

Colleges and Universities Encouraged to Urge Their Senators to Weigh In With Senate Finance Committee on Tax Reform

Senate Finance Committee Chairman Max Baucus (D-MT) and ranking Republican Orrin Hatch (R-UT) sent a letter last month asking for senators to provide “ideas and partnership” on tax reform. The letter said they intend to start with a “blank slate”—that is, a tax code without all of the special provisions in the form of exclusions, deductions and credits, and other preferences that some refer to as ‘tax expenditures.’” Senators are asked to “formally submit legislative language or detailed proposals” for what tax expenditures meet tests of growth, fairness, and promoting other policy objectives, and therefore should be included in a reformed tax code, “as well as other provisions that should be added, repealed, or reformed as part of tax reform.” **The deadline for senators to submit comments to the committee is Friday, July 26, 2013.**

Higher education institutions are strongly encouraged to write to their senators to ask them to express support to the Finance Committee for key tax provisions and proposals affecting students and institutions. This is an important opportunity to help ensure that the higher education community’s priorities for tax reform—preserving strong charitable giving incentives, improving student tax credits, protecting employee benefits, and maintaining tax-exempt bond financing, among other provisions—are considered as the committee develops legislation later this year.

Specifically, colleges and universities are urged to mention in their communications to their senators the issues listed below that are important to achieving their institutions’ educational, research, and service missions:

- **Education Tax Provisions:** We strongly support 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, Qualified Scholarships exemption); and,
 - **assists borrowers as they repay student loans** (Student Loan Interest Deduction, tax component of Federal Loan Forgiveness Programs) .

Our nation’s long-term economic growth depends upon a larger well-educated and trained workforce. Together these tax provisions help improve access to and completion of higher education and advance the important goal of producing enough well-trained workers essential to our economy. We believe tax reform provides an excellent opportunity to improve some of the individual provisions that will make the framework more effective for students, their families, and taxpayers repaying student loans.

We strongly support simplifying the current higher education tax credits, which are overly complex and difficult for students and their families to correctly use. Specifically, we support proposals like S. 835, the American Opportunity Tax Credit Permanence and Consolidation Act, that significantly improve the current AOTC and Lifetime Learning Credit by consolidating them into one simplified, permanent AOTC. Only undergraduate students may claim the AOTC, so if it were to be consolidated with the Lifetime Learning Credit, it is vital that the qualified tuition deduction be preserved for graduate students.

- **Charitable Giving Incentives:** For nonprofit colleges and universities, the charitable deduction is vital to generating private support to help achieve their educational missions of teaching, research, and public service. The deduction has long served as an important and effective incentive for charitable giving, which benefits both higher education as well as society in general. While private donors make gifts for many reasons, it is well established that the charitable tax deduction helps generate and sustain donations. Private donations work in concert with federal and state investments in student aid to ensure access to higher education for students irrespective of their socio-economic status. Charitable gifts also support teaching, groundbreaking research and technological innovation, and the public service activities of colleges and universities.

The charitable deduction and IRA Charitable Rollover help preserve and improve the quality of education and research at our nation's campuses by providing additional resources for financial aid and research funding. We urge Congress to preserve strong federal tax incentives for charitable donations and avoid measures that could significantly affect giving and thereby harm students, as well as the colleges and universities that serve them and our nation.

- **Employee benefits:** As large stable employers that offer robust health insurance coverage and retirement savings options to our employees, it is critical to those employees and their families that strong federal tax incentives for health coverage and retirement savings be preserved. In addition, Sections 117 and 127 permit colleges and universities to offer their employees important educational assistance. Section 127 allows all employers to offer up to \$5,250 in tuition assistance to employees annually. Section 117 allows participating colleges and universities to provide their employees (or their dependents) undergraduate tuition reduction without having to count it as taxable income. This provision is incredibly important for recruiting and retaining all of our employees. However, it is particularly helpful to employees such as administrative staff, maintenance staff, security officers, and food service workers who might not be able to afford undergraduate education for themselves or their families. In addition, it permits graduate student research and teaching assistants to receive tuition remission without tax consequences.

- **Tax-exempt Bond Financing:** One of the many ways in which the federal government invests in human capital and innovation in the United States is by granting tax-exempt status to hospitals, health clinics, colleges, universities, drug and alcohol treatment centers, and other charitable institutions whose health, public service, education, and research missions provide a wide range of societal benefits. Public universities and hospitals are typically a component of state or local governments, while independent, community-based institutions are recognized as tax-exempt organizations under section 501(c)(3) of the Internal Revenue Code. Tax-exempt bond financing available to public institutions is also referred to as municipal bonds; it is available to nonprofit colleges, universities, and hospitals as qualified 501(c)(3) private activity bonds. Higher education institutions use these financial instruments to acquire, construct, and/or expand capital infrastructure such as academic buildings, residence halls, student centers, hospitals, athletic facilities, energy plants, museums and more. We urge Congress to protect tax-exempt bond financing, including qualified 501(c)(3) private-activity bonds, which contribute to the financial health of hospitals, colleges, universities, and other charitable organizations.

Background Materials

- [Higher Ed Associations Comments on Student-related Tax Provisions to Ways & Means Committee Tax Reform Working Group on Education and Family Benefits](#)
- [Higher Ed Associations Submit Comments on the Charitable Deduction and the IRA Rollover to Ways & Means Committee Tax Reform Working Group on Charitable/Exempt Organizations](#)
- [Higher Ed Associations Submit Comments on Tax-Exempt Financing to Ways& Means Committee Working Group on Debt, Equity, and Capital](#)
- [Federal Tax Provisions Affecting Colleges and Universities](#)