ACE® American Council on Education®

Reducing Excessive Debt and Unfair Costs of Education Act of 2018 (REDUCE)

Rep. Tom Reed (NY-23)

Summary

- **Required Payouts**
    - Certain "qualified" colleges and universities will be required to pay out at least 25 percent of net investment earnings in grants per year to each "working-family student" enrolled at the institution to cover the cost of attendance.
        - "Working-family student " is defined as a student with a family income between 100 and 600 percent of the poverty line.
        - "Qualified institution of higher education" is defined as an educational institution with at least 500 tuition-paying students; where more than 50 percent of these students are located in the United States; that has an aggregate fair-market value (FMV) of assets of at least $500,000 per student' and that has less than the applicable percentage of undergraduates receiving federal Pell Grants.
        - "Required payout" is defined as an amount equal to 25 percent of the average net investment income for that taxable year and the preceding six taxable years.
        - "Net investment earnings" is defined as the difference between the FMV of the endowment's assets at end of previous year minus the FMV of the second preceding year, subtracting any contributions received during that year but adding any spending.

- **Tax on Undistributed Required Payouts**
    - The bill proposes a 1.4 percent excise tax on "undistributed required payout" amounts of a qualified higher education institution.
    - This proposal also imposes an additional 30 percent tax on any portion of the undistributed required payout amount that remains one year after the initial 1.4 percent tax was imposed, and an additional 100 percent tax on the remaining amount after two years.
    - Generally, the assets and investment income of related organizations will be included in the educational institution's assets and investment income. Two exceptions:
        - Institutions that award grants to each working-family student enrolled to cover cost of attendance **will not be taxed** on undistributed required payout during that year, as well as where the undistributed required payout is 1 percent or less of the required payout or less than $250,000.

- **Suspension of Deductible Contributions**
  - For the year following failure to meet the payout requirement, donors may **not** receive a deduction for any contribution to an institution during contribution suspension period.
  - IRS will publish notice of institutions subject to contribution suspension.

- **Special Rules for Contributions to Institutions of Higher Education**
  - The deduction for contributions **restricted** to a use **other** than scholarships will be limited to $5,000.
  - For unrestricted contributions, the deduction will be increased by 25 percent of the donation; and
  - For contributions restricted to scholarships for working-family students, the deduction will be increased by 50 percent of the donation.

- **Excise Taxes on Restricted Donations to Higher Education Institutions**
  - Any distribution from a donor-advised fund which is restricted to a use other than scholarships will be treated as a taxable distribution, subject to a 100 percent tax.
  - Any restricted distribution from a private foundation shall be a taxable expenditure, subject to 100 percent tax.

- **Requirements for Tax Exempt Status of Qualified Higher Education Institutions**
  - To qualify for Section 501(c)(3) tax-exempt status, higher education institutions will be required to submit and post on their website a 5-year plan designed to ensure that tuition increases do not exceed Urban-CPI, describes any failure to achieve such goals (in the proceeding 5-year plan) and outlines steps to address such failures, and identifies areas where costs are projected to increase the most and steps to address such costs.
  - The plan also must include, inter alia, salaries paid at the institution, fees paid for investment management, a "long-term spending plan," and the institution's investments.
  - **In addition, a qualified higher education institution will <u>not</u> qualify for (c)(3) tax exempt status unless:**
    - **at least 20 percent of the students at the institution are eligible for a Pell Grant; and,**
    - **at least 50 percent of the students have household incomes that do not exceed 600 percent of the poverty line.**

- **Transparency and Consumer Information:**
  - Institutions also are required to annually submit a report regarding the net tuition for each working-family student at the institution;
  - The Higher Education Act is amended to require certain information be made publicly available on an institution's website, including:

        - the number of employee’s managing school’s investments as well as their salary and other compensation;
        - expenses incurred managing such investments;
        - total institutional aid provided to students;
        - the number of students whose parents or grandparents provided more than $100,000 during a 4-year period or $500,000 in aggregate; and,
        - the number of students whose parents or grandparents graduated from the institution.

- **Pell Grant Funding**
    - Revenue generated by taxes imposed under the bill will be used to increase funding for the Pell Grant Program