Talking Points: Tax Reform and Higher Education

General background

- Tax reform presents an opportunity to enhance the educational, research, and economic contributions of colleges and universities. This can be done by maintaining and strengthening charitable giving incentives, improving higher education tax benefits and other financing provisions, protecting important employee benefits, and maintaining tax-exempt bond financing and other policies concerning tax-exempt organizations.

- Unfortunately, based on the various high-level frameworks released from policymakers and the tax reform bill proposed in 2014 by then Ways and Means Chairman Dave Camp, there are a number of tax provisions important to the higher education community that could be adversely affected during tax reform.

Charitable Giving and Endowments

- Charitable giving is vital in helping colleges and universities achieve their teaching, research and public service missions.

- Tax policy should encourage Americans to give more generously to charitable organizations, including colleges and universities.

- Current tax reform proposals would likely reduce charitable giving. The inclusion of caps, floors, and other limitations on contributions would further reduce giving to college and universities.

- Congress should include a universal charitable deduction in tax reform. Such a proposal would allow all Americans to deduct charitable gifts from their income and would increase giving to educational institutions.

- Congress should maintain the IRA Charitable Rollover. This important benefit allows donors age 70 ½ and older to donate up to $100,000 annually to charities – including colleges and universities – directly from retirement savings without tax penalties.

- Charitable donations are the primary source of endowment funds. Colleges and universities use their endowment resources for student financial aid and to support faculty, libraries, laboratories, student services, and other critical education-related activities.

- An endowment is not a single entity that can be used for any purpose like a checking or savings account. Rather, it is a permanent investment fund consisting of often thousands of separate accounts designed for the needs of the present <u>and</u> the future. The bulk of university endowments—at many institutions, 70 percent or more—are <u>restricted</u> funds that can only be spent in ways that meet the <u>legally binding</u> terms specified by the donor, enforceable under state contract law and attorneys general.

- Congress should avoid imposing federal mandates such as payout requirements or excise taxes on colleges and university endowments. Federal mandates will do more harm than good, redirecting funds away from their charitable purpose while making it more difficult for institutions to meet their legal and fiduciary obligations to donors.

Student and Family Benefits

- Colleges and universities strongly support preserving and enhancing the "three-legged stool" framework in the current tax code that:
    - **Encourages saving for higher education** (Sec. 529 Education Savings Plans, Coverdell Education Savings Accounts);
    - **Helps students and families pay for college** (American Opportunity Tax Credit, Lifetime Learning Credit, Tuition Deduction, Section 127 Employer-provided Educational Assistance, Section 117(d) Tuition Reduction, Student FICA Exemption); and,
    - **Assists borrowers in repaying student loans** (Student Loan Interest Deduction, tax component of Federal Loan Forgiveness Programs).
- We support efforts to simplify the array of current higher education tax credits and deductions that help students and families pay for college, which are overly complex and difficult to use. However, care must be taken to ensure that any changes better serve low- and middle-income traditional and nontraditional students now and in the future, helping them attain an associate, bachelor's, or graduate degree or another form of postsecondary education.
- Additionally, Section 117(d)(5) significantly lowers the cost of graduate education by enabling universities to provide many Ph.D. and Master's graduate students with a non-taxable tuition reduction while serving as teaching or research assistants, a key component of their academic training.

Campus Employees

- The code provides an incentive for employers to provide tuition benefits to their employees in order to further their career opportunities. Sec. 127–employer provided education assistance–should be enhanced to allow employers to offer higher levels of tax-favored tuition assistance to their employees. The $5,250 annual limit, which has not changed since the 1970s, should be increased with an automatic adjustment for inflation.
- Internal Revenue Code Section 117(d) permits non-profit educational institutions, including colleges and universities, to provide their employees, spouses, or dependents with tuition reductions that are excluded from taxable income. This long-standing provision helps employees and members of their families afford a college education, providing an important benefit to many middle and low-income college employees.

Higher Education Finance

- Tax-exempt bond financing, including qualified 501(c)(3) private-activity bonds, supports the missions and continued financial health of colleges and universities by providing critical resources for college and university infrastructure.
- Colleges and universities prioritize compliance with the tax code provisions concerning tax-exempt organizations, including those on unrelated business income and executive compensation. Changes to these rules must preserve the education, research and innovation, and economic activity generated by higher education.