

TAX REFORM AND HIGHER EDUCATION

What Students, Families, and Institutions Need to Know

Senate Tax Reform Bill Brief Summary

The Senate released its version of the Tax Cuts and Jobs Act (H.R. 1) on Thursday, Nov. 9, one week after the House released its tax reform bill. The Senate tax bill avoids some of the devastating \$65 billion of cuts to students and families included in the House bill. The Senate bill:

- retains the American Opportunity Tax Credit (AOTC), without expansion (like the House bill);
- preserves the Lifetime Learning Credit (LLC) and Hope Scholarship Credit;
- preserves the Student Loan Interest Deduction;
- preserves Qualified Tuition Reductions (Sec. 117 (d) and 117 (d)(5)) for campus employees and graduate students;
- preserves employer-provided education assistance (Sec. 127); and,
- preserves tax-exempt Private Activity Bonds for private colleges and universities.

However, the Senate bill also contains a number of changes that will negatively affect higher education, including:

- **Impact on Charitable Giving:** Doubles the standard deduction for individuals and couples, which will reduce the number of taxpayers who itemize, significantly reducing the value of the charitable deduction, and lead to a drop in donations to colleges and universities.
- **Deduction of College-Age Dependents:** Under current law, taxpayers may claim a deduction (\$4,050 in 2017) from income for each dependent. Dependents are typically the taxpayer's children who are 18 years old or younger. A taxpayer's dependent children age 19 to 23 who are full-time college students also qualify for this deduction. The House bill eliminates all personal exemptions (in favor of higher standard deductions).
- **1.4 Percent Excise Tax on Certain Private College/University Endowments:** A 1.4 percent excise tax on investment income for private college and university endowments with a value of at least \$250,000 per each student and at least 500 full and part-time students. (same as the House).
- **Repeal of Advance Refunding Bonds:** Elimination of an important financing tool that allows institutions—public and private—with an important tool for refinancing outstanding debt at lower interest rates and generates significant interest savings over decades, lowering costs for capital projects, such as dorms, classrooms, and research facilities (same as the House).
- **Executive Compensation:** For tax-exempt organizations (including colleges and universities), a 20 percent excise tax on compensation above \$1 million paid to any of its five highest paid employees; would also apply to excess parachute payments paid to such individuals (same as the House).
- **Unrelated Business Income Tax (UBIT):** The bill contains several proposals that would increase UBIT owed by many colleges and universities including: treating name and logo royalties as unrelated business taxable income and computing unrelated business taxable income separately for each trade or business in a so-called “basketing” fashion.