February 19, 2003

The Honorable Charles Grassley
Chairman
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Grassley,

On behalf of the Association of American Universities (AAU), an organization of 62 leading public and private research universities, I write to highlight two changes in tax policy that our members seek.

First, I wish to thank you for your leadership on the Charity Aid, Recovery, and Empowerment Act (CARE) Act, and specifically the inclusion of the so-called Individual Retirement Account (IRA) charitable rollover provision that will encourage IRA holders to make donations to charities from their retirement savings. If this provision were to become law, it would provide a valuable new way for charities, including colleges and universities, to receive charitable gifts. AAU is grateful for the inclusion of the IRA charitable rollover in the CARE Act and we support your efforts to enact this legislation.

Second, I urge you to support allowing favorable tax treatment for undergraduate and graduate students who receive scholarships, fellowships, or grants. Currently, under Section 117 of the Internal Revenue Code (IRC), only the portion of funds received in the form of a scholarship, fellowship, or grant that is used for the payment of tuition and required fees, books, supplies, and equipment is excluded from gross income and thereby is not subject to taxation if the recipient is a candidate for a degree at a primary, secondary, or post-secondary educational institution. However, amounts used for living expenses, including room and board, are not excludable from income and are therefore subject to taxation. This unfavorable tax treatment applies to all forms of grant...
assistance, including Federal Pell Grants and fellowships for graduate students provided by the National Institutes of Health and the National Science Foundation.

Unlike scholarships, fellowships, and grants, other forms of Federal educational assistance provide favorable tax treatment for qualified higher education expenses as defined by the Department of Education, which include limited living expenses, such as room and board. One example is that amounts withdrawn from a Coverdell education savings account under Section 530 of the IRC receive favorable tax treatment if the distributions do not exceed the amount spent on qualified higher education expenses, including room and board.

This uneven tax treatment of different types of Federal educational assistance imposes an additional tax on certain students based on the form of education assistance received. In addition, this uneven treatment creates unneeded complexity and administrative burdens on schools and students and undermines the policy and goals of student aid.

AAU supports introduction of legislation that would provide that amounts received as part of a scholarship, fellowship or grant be excluded from income if used for qualified higher education expenses.

Thank you once again for your leadership on the IRA charitable rollover. We hope you can give your support to modifying Section 117 to benefit students.

Cordially,

Nils Hasselmo
President

February 19, 2003

The Honorable William Thomas
Chairman
House Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Thomas,

On behalf of the Association of American Universities (AAU), an organization of 62 leading public and private research universities, I write to highlight two changes in tax policy that our members seek.

First, I urge you to continue to support the so-called Individual Retirement Account (IRA) charitable rollover provision that will encourage IRA holders to make donations to charities from their retirement savings. If this provision were to become law, it would provide a valuable new way for charities, including colleges and universities, to receive charitable gifts. AAU is grateful for the inclusion of the IRA charitable rollover in the Charity Aid, Recovery, and Empowerment Act (CARE) Act recently approved by the Senate Finance Committee, and we urge you to include this provision in charitable giving legislation that the Ways and Means Committee might consider.

Second, I urge you to support allowing favorable tax treatment for undergraduate and
graduate students who receive scholarships, fellowships, or grants. Currently, under Section 117 of the Internal Revenue Code (IRC), only the portion of funds received in the form of a scholarship, fellowship, or grant that is used for the payment of tuition and required fees, books, supplies, and equipment is excluded from gross income and thereby is not subject to taxation if the recipient is a candidate for a degree at a primary, secondary, or post-secondary educational institution. However, amounts used for living expenses, including room and board, are not excludable from income and are therefore subject to taxation. This unfavorable tax treatment applies to all forms of grant assistance, including Federal Pell Grants and fellowships for graduate students provided by the National Institutes of Health and the National Science Foundation.

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AAU supports introduction of legislation that would provide that amounts received as part of a scholarship, fellowship or grant be excluded from income if used for qualified higher education expenses.

Thank you once again for your leadership on the IRA charitable rollover. We hope you can give your support to modifying Section 117 to benefit students.

Cordially,

Nils Hasselmo
President