

## Higher Ed Tax Proposals – Coronavirus Relief Package

- **Scholarship/Grant Aid:** Since 1986, scholarships and/or grant aid used on non-tuition expenses like room and board are taxed as a form of unearned income. Temporarily suspending the taxability of scholarship and/or grant aid would permit low and middle-income students to retain more of this aid which they rely on to pay for their college education. To limit the cost, this could be narrowed just to Pell Grant taxability;
- **Lower Institutional Debt Service Costs:** Temporarily reinstitute Advance Refunding Bonds, which were eliminated in the Tax Cuts and Jobs Act (TCJA). This would permit schools to take advantage of lower interest rates to reduce their debt service costs. While this would potentially help all institutions, it may be particularly helpful to teaching hospitals;
- **Encourage More Charitable Giving:**
  - **Temporary Universal charitable tax deduction.** After the passage of TCJA, the charitable giving deduction became a less effective giving incentive as fewer tax payers now itemize their taxes. A temporary universal charitable tax deduction – widely supported by the charitable community - would provide an above-the-line deduction for **all** taxpayers who make a charitable gift and thus bolster the charitable giving incentive in a time of incredible need;
  - **Temporary suspension of charitable contribution limits.** The charitable tax deduction claimed by a taxpayer each tax year is generally limited to no more than 50% of the taxpayer's adjusted gross income, unless a taxpayer gives only cash in which case the limit increases to 60% of AGI. The proposal would temporarily suspend the limitations in 2020 to encourage additional charitable giving. This policy has previously been used in relief packages following major natural disasters e.g. Natural Disasters Tax Relief Act, H.R. 1148.
- **Modify higher ed tax credits:**
  - **American Opportunity Tax Credit (AOTC)** - possible options:
    - Increase credit per year from \$2,500 to \$3,000;
    - Increase refundability from 40% to 60%;
  - **Lifetime Learning Credit (LLC):**
    - Modify credit to cover 100% of the first \$2,000 of the AOTC eligible expenses; Currently, LLC covers 20 percent of up to \$10,000 of annual eligible expenses (maximum credit of \$2,000).
- **Repeal private institution Investment Income Excise tax (Endowment tax):** Private college/university endowments permanently hold charitable gifts from private donors to support a range of purposes such as student financial aid, teaching, and research. In the face of the enormous detrimental impact of Covid-19 on higher education, now is the time to repeal the so-called endowment tax to ensure that the money paid in the excise tax can be used to address the enormous harm to students and institutions caused by the pandemic.

- **Suspend TCJA so-called “basketing” UBIT rules for tax-exempt:** The Tax Cuts and Jobs Act imposed new Unrelated Business Income Tax (UBIT) rules that require tax-exempt entities, such as colleges and universities, to calculate all unrelated business losses and gains by activity – the so-called “basketing” rule –rather than in the aggregate (something not applicable for corporate or for-profit entities). The “basketing rule” results in costly administrative and regulatory burdens on colleges and universities, which results in fewer resources for student financial aid, teaching, and research. In the midst of the Covid-19 crisis, repeal of the “basketing” rule would lessen this costly burden and help ensure that institutions can use those savings where they are needed now for students and to help recoup other revenue losses.