

## Side by Side Comparison – Reducing Excessive Debt and Unfair Costs of Education Act (“REDUCE Act”)

Provision	Current Law	Draft - REDUCE Act of 2017	REDUCE Act of 2018
<b>Excise Tax on Undistributed Required Payouts from Endowments of Certain Institutions of Higher Education</b>	<p>Under current law, a 1.4% excise tax is imposed on the net investment income of an applicable educational institution.</p> <p><b>Applicable educational institution</b> is defined as an educational institution with at least 500 tuition paying students, where more than 50% of such students are located in the US, is not a State college or university, and has an aggregate fair market value of assets of at least \$500,000 per student.</p>	<p>The bill proposes a 30% excise tax on “undistributed required payout” amounts of a qualified higher education institution.</p> <p>This proposal also imposes an additional 100% tax on any portion of the undistributed required payout amount that exists one year after the initial 1.4% tax was imposed.</p> <p>Exceptions:</p> <ul style="list-style-type: none"> <li>• Complete payments for degree-seeking working family students</li> <li>• If the undistributed required payout is 1% or less of the required payout or less than \$250,000</li> </ul> <p><b>Qualified higher education institution</b> is defined as any institution described in Section 101 of the Higher Education Act of 1965 and for which the aggregate fair market value of all endowments is, on the first day of the last two years, at least \$1,000,000,000.</p> <p><b>Undistributed Required Payout</b> is defined as the amount by which 25% of the average net investment income of an institution for the tax year and the preceding 6 years exceeds grants to working-family students.</p>	<p>The bill proposes a 1.4% excise tax on “undistributed required payout” amounts of a qualified higher education institution.</p> <p>This proposal also imposes an additional 30% tax on any portion of the undistributed required payout amount that exists one year after the initial 1.4% tax was imposed, and an additional 100% tax after two years.</p> <p>Generally, the assets and investment income of related organizations will be included in the educational institution’s assets and investment income.</p> <p>Exceptions:</p> <ul style="list-style-type: none"> <li>• Complete payments for degree-seeking working family students</li> <li>• If the undistributed required payout is 1% or less of the required payout or less than \$250,000</li> </ul> <p><b>Qualified higher education institution</b> is defined as an educational institution with at least 500 tuition paying students, where more than 50% of such students are located in the US, has an aggregate fair market value of assets of at least \$500,000 per student, and less than the applicable percentage of undergraduates received Federal Pell Grants.</p> <p><b>Undistributed Required Payout</b> is defined as the amount by which 25% of the average net investment income of an institution for the tax year and the preceding 6 years exceeds grants to working-family students.</p>

<b>Deduction of Charitable Contributions</b>	<p>Taxpayers may take an itemized deduction for charitable contributions limited to 60% of adjusted gross income for cash and capital gain property contributions to public charities and certain private foundations.</p>	<p>No deduction shall be allowed for any contribution to an organization during a contribution suspension period (i.e., the 1-year period for which there is an undistributed required payout).</p> <p>Under Section 170, deductions for individuals' contributions to higher education institutions that are restricted to a use other than scholarships, are limited to \$5,000.</p> <p>If the contribution is unrestricted, the amount taken into account for the deduction is limited to 25%.</p> <p>If the contribution is restricted to scholarships for working-family students, the amount taken into account for the deduction is limited to 50%.</p>	<p>No deduction shall be allowed for any contribution to an organization during a contribution suspension period (i.e., the 1-year period for which there is an undistributed required payout).</p> <p>Under Section 170, deductions for individuals' contributions to higher education institutions that are restricted to a use other than scholarships, are limited to \$5,000.</p> <p>If the contribution is unrestricted, the amount taken into account for the deduction is limited to 25%.</p> <p>If the contribution is restricted to scholarships for working-family students, the amount taken into account for the deduction is limited to 50%.</p>
<b>Requirements for Tax Exempt Status of Qualified Institutions of Higher Education</b>	<p>A higher education institution must meet certain requirements in order to qualify for tax-exempt status under Section 501(c)(3).</p>	<p>Generally, a higher education institution will not qualify for Section 501(c)(3) tax-exempt status, unless it submits a plan which ensures increases in the cost of education do not exceed the percentage increase in the Consumer Price Index.</p> <p>In general, it will include a report detailing salaries, fees for investment management, long-term spending plans, and the institutions investments.</p>	<p>Generally, a higher education institution will not qualify for Section 501(c)(3) tax-exempt status unless it submits a 5-year plan which ensures increases in the cost of education do not exceed the percentage increase in the Consumer Price Index, describes any failures to achieve such goals, and identifies areas in which costs are projected to increase.</p> <p>In general, it will include a report detailing salaries, audited financial statements, fees for investment management, long-term spending plans, and the institutions investments.</p> <p>20% of its students must be eligible to receive a Federal Pell Grant, and 50% of its students must have a household income less than or equal to 600% of the poverty line.</p>

<b>Excise Tax on Restricted Donations to Higher Education Institutions</b>	<p>A 20% tax is imposed on each taxable distribution of a donor advised fund.</p> <p>A 20% tax is imposed on any taxable expenditure of a private foundation.</p>	No provision.	<p>Any distribution restricted to a use other than scholarships (i.e., a “restricted distribution”) to a higher education institution from a donor advised fund shall be treated as a taxable distribution, subject to a 100% tax.</p> <p>Any restricted distribution from a private foundation to a higher education institution shall be a taxable expenditure, subject to 100% tax.</p>
<b>Disclosures Required with Respect to Net Tuition</b>	No provision.	Higher education institutions shall disclose the amount of excess for each working-family student of the cost of attendance over the grants from the institution received by the student each year to the IRS.	<p>Higher education institutions shall disclose the following information to the IRS each year:</p> <ol style="list-style-type: none"> <li>1. The amount of excess for each working-family student of the cost of attendance over the grants from the institution received by the student; and</li> <li>2. The number of students enrolled at the institution.</li> </ol>
<b>Federal Pell Grant Program Funding</b>	Section 401 of the Higher Education Act establishes Federal Pell Grants.	No provision.	This proposal increases the funding for the federal Pell Grant program by the amount in increased receipts to Treasury due to the 1.4% excise tax on private college and universities investment income.
<b>Consumer Information</b>	The Higher Education Act of 1965 requires certain information be made publicly available on its website.	No provision.	<p>The Higher Education Act of 1965 is amended to require the following information be made publicly available on its website:</p> <ol style="list-style-type: none"> <li>1. Total number of employees managing the educational institution’s investments;</li> <li>2. Salary and other compensation of employees managing the educational institution’s investments;</li> <li>3. Total expenses for managing the educational institution’s investments;</li> <li>4. Total institutional aid provided to students by the institution;</li> <li>5. The number of students whose parents or grandparents provided more than \$100,000 during a 4-year period or \$500,000 in aggregate to the institution; and</li> <li>6. The number of students whose parents or grandparents graduated from the institution</li> </ol>