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June 4, 2019

The Honorable Tim Scott
United States Senate
104 Hart Senate Office Building
Washington, DC 20510

The Honorable Maggie Hassan
United States Senate
325 Hart Senate Office Building
Washington, DC 20510

RE: S. 1667, Tax Relief for Student Success Act

Dear Senators Scott and Hassan:

I am writing today to thank you for introducing S. 1667, the *Tax Relief for Student Success Act*, a bill to amend the Internal Revenue Code of 1986 to treat certain scholarships as earned income for the purposes of the so-called "kiddie tax." As you noted in introducing this important legislation, it represents a bipartisan fix to correct changes made to the kiddie tax in the Tax Cuts and Jobs Act of 2017 (TCJA) that inadvertently causes harm to many low- and middle-income students who rely on scholarship aid to pay for their college education.

We strongly support this legislation, which would limit the tax liability of students by treating the portion of scholarship aid devoted to non-tuition expenses as a form of earned income that is taxed at the student's individual income tax rate rather than the trust/estate rate or even their parent's rate. We appreciate your attention to this issue and stand ready to work with you to advance this legislation or to support similar provisions included in the recently passed House SECURE Act now before the Senate.

As you are aware, college scholarships and grants have been exempt from federal income tax since 1986 if they are used to pay for tuition, required fees, books, supplies, and equipment. However, scholarships and grants for non-tuition expenses like room and board are taxed as a form of unearned income for some students under the kiddie tax.

Prior to the TCJA, children subject to the kiddie tax had their net unearned income (total unearned income less $2,100) subject to the marginal tax rate of their parents, which for low-income students is almost always low. The TCJA changed the rate rules for the tax, which applies to full-time college students under age 24. Instead of taxing a child's net unearned income at his or her parent's rates, the kiddie tax now applies the rates used for trusts and estates, which are higher and highly compressed compared to tax rates for individual income filers.

Unfortunately, these changes to the kiddie tax sharply increased the tax levied on the portion of scholarships set aside for expenses such as room and board that colleges and universities award to students from families of little or modest means. These students now are being taxed at the same rates as wealthy individuals.

Consider the impact on a full-time undergraduate student, claimed as a dependent by her parents, who have an income of $50,000 a year and jointly file as a married couple. In this example, the student receives a full scholarship for the total cost of the education at a university, which includes tuition, room and board, books, and supplies.

Roughly $11,500 of the scholarship is subject to taxation, because it pays for room and board and similar expenses. If that money was taxed under the same 12 percent rate that applies to the student's parents' regular income, the amount owed would be less than $1,400. But because it is taxed at the much higher trust and estates rates, the amount owed is more than $2,600, an 85 percent increase.

Need-based academic scholarship students are not the only ones impacted by the amended kiddie tax. College athletes on full scholarships, many of whom come from economically disadvantaged families, are also impacted by the changes. Overall, based on Department of Education data, the increased tax on scholarship/grant aid could affect nearly 1.4 million students and their families. Moreover, the problems caused by the change to the kiddie tax extend beyond higher education and include some "Gold Star" families receiving survivor benefits and others.

Thank you again for your work on this issue.

Sincerely,

Ted Mitchell
President