60.4%
MN	-9.42%	98.74%	34.93%	6.6%	13.8%	29.7%	48.9%
MS	-28.55%	102.84%	-37.84%	5.0%	4.7%	28.1%	53.2%

MO	-26.08%	76.98%	132.64%	2.3%	10.3%	27.5%	47.9%
MT	15.57%	65.43%	-72.18%	2.3%	0.6%	42.9%	51.9%
NE	-	35.49%	-	0.6%	4.3%	32.8%	33.9%
NV	-7.33%	-29.24%	47.06%	9.8%	15.6%	22.4%	18.0%
NH	-23.89%	-15.33%	365.74%	0.7%	8.3%	65.4%	67.4%
NJ	-16.80%	-20.28%	74.52%	8.2%	21.8%	38.6%	38.3%
NM	77.83%	85.70%	240.34%	8.2%	15.9%	12.5%	12.8%
NY	33.28%	26.67%	-15.96%	9.6%	8.0%	29.7%	28.8%
NC	-20.58%	39.03%	-37.98%	2.3%	4.1%	18.9%	29.1%
ND	21.13%	59.47%	1028.53%	0.7%	5.9%	40.4%	47.8%
OH	-27.51%	25.57%	71.01%	3.1%	8.6%	40.9%	54.9%
OK	-	147.96%	-	3.4%	14.7%	21.3%	48.0%
OR	-6.09%	93.82%	412.78%	2.5%	14.1%	35.9%	53.6%
PA	-37.14%	5.03%	-0.99%	8.6%	15.4%	48.7%	61.5%
RI	-23.29%	22.72%	56.60%	1.9%	6.9%	44.0%	55.6%
SC	3.95%	112.45%	183.04%	6.1%	23.0%	38.1%	56.8%
SD	17.24%	27.53%	3185.87%	0.1%	2.0%	46.0%	50.0%
TN	34.84%	59.07%	761.81%	3.1%	20.4%	33.6%	37.8%
TX	34.20%	40.37%	284.28%	0.2%	5.1%	34.0%	35.4%
UT	22.25%	112.56%	149.53%	1.0%	1.7%	26.6%	38.9%
VT	11.17%	6.03%	-24.23%	11.7%	12.3%	76.8%	77.6%
VA	4.51%	57.24%	195.83%	5.3%	20.3%	32.3%	42.1%
WA	51.15%	131.26%	184.92%	8.0%	15.5%	23.6%	32.6%
WV	-7.79%	39.59%	344.50%	5.4%	30.8%	39.2%	51.4%
WI	-27.07%	77.99%	17.81%	3.6%	6.5%	25.8%	45.8%
WY	27.65%	-24.02%	19.39%	7.9%	7.4%	21.6%	14.1%
US	-0.39%	52.73%	56.52%	5.1%	10.5%	29.0%	38.4%

Source: EdTrust analysis of State Higher Education Executive Officers SHEF 2025 Data

States Should Expand and Improve the Purchasing Power of State Financial Aid

State financial aid should keep pace with college costs. As shown in Graph 2, the purchasing power of the average state financial aid award has steadily declined as college costs have outpaced increases in aid. Over the past several decades, the price of attending college has surged dramatically, due in large part to declining state investment in public colleges and universities. This funding reduction has compelled colleges to shift a greater share of costs onto students and families through higher tuition.[40] In today's dollars, the average total cost of tuition, room, and board at a public four-year college rose from $8,984 in 1980 to $22,389 in 2023.[41] These rising costs affect most students because 77% of all college students attend public colleges and universities.[42]

Federal financial aid has also failed to keep pace with rising college costs. The Pell Grant, the nation's largest need-based financial aid grant, has lost much of its purchasing power. In 1975, the Pell Grant covered more than 75% of the total cost of attending a public four-year college.[43] Today, it covers only about one-third of that cost. Meanwhile wage growth has lagged increases in college and living costs, making it harder for families to afford higher education.

State policymakers can help close this affordability gap by investing more in financial aid and modernizing aid programs to reflect the needs of today's students, who are more likely to be adult learners, working full time, raising children, students of color, veterans, and students from rural areas and low-income backgrounds.[44] State financial aid policies should prioritize students with the greatest financial need and provide support from enrollment through completion.

Student-centered state financial aid should be designed to reduce financial barriers. Aid should be awarded primarily based on financial need to help cover the full cost of attendance — not just tuition and fees. Programs should also be accessible to all students, including part-time students, students attending two- and four-year programs, first-time students, adult learners, returning students, justice-impacted students, and undocumented students. Additionally, students should also remain eligible for state aid even if they have federal loans in default, and state grant aid should never require repayment.[45] For more detailed information on why designing equitable, student-centered financial aid programs is important review this report.

Increased Funding for State Financial Aid Can Help States Use Negative SAI

One way that states can better direct financial aid to the students who are least able to pay for college is by using the negative Student Aid Index (SAI) when determining financial aid awards. Negative SAI was created under the FAFSA Simplification Act, passed in 2020 and fully implemented for the 2024-25 academic year. The law introduced the Better FAFSA, which replaced the Expected Family Contribution (EFC) with the SAI. Like the EFC, the SAI is an eligibility index number that is used to determine a student's eligibility for federal financial aid and how much aid they may receive.[46] Many colleges and some states also use the SAI to determine eligibility for institutional and state financial aid.

A key difference between EFC and SAI is that SAI can be negative. Under the previous system, the lowest possible EFC was 0. The SAI, however, ranges as low as -1,500, allowing the formula to better distinguish among students with the greatest financial need. The purpose of negative SAI is to provide institutions and agencies with more information, so they can direct more or different types of aid to students with the lowest incomes.[47]

While the Department of Education treats all negative SAI values as 0 when awarding federal student aid, states are allowed to use negative SAI when determining state financial aid awards. Few states, however, are leveraging negative SAI to direct more state aid to students with the lowest incomes. Some states do not use the FAFSA or SAI to determine financial aid eligibility, while others that do factor SAI into their eligibility criteria or award formulas have not used negative SAI to determine aid.

Minnesota offers one example of how states can leverage negative SAI to better target aid to students with the lowest incomes. In the 2024-25 academic year, the first year of FAFSA simplification, Minnesota factored negative SAI into the formula for the Minnesota State Grant, the state's primary need-based aid grant program. The change included a dollar-for-dollar increase in the grant for every dollar of negative SAI. For example, a student with an SAI of -1500 would receive a grant that was $1,500 larger than a student with an SAI of 0. Unfortunately, that change was unsustainable without additional investment from the legislature.[48] Some challenges arose because of changes to early available data from the Department of Education, delays in the delivery of student financial aid records during the first year of the Better FAFSA, and uncertainty about how many students would receive the maximum -1500 SAI as opposed to a range of other negative SAI numbers. This, coupled with Minnesota's significant enrollment increase, put pressure on the grant program and led the state to reduce award amounts. In the 2025-26 academic year, 50% of a student's negative SAI will be recognized and used to provide additional grant aid.[49]

Minnesota's experience highlights the promise and challenges of using negative SAI. While negative SAI can help states better target aid to students with the greatest need, doing so requires sufficient funding to ensure that award increases remain viable as enrollment and student needs change.

Increased Funding for State Financial Aid Can Support Emergency Grants

In addition to traditional financial aid, states should establish dedicated funding for emergency grants to help students weather unexpected financial emergencies. Emergency aid provides short-term assistance when students have unforeseen expenses due to a medical or housing crisis, a car repair, or a loss of income that jeopardizes their ability to stay enrolled.

During the COVID-19 pandemic, the federal government created the Higher Education Emergency Relief Fund (HEERF) to provide emergency grants to postsecondary students. Institutions were required to use at least 50% of these funds for emergency aid grants to students experiencing financial hardship. These grants were allocated based on a formula that prioritized students from low-income backgrounds by requiring that 75% to 77% of emergency grant funds be allocated to Pell Grant recipients.[50] Congress authorized and renewed HEERF through three pieces of legislation: The Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act, and the American Rescue Plan (ARP) Act (Table 2).[51]

Although HEERF emergency aid grants were temporary and have since expired, research shows that they had a positive impact on students, highlighting the need for states to allocate funds for this purpose.[52] Students who received HEERF funds were more likely to stay enrolled, prioritize their studies over working, and better able to afford housing, food, and technology.[53]

Table 2: HEERF Emergency Aid Funding

Legislation	Total Funding Amount	Share of Funds for Student Emergency Aid
CARES Act (HEERF I)	$14 billion	50% of an institution's allotment must go to emergency financial aid grants to students
CRRSA Act (HEERF II)	$23 billion	Institutions must match the dollar amount spent from CARES funds, and for-profit institutions must use 100% of their allotment on student grants
ARP (HEERF III)	$40 billion	At least 50% of an institution's total allotment must go to student grants For-profit institutions must use 100% of their allotment on student grants

Source: U.S. Department of Education Higher Education Emergency Relief Fund (HEERF) and National Association of Student Financial Aid Administrators

Why Progressive Taxation Matters for Raising Revenue

States need sustainable revenue to adequately fund higher education and state financial aid. Progressive tax systems generate that revenue more equitably by asking households and corporations to contribute based on their ability to pay.

There are three types of tax systems: regressive, proportional or flat, and progressive. In a regressive system, which most states have, low- and middle-income households pay a greater share of their income in taxes than wealthy households. This is often described as an upside-down tax system because those with the least ability to pay shoulder the biggest tax burden. Regressive tax systems are unfair, worsen racial inequality, and make it harder to make evidence-based investments that strengthen communities and help people and economies thrive.[54]

A proportional tax system taxes all households at the same rate regardless of income. By contrast, a progressive tax system requires high-income households to pay a larger share of their income in taxes than lower-income households.[55] Progressive tax systems are based on the principle that people and corporations should contribute according to their ability to pay. As a result, they are generally fairer, reduce poverty, advance racial equity, and raise more revenue to support public services, including higher education.[56]

Progressive taxation can also help address longstanding racially inequities. Because of structural racism and historical and ongoing discrimination in employment, housing, and lending, Black, Latino, and Native American households typically have lower incomes and less wealth than white households.[57] In 2025, median household income was $49,400 for Black households and $66,800 for Latino households, compared with $95,300 for white households. The racial wealth gap is even wider. In 2025, median household wealth was $36,800 for Black households and $79,600 for Latino households, compared to $332,100 for white households. From 2022 to 2025, median Black household wealth declined 25%.[58]

Despite these disparities, state and local tax systems in most states remain regressive. Nationally, households with the highest incomes pay a smaller share of their income in state and local taxes than lower-income households. On average, households in the bottom 20% of the income distribution paid 11.2% of their income in state and local taxes, while households in the top 1% paid only 7.2%.[59] Effective tax rates for households in the second, middle, and fourth quintiles are 10.4%, 10.5%, and 10.3%, respectively.[60]

In fact, in 41 states, the top 1% of earners pay a lower tax rate than every other group. The exceptions are California, Maine, Massachusetts, Minnesota, New Jersey, New Mexico, New York, Oregon, and the District of Columbia.[61] In 42 states, the top 1% pays a lower rate than the bottom 20%, while in 35 states, the lowest 20% of earners pay a greater share of their income in state and local taxes than any other income group. Moreover, in many states, the top 5% of earners also pay a smaller share in taxes than their share of income.

Because state financial aid depends heavily on state appropriations, the structure of a state's tax system directly affects its ability to make college affordable. More progressive tax systems can raise more revenue while distributing the cost more effectively, allowing states to expand need-based financial aid and reduce students' reliance on borrowing.

Constitutional Limits on Raising Taxes

Several states have constitutional limits on the types of taxes they can impose and the amount of tax they can raise. Some ban taxes on entire classes of property or income, limit the amount of revenue that can be collected, or restrict tax brackets from being structured in a progressive way. These constraints can hinder states' ability to generate revenue and invest in public services and programs, including state financial aid. Additionally, these limits can prevent state revenues from keeping pace with the actual cost of providing a service, reduce states' ability to weather a recession, increase reliance on borrowing, impede economic growth, and make it more difficult to sufficiently fund public services and hold elected officials accountable for doing so.[62] Policymakers and advocates should be mindful of these limitations on revenue raising when they evaluate ways to generate new revenue for state financial aid.

In 16 states — Arizona, Arkansas, California, Colorado, Delaware, Florida, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Nevada, Oklahoma, Oregon, South Dakota, and Wisconsin — a supermajority of three-fifths, two-thirds, or three-fourths of the legislature is required to increase or impose new taxes.[63] In 13 of these states, the supermajority requirement applies to all taxes, and in the remaining three states it applies only to certain taxes.[64] Although supermajority requirements make it harder for states to adjust tax policy, states with these requirements have similar levels of taxation as states without them.

How States Can Use Progressive Taxation to Improve State Financial Aid

To expand state financial aid and better meet the needs of today's students, states need sustainable sources of revenue. The OBBBA will likely place additional budgetary pressure on states, making new revenue even more important. To shore up funds and increase revenue, some states are adopting progressive state tax policies that raise revenue by taxing the highest earners, wealthiest individuals, and most profitable businesses.

Massachusetts' Fair Share Amendment Expanded Higher Education Investment

Massachusetts demonstrates how progressive taxation can generate dedicated revenue for higher education. In 2022, Massachusetts' voters approved the Fair Share Amendment (FSA), a constitutional amendment establishing a 4% surtax on taxable income over $1 million to support public education and transportation.[65] The $1 million income threshold is adjusted annually for inflation to reflect increases in the cost of living.[66] Also known as the "millionaire's tax," the surtax took effect in fiscal year 2024.[67] The amendment requires all revenue raised by the surtax to be deposited into a designated account called the Education and Transportation Fund, ensuring the funds are dedicated to education and transportation investments. By requiring the highest-income earners to contribute more equitably, Massachusetts created a sustainable funding source for higher education initiatives that help low- and middle-income students to attend and graduate from college.

Appropriations from the Fair Share Amendment have been substantial since taking effect. Approximately $1 billion was appropriated in FY 2024,[68] $1.3 billion in FY 2025, $2.4 billion in FY 2026, [69] and $2.7 billion in 2027.[70]

Expanding Free Community College

Fair Share revenue helped Massachusetts create MassEducate in 2024, which in conjunction with MassReconnect, launched in 2023, allows all eligible residents to attend community colleges tuition and fee free. While MassReconnect is a last-dollar free college promise program that covers tuition and mandatory fees for eligible adults aged 25 or older,[71] MassEducate extends free community college to students of all ages. Additionally, students participating in MassEducate who meet an income requirement may qualify for up to $1,200 annually for books and supplies, prorated based on the number of credit hours a student is enrolled in.[72] In total, Massachusetts has invested $257.5 million in Fair Share revenue to support MassEducate and MassReconnect. From 2022 to 2025, community college enrollment has increased 38%,[73] reversing years of stagnant enrollment that had persisted since 2015.[74]

Expanding Need-Based Financial Aid

Fair Share revenue also financed a major expansion of need-based financial aid through the MassGrant Plus program.[75] The program[76] is a last-dollar grant that covers unmet need for tuition and fees for Pell Grant-eligible students attending Massachusetts public colleges and universities.[77] Eligible students may also receive up to $1,200 annually for books and supplies, prorated based on their credit load.[78] MassGrant Plus is an expansion of the MassGrant,[79] which is a need-based grant for Pell-eligible students pursuing an undergraduate degree or certificate program.

MassGrant Plus also expanded aid to many middle-income students, including students from households earning approximately $85,000 to $100,000 annually.[80] During its first year, 25,000 students benefited from $62 million in Fair Share-funded financial aid.[81] Since its inception, the MassGrant Plus expansion has been supported by Fair Share revenue, including $334 million appropriated through the financial aid expansion line item from FY24-27, helping more than 34,000 students save over $110 million in college costs during the 2023-24 academic year.[82]

In FY 2027 alone, Massachusetts appropriated $241 million from the Fair Share Education and Transportation fund in higher education. The financial aid programs and wraparound supports in Table 3 were funded entirely with Fair Share revenue.

Table 3: Financial Aid and Wraparound Supports Funded by Fair Share Amendment Revenue in FY 2027

Program	Program Description	FY 2027
Free Community College	MassReconnect: Community college promise program that covers tuition and mandatory fee free community college for students ages 25+ MassEducate: Community college promise program that covers tuition and mandatory fees. Potential $1,200 allowance for books and supplies for eligible students	$137,048,000
Financial Aid Expansion	Supports the MASSGrant Plus expansion and other state financial aid for eligible students attending Massachusetts public colleges and universities	$85,000,000
Targeted Scholarships	Scholarships for students pursuing a program of higher education at a public institution in an in-demand profession	$5,000,000
SUCCESS Fund Expansion	Expands the SUCCESS Program, which provides wraparound supports and services to improve outcomes for their most vulnerable populations to students at State Universities	$14,000,000

Source: Massachusetts Department of Higher Education Budget FY2027 Enacted

The Fair Share Amendment Also Made the Tax System More Equitable

Beyond raising revenue to support education and transportation, the Fair Share Amendment made Massachusetts' tax system fairer. Before it took effect, the state's highest income earners — who earned an average of $2.4 million annually — paid an average effective state and local tax rate of only 6.8% compared with 8.9% paid by the bottom 99% of earners. After implementation, the effective rate for the top 1% of earners increased to 8.9%, while generating billions of dollars for public investments,[83] including higher education projects that improve college access and affordability.

Washington's Workforce Education Investment Account

In 2019, Washington enacted the Workforce Education Investment Act (WEIA) to expand access to higher education and help meet the state's growing need for skilled workers. The law established the Workforce Education Investment Account (WEIA Account), Washington's first dedicated fund for higher education.[84] The account supports the Washington College Grant and other higher education initiatives through taxes on businesses: a Business and Occupation (B&O) tax surcharge on select advanced computing businesses[85] and a portion of revenue from B&O taxes paid under the Service and Other Activities B&O tax rate. For businesses that don't pay the advanced computing surcharge, the Service and Other Activities B&O tax rate is 1.75% (for businesses with $1 million to $5 million in annual gross income in the prior year) or 2.1% (for businesses with annual gross income of $5 million or more). Of the revenue from the 1.75% and 2.1% tax rates, 14.3% is deposited into the WEIA Account.[86]

Since 2020, large, advanced computing businesses (or members of affiliated groups with at least one member engaging in advanced computing) have been subject to the Workforce Education Investment surcharge. The surcharge is levied on businesses with more than $25 billion in global revenue, including corporations like Microsoft and Amazon. From April 1, 2020, through December 31, 2025, the surcharge was 1.22% of taxable gross

income, with annual tax liability capped at $9 million per affiliated group.[87] Beginning January 1, 2026, Washington expanded the surcharge by increasing the tax rate from 1.22% to 7.5% and raising the annual cap to $75 million annually.[88] However, all members of businesses whose affiliated groups derive 50% or more of the worldwide gross revenue from insurance premiums will be subject to a lower annual cap of $25 million.[89]

Revenue from the advanced computing surcharge is expected to increase substantially. The surcharge generated $84 million in FY 2025, and Washington's Economic and Revenue Forecast Council estimates it will generate approximately $534 million in FY 2027. Although revenue from the education investment surcharge currently represents a smaller share of the WEIA deposits than B&O tax revenue, forecasts suggest it will become the account's largest revenue source in FY 2027.[90]

Investing Dedicated Revenue in Higher Education

Revenue generated from the Workforce Education Investment surcharge and the designated portion of revenues from the Service and Other Activities B&O tax rate is deposited into the WEIA Account (Table 4). By law, these funds can only be used for higher education programs; higher education operations; higher education compensation; state-funded student aid programs; and workforce development, including career-connected learning.[91] The funds are intended to supplement, and not supplant, federal, state, and local funding for higher education.[92] However, an exception was made for the 2025-27 fiscal years, allowing money for the University of Washington to be appropriated from the WEIA Account instead of the state's general fund.[93]



Table 4: Biennial Appropriations in Adopted Budget Starting in the 2019-21 Biennium (When WEIA Was Created) for Higher Education

	2019-21	2021-23	2023-25	2025-27
Workforce Education Investment Account	$366,170,000	$581,586,000	$944,162,000	$1,552,078,000

Source: Workforce Education Investment Accountability and Oversight Board (WEIAOB) Legislative Report 2025

The 2025-27 biennial operating budget appropriated $1.58 billion from the WEIA Account.[94] Of that total:

- $458.7 million (29%) supports the Washington College Grant[95]
- $40.1 million (2.5%) supports programs that address students' basic needs, including housing, food, and childcare
- $10.7 million (0.7%) supports other financial aid programs, like the Washington College Bound Scholarship, Washington State University (WSU)'s Native American Scholarship, the Evergreen State College (ESC)'s Shelton Promise Program[96]

The Washington College Grant is funded by four accounts, and the largest source of the four is the WEIA Account.

The Washington College Grant is a need-based, student-centered grant for middle- and low-income Washington students. Originally established as the State Need Grant, it was modified and renamed in 2019. In EdTrust's analysis of free college programs, the Washington College Grant met all criteria in our student-centered framework, making it one of the nation's most inclusive and comprehensive financial aid programs.[97]

The Washington College Grant is a first-dollar grant, meaning it is applied to a student's cost of attendance balance before other aid, thereby allowing the student to use Pell Grants and other federal assistance to cover costs beyond tuition and fees, such as housing, food, transportation, books, and course materials. When the program launched during the 2020-21 academic year, it guaranteed financial aid for more than 110,000 qualified students.[98]

Table 5: Washington College Grant Total Amount Awarded and Recipients Since Inception (Amount in Millions)

Academic Year	Total Awarded ($ millions)	Recipients
2019–20	$377.0	77,398
2020–21	$440.3	99,092
2021–22	$424.3	93,923
2022–23	$435.8	91,650
2023–24	$468.2	97,251

Source: National Association of State Student Grant & Aid Programs Annual Survey

The grant provides full or partial tuition and fee assistance on a first-dollar basis to students from low- and middle-income households attending public two- and four-year colleges and private nonprofit colleges. Grant awards are based on income, family size, and the state's Median Family Income, according to the American Community Survey Data published by the federal Low-Income Home Energy Assistance Program. For the 2026-27 academic year, students are eligible for a full award if their household income is $43,500 or less for a single person or $83,500 or less for a family of four.[99] Students with higher household incomes may qualify for partial awards covering up to 60%, 50%, 24.5%, or 10% of tuition and fees, depending on their income and family size.

Why Washington's Approach Matters

Washington illustrates how targeted business taxes can generate dedicated funding for higher education and expand need-based financial aid, even in a state with a highly regressive overall tax system. According to the Institute for Taxation and Economic Policy (ITEP), Washington has the second most regressive tax system in the country.[100] Families in the lowest income quintile, earning less than $35,000, pay 13.8% of their income in state and local taxes, while those in the top 1%, earning more than $878,400, pay only 4.1%. Families with incomes less than $35,000 pay a greater share of their income in taxes than all higher income groups. The top 1% pay a lower share of income than all lower income groups.[101] The absence of a state income tax and a heavy reliance on sales and use taxes are major contributors to this inequity.[102]

Despite these structural challenges, Washington has shown that states can create dedicated, progressive revenue streams to strengthen higher education and expand access to need-based student financial aid.

Progressive Revenue Policies to Support Financial Aid

States should adopt tax policies that more effectively tax wealth to generate revenue for higher education and state financial aid. Wealth inequality is at an all-time high, while college costs continue to rise more rapidly than incomes. Asking high-net-worth individuals and profitable corporations to contribute more can help states fund financial aid programs that reduce financial barriers to higher education.

There are numerous ways to make state tax systems more progressive and generate more revenue to support communities. This section highlights two policies that states can use to generate additional revenue to support state financial aid. By contrast, OBBBA expands and creates several federal tax cuts that primarily benefit wealthy households and will reduce state revenue in states that conform to the new federal tax provisions. One provision in OBBBA that will cost states revenue is the expansion of the Qualified Small Business Stock (QSBS) exemption. States can avoid this revenue loss by decoupling from the federal provision. Another option is to adopt a state version of the federal Net Investment Income Tax (NIIT), sometimes referred to as a wealth proceeds tax, levied on income from wealth.

Decouple From the Qualified Small Business Stock Exemption

One way states can lessen the fiscal effects of OBBBA on state budgets and raise revenue from wealthy investors is to decouple entirely from the federal QSBS exemption.

The QSBS exemption allows venture capitalists and others to exclude capital gains from taxation when they sell stock in certain companies. Ninety-four percent of the exemptions claimed were by investors with annual incomes

over $1 million. Although the QSBS exemption was created in the 1990s to encourage investment in emerging companies, especially in the technology sector,[103] the exemption is not limited to investment in what most people would consider small businesses, and research has found little or no evidence that it meaningfully increases investment in startup companies.[104]

To qualify, investors must invest in corporations that can issue QSBS-eligible stocks. Eligible businesses must be organized as C corporations — meaning they plan to seek venture capital investments or become publicly traded (the stock must be issued directly by the company) — have no more than $75 million in gross assets — which is $25 million more than the pre-OBBBA maximum — and meet certain industry requirements.

The tax benefits are substantial, allowing beneficiaries of the exemption to pay $0 in taxes on millions of dollars in capital gains. Investors can exclude capital gains equal to 10 times their initial investment or up to $15 million, whichever is greater, for each eligible business they invest in. Prior to OBBBA, the maximum exclusion was $10 million. Investors can also transfer stock to relatives to avoid exceeding their limit.[105]

The amount of tax owed also depends on how long the stock is held. Investors who hold the stock for at least five years can exclude 100% of their capital gains from taxation. Investors who sell the stock after four or three years receive smaller exclusions, 50% and 25% respectively, on their gains, but still far less than they would under ordinary capital gains rules.

Although the benefits of the QSBS exemption go overwhelmingly to the wealthiest households, OBBBA significantly expanded this provision. The new law increased the maximum amount of capital gains that each investor can exclude, allows investors to invest in larger corporations with more assets, and shortens the required amount of time investors must hold the stock before selling. The Joint Committee on Taxation estimates the expansion will cost the federal government $3.5 billion in 2031 and $4.5 billion in 2034. The benefits are highly concentrated: 94% of QSBS exclusions are claimed by households with annual incomes over $1 million.[106] Only 0.5% of all tax filers have incomes that high.

Decoupling Can Protect State Revenue

Thirty-eight states and the District of Columbia allow the QSBS exclusion. As a result, the expansion enacted through OBBBA will substantially increase state revenue losses. ITEP estimates the QSBS exemption will cost states $710 million in 2026 and $1.2 billion in 2031, of which $470 million is attributable to OBBBA's expansion.[107] States that decouple from the QSBS exemption — i.e., that choose not to adopt the federal tax provision — can avoid these revenue losses and preserve funding for priorities such as higher education and state financial aid.

States can lessen the fiscal effects of OBBBA on state budgets and raise revenue from wealthy investors by decoupling entirely from the federal Qualified Small Business Stock (QSBS) exemption

Table 6: Revenue Raising Potential of Decoupling From QSBS in 2031, Including State and Local Revenue From OBBBA Expansion in EdTrust States (in Millions)

State	State only	Local only	State and Local Total
California	$0	$0	$0
Louisiana	$7.1	$0	$7.1
Massachusetts	$98.8	$	$98.8
Michigan	$25.8	$1.0	$26.8
New York	$261.7	$41.4	$303.1
Tennessee	-	-	-
Texas	-	-	-

Source: Institute on Taxation and Economic Policy
Notes: "-" indicates not state income tax.

Twelve states are not currently losing revenue to the QSBS exemption: Alabama, California, Florida, Mississippi, Pennsylvania, Nevada, New Hampshire, South Dakota, Tennessee, Texas, and Washington, and Wyoming. Currently, Alabama, California, Mississippi, and Pennsylvania do not recognize the exemption. The exemption only applies to states with state income tax, so Florida, Pennsylvania, Nevada, New Hampshire, South Dakota, Tennessee, Texas, and Wyoming don't have to decouple. Washington state does not have an income tax, but it does have a capital gains tax that respects the QSBS exclusion.[108]

Why It Matters

A U.S. Department of Treasury analysis of tax returns from 2012 to 2022 found that the cost of the QSBS exemption has ballooned while its benefits remain concentrated among high-income and high-wealth investors. The primary beneficiaries of the QSBS exemption are venture capitalists, startup founders, and other wealthy investors, who can exclude up to $15 million in capital gains from taxation for each qualifying investment.

By contrast, most Americans who save through retirement accounts, college savings plans, or mutual funds do not qualify for this exemption because they are not directly investing in eligible businesses. The QSBS exemption therefore provides a significant tax preference for income generated from wealth, which is taxed at a much lower rate than earned income when the investments are held for four years or longer.[109]

Adopt a Wealth Proceeds Tax

States can raise new revenue for higher education and state financial aid by adopting a wealth proceeds tax modeled on the federal Net Investment Income Tax (NIIT). A wealth proceeds tax applies only to income generated from wealth, rather than wages or salaries, and only to high-income households. By taxing investment income earned by the wealthiest residents, states can raise sustainable revenue while improving the equity of their tax systems.

The NIIT was created in 2013 to finance the expansion of healthcare coverage and to reduce disparities in the taxation of income from wealth and income from work.[110] The NIIT imposes a 3.8% tax on passive investment income, including capital gains, dividends, interest, royalties, business income, certain rental income, and annuity

income. The tax applies only to individuals with incomes above $200,000 and married couples with incomes above $250,000. For example, an individual with an annual salary of $150,000 and $75,000 in capital gains would owe the NIIT only on the $25,000 in investment income above the $200,000 income threshold.[111]

A wealth proceeds tax also helps address differences in how the tax code treats income from work and income from wealth. Under federal law, earned income is generally taxed at higher rates — ranging from 10% to 37% — than income from capital gains and qualified dividends, which are taxed at preferential rates of 0 to 20%. Some states also tax investment income at lower rates than earned income.

To generate revenue to fund state financial aid, states can adopt their own wealth proceeds tax. Because taxpayers subject to the federal NIIT already calculate and report their taxable investment income on IRS Form 8960, states can use the same tax base, making the tax relatively straightforward to administer. The Internal Revenue Service also audits federal NIIT filings, reducing administrative burdens for states.[112]

In 2023, Minnesota became the first state to implement this approach. The state imposes a 1% wealth proceeds tax on investment income above $1 million, with the tax expected to generate $60 million in 2026.

The tax affects only a small share of taxpayers. In 2022, just 4.4% of federal tax returns were subject to the NIIT, and 73% of federal NIIT payments came from tax filers with incomes over $1 million, or the top 0.5% of tax filers.

ITEP has outlined how states can implement a wealth proceeds tax using NIIT as a model. According to ITEP, if every state adopted a wealth proceeds tax in 2026, states could collectively generate $45.5 billion annually. An enhanced version of the wealth proceeds tax, which includes some of the realized capital gains the federal NIIT exempts, could generate as much as $57.4 billion (Table 7).[113]

Table 7: Estimated Annual Revenue From a Wealth Proceeds Tax in EdTrust States (in Millions)

State	WPT 1%	WPT 5%	WPT 10%	Enhanced 1%	Enhanced 5%	Enhanced 10
California	$1,724.2	$8,139.8	$15,200.4	$1,978.6	$9,276.7	$17,171.3
Louisiana	$83.7	$400.2	$759.4	$100.9	$478.5	$898.4
Massachusetts	$398.0	$1,879.7	$3,512.0	$473.4	$2,219.8	$4,108.6
Michigan	$178.5	$851.6	$1,611.3	$236.0	$1,112.7	$2,073.8
New York	$1,059.3	$5,027.2	$9,450.9	$1,226.7	$5,776.7	$10,753.3
Tennessee	$199.1	$937.1	$1,742.3	$1,618.5	$7,611.0	$14,135.5
Texas	$1,314.5	$6,223.3	$11,659.2	$1,618.5	$7,611.0	$14,135.5

Source: Institute on Taxation and Economic Policy
Note: For more information on the Enhanced Wealth Proceed Tax please review ITEP's report

If every state adopted a wealth proceeds tax in 2026, states could collectively generate $45.5 billion annually

Recommendations

To ensure that states can sustainably fund student-centered financial aid programs, states should adopt progressive taxation policies. Expanding traditional need-based aid and emergency aid will require additional, reliable revenue. The following recommendations can help states build a stronger and more equitable financial aid system:

Make State Tax Systems More Equitable

States should strengthen their overall tax systems to generate more revenue for higher education and state financial aid. States can do this by adding new taxes or modernizing existing tax policies so that high-income and high-wealth individuals and profitable corporations contribute according to their ability to pay.

More progressive tax systems typically have the following features:

- Graduated income tax brackets with higher marginal tax rates for high-income taxpayers and limits on tax preferences
- Targeted, refundable tax credits, like the Earned Income Tax Credit (EITC) for low- and moderate-income households
- Broad-based income taxes with fewer deductions, exemptions, and preferences that disproportionately benefit wealthy taxpayers
- Greater reliance on progressive income taxes over regressive sales, use, and excise taxes
- Less reliance on non-tax sources, like fines, fees, and service charges, which often place a disproportionate burden on lower-income households

Several states have already taken steps to make their tax systems more progressive by creating additional tax brackets for high-income households. In addition, Massachusetts, California, Hawaii, Maine, New Jersey, New York, Rhode Island, and Washington have adopted a form of millionaire's tax.

Progressive tax systems not only raise more revenue but also improve tax fairness and advance racial equity.

Adopt Progressive Revenue Sources for Higher Education and Financial Aid

States should dedicate revenue from progressive taxes to state financial aid and higher education. Massachusetts and Washington show how dedicated revenue funds can create greater transparency and protect higher education investments during economic downturns and periods of fiscal stress.

Prioritize Progressive Tax Revenue Over Regressive Revenue Sources

When raising revenue for higher education, states should prioritize progressive tax policies over regressive non-tax revenue sources such as lottery proceeds. Lottery revenue disproportionately comes from low-income households because they are more likely to purchase lottery tickets, and the cost of those purchases represents a greater share of their income than it does for higher-income households. Funding state financial aid through progressive taxation better aligns the cost of public investment with taxpayers' ability to pay.

Prioritize Need-Based, Student-Centered Financial Aid

States should strengthen their financial aid programs to prioritize students with the greatest financial need. This requires increasing award amounts to restore their purchasing power and designing programs that meet the needs of today's students — who are often from low-income backgrounds, parents, workers, and people of color — and help cover the full cost of attendance. Such programs should also ensure eligibility for justice-impacted and undocumented students.

Create Permanent Emergency Aid Grant Programs

State policymakers should create and fund permanent emergency grant programs that allocate funds to institutions, so they can provide help to students facing unexpected financial hardships. The federal HEERF grants demonstrated the value of emergency aid during the pandemic. Students who received emergency grants were more likely to stay enrolled, prioritize their academic studies over working, and afford basic necessities such as housing, food, and technology.[114]

Conclusion

State financial aid is one of the most effective tools states have to expand college access, improve completion, and strengthen their economies. Yet achieving those goals requires sustainable funding.

Progressive tax policies enable states to raise revenue for financial aid and higher education in a way that better reflects taxpayers' ability to pay. By asking high-income households, wealthy individuals, and profitable corporations to contribute more, states can strengthen need-based financial aid, establish permanent emergency aid programs, and reduce financial barriers to college enrollment and completion, which in turn fosters stronger workforces and more competitive state economies.



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EdTrust is committed to advancing policies and practices to dismantle the racial and economic barriers embedded in the American education system. Through our research and advocacy, EdTrust improves equity in education from preschool through college, engages diverse communities dedicated to education equity and justice and increases political and public will to build an education system where students will thrive.

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