



**National Association of College and University Business Officers  
Statement on Comprehensive Tax Reform  
for the  
United States Senate Committee on Finance  
July 17, 2017**

The National Association of College and University Business Officers (NACUBO) appreciates the opportunity to comment on the federal tax system and current ideas and proposals under consideration for reform. NACUBO represents college and university business officers at more than 2,100 public and nonprofit colleges and universities. We are dedicated to sound fiscal and administrative practices at institutions of higher education.

The higher education sector—which includes colleges large and small and with a variety of missions including theological seminaries, music conservatories, religious institutions, liberal arts colleges, community colleges, and comprehensive research universities—could be uniquely and adversely impacted by the wide-ranging scope of proposed tax changes. A comprehensive tax reform package could conceivably impact students and their families, the higher education workforce, and the fundamental business operations of colleges and universities.

NACUBO supports the overarching goals that tax writers have expressed for reform—simplifying the tax code, ensuring fairness, and promoting economic growth. However, the aftereffects of enacting wholesale changes to our nation’s colleges and universities could be considerable.

There are more than 3,300 public and nonprofit colleges and universities in the U.S., educating nearly 19 million students, engaging in more than \$67 billion in research and development, and contributing to a vast array of public service endeavors. College graduates contribute significantly to our economy in numerous ways—data shows that they earn significantly more than high school graduates, and many rewarding occupations require postsecondary education. Research also demonstrates that educational attainment is correlated with health, longevity, satisfaction with work, and civic engagement.

We recognize your challenges ahead as our members’ daily work involves balancing expectations and costs. We urge lawmakers to closely examine the potential consequences of tax reform proposals that have emerged in recent years and to weigh the implications for America’s diverse and robust system of higher education. Without careful consideration, tax policy changes could significantly alter both revenue streams and expenditures at institutions of higher education and put undesirable upward pressure on tuition and fees.

We have organized our priorities into these areas:

1. Financing Tax-Exempt Organizations
2. Employee Tax Benefits
3. Student and Family Education Tax Benefits

## Financing Tax-Exempt Organizations

NACUBO fully recognizes that the cost of college and students' ability to pay has gained the national spotlight in the aftermath of the 2008 financial crisis. Headlines tend to isolate and oversimplify the problem as rising tuition leading to student debt. However, what fails to make headlines is the cost of providing the quality education that American colleges and universities take pride in and for which they are recognized globally. Our members, college and university fiscal officers, approach their institutions' balance sheets—addressing revenues and expenses— with a goal of keeping the cost burden low while making necessary investments to meet their institutional missions and objectives, from education, research, and service to student access, persistence, and completion.

Institutions of higher education across the nation have adjusted their business models in light of both macro- and micro-economic forces and with an eye on student affordability. Institutions have put significant “skin in the game” with historically low tuition increases, significant investment in institutional aid, and reductions in costs through operational efficiency initiatives. In response to demand from students, families, and the public, institutions also have invested in programming with a focus on persistence, completion, and student well-being.

Contrary to popular belief, the 2016 College Board *Trends in College Pricing* report shows that average published tuition and fees in the public four-year sector in recent years reflect the smallest current dollar increases since the mid-1970s. Further, the average net tuition and fee price at private nonprofit four-year institutions was lower in 2016-17 than in 2006-07 because the increase in average grant aid and tax benefits was larger than the increase in published prices. According to the 2016 College Board *Trends in Student Aid* report, in 2015-16, institutions provided an estimated \$43 billion in grant aid to undergraduate students.

Tax-exempt and nonprofit status enables colleges and universities to respond to their respective stakeholders, and they count on charitable giving, endowments, and tax-exempt bond financing to help minimize the pressure to increase tuition, as well as to boost their ability to provide institutional aid and deliver on expectations.

## Charitable Giving

It is unlikely the government could find a better way to leverage private investment than with the charitable deduction. With limited funding from federal and state governments and pressure to limit tuition increases, raising private support is crucial for colleges and universities. From small colleges to large universities, charitable giving helps fuel commitments to provide an affordable, quality education.

The proposal to double the current standard deduction threshold would result in the reduction of number of taxpayers who itemize their tax returns (from roughly 30 percent of taxpayers to 5 percent) and would effectively eliminate the charitable deduction for 95 percent of Americans. A recent study conducted by Indiana University's Lilly Family School of Philanthropy estimates that the current tax reform proposals being discussed would decrease charitable giving by \$13.1 billion in the first year after enactment.

- **NACUBO supports enactment of a universal, or above-the-line, charitable deduction that would allow all American taxpayers to subtract their charitable gifts from their income before they determine whether to take the standard deduction or itemize their tax returns.**

The same study found that the inclusion of the universal charitable deduction in tax reform would result in a \$4.8 billion increase in charitable giving at a modest cost to the federal government.

## Endowments

Endowed funds—at colleges, universities, private secondary schools, nonprofit hospitals, arts organizations, museums, churches and many other private 501(c)3 organizations—represent the institution or organization’s promise to donors to use income and investment gains generated by their gifts to support an aspect of the organization’s mission, usually in perpetuity. Nonprofits organizations, large and small, maintain endowments or other reserves that enable them to respond to unforeseen changes or seize new opportunities in pursuit of their respective missions.

At postsecondary institutions, endowments are critical for student financial aid (scholarships), but they also serve as funding sources for faculty, libraries, laboratories, campus housing, student services, and other components that are key to a student’s education. Endowments also support research and public service missions, such as innovations in nanotechnology, medical research, or university-based youth and community development programs.

There has been some focus in recent months on endowment spending for student aid, with little recognition that endowment spending on other operational areas relieves tuition pressure. In other words, covering non-scholarship institutional costs with endowment payouts eases pressure to increase tuition revenue.

While endowment managers are obligated to support current students, they must also balance asset management goals to ensure support for tomorrow’s students. These two competing principles have been the guide stars of asset management for endowments since the Uniform Management of Institutional Funds Act (UMIFA) became law in nearly all U.S. jurisdictions.

Even with the fiduciary obligation to ensure endowed funds last into perpetuity, the *NACUBO-Commonfund Study of Endowments* shows that 74 percent of institutions increased dollar spending in 2016, and the median increase was 8.1 percent— despite overall negative returns for that year. This spending increase is attributable in large part to the way endowments are managed for the long-term.

### ➤ **NACUBO objects to the endowment excise tax proposed in the House Tax Reform Act of 2014.**

Such a tax, as well as other emerging proposals, would result in fewer dollars available for scholarships, students, research, and college and university operating expenses. Further, the proposals represent a departure from the current federal commitment to philanthropic freedom—the right of Americans to choose how and where to spend their charitable assets.

## Tax-exempt Bond Financing

Institutions use municipal bonds and qualified 501(c)3 private activity bonds to acquire, construct, and renovate infrastructure such as hospitals, academic buildings, residence halls, athletic facilities, energy plants, and more. In 2016, higher education bond sales reached \$18.4 billion. Proposals that increase borrowing costs can result in diminished investments in infrastructure, fewer jobs, reduced services, and higher fees.

- **NACUBO requests that lawmakers protect and maintain tax-exempt bond financing, including qualified 501(c)(3) private-activity bonds. Access to these bonds contributes significantly to the financial health of colleges and universities across the United States.**

We recognize that tax writers may explore alternative proposals, such as Build America Bonds (BABs). NACUBO is open to considering other direct pay programs. Should BABs be reinstated in some form, we support expanding eligibility to include private 501(c)(3) institutions.

### Unrelated Business Income

Contrary to the term *tax-exempt organization*, nonprofit entities are subject to normal corporate tax rates on certain activities as a result of “unrelated business income.” Whether an activity is subject to the unrelated business income tax (UBIT) is determined through a three-part test that asks: is it a trade or business; is it regularly carried on; and is it substantially related to the exempt organization’s mission? There are also several categories of activities that, by statute, are not treated as unrelated business income.

- **NACUBO objects to the House Tax Reform Act of 2014 proposals to treat name and logo royalties as unrelated business taxable income; modify rules concerning qualified sponsorship payments; and compute unrelated business taxable income separately for each trade or business.**

NACUBO firmly believes that colleges and universities, whose primary missions are related to education, research, and service, should pay taxes on unrelated business activities that do not meet the criteria of the statute. However, record-keeping and reporting guidelines must be fair and not unduly burdensome.

### Employee Tax Benefits

Not only do institutions of higher education prepare tomorrow’s workforce, but they must also attract qualified employees and maintain skilled workforces of their own. A number of tax reform proposals have been floated that relate to employment, particularly in the area of employee benefits. NACUBO is highlighting three in particular:

#### Section 127

NACUBO is a member of the Coalition to Preserve Employer-Provided Education Assistance (Section 127 Coalition) and agrees with their recommendations to this Committee.

- **NACUBO supports the preservation of Section 127. Further, NACUBO supports proposals that emerged in the last session of Congress to expand and improve the benefit by increasing the \$5,250 limit, expanding the eligible uses to include loan repayment, and allowing the benefit to be available to spouses and children of employees.**

When it was enacted as an expiring tax benefit in 1978, Section 127 was intended to allow employers to completely cover the cost of higher education. Unfortunately, the benefit amount of \$5,250 annually has not been increased in almost 40 years.

## Section 117(d)

Section 117(d) is an important tool for recruiting and retaining employees at institutions of higher education.

- **NACUBO supports preserving Section 117(d), which permits educational institutions, including colleges and universities, to provide employees and their spouses or dependents with tuition reductions that are excluded from taxable income.**

The benefit is widely used and particularly important to many middle and low-income employees. A 2017 survey of nearly 300 institutions by the College and University Professional Association for Human Resources found that 50 percent of campus employees receiving tuition reductions for themselves or family members earned \$50,000 or less, and 78 percent earned \$75,000 or less.

## Student FICA

Campus jobs are a means to help students to meet daily expenses—without interfering with student success. The federal government has been a partner in supporting student workers for more than 70 years, as the 1935 Federal Insurance Contributions Act exempted students pursuing their education from a payroll tax and has helped college students stretch their earned income.

- **NACUBO supports the Student FICA exception.**

This policy provides an important, indirect form of financial aid by excluding student “self-help” from the burden of FICA tax and ultimately provides the U.S. with a well-educated labor pool. Not only will imposing the tax be costly to working students as they complete their education, but it would also cut college and university operating funds and, potentially, financial aid resources.

## Student and Family Education Tax Benefits

### Saving for College

Saving for college puts time on the side of students and families and is an important part of many families’ financial planning strategy. They are likely to benefit from potential earnings from investing and may also ultimately borrow less for their education.

- **NACUBO supports preserving the tools that encourage and help families save for college—Coverdell Education Savings Accounts and Section 529 College Savings Plans.**

Coverdell Education Savings Accounts (ESAs) allow parents and students to save for education expenses. While the contributions to a Coverdell ESA are not deductible, the amounts deposited grow tax free until distributed. The student will not owe taxes on the distributions if they are less than the student’s qualified educational expenses.

Section 529 College Savings Plans encourage states and institutions to develop and promote robust savings plans; states often provide their own additional tax incentives. Qualified distributions from 529 plans for qualified higher education expenses are exempt from federal income tax.

## Paying for College

- **NACUBO supports simplifying and adjusting the incentives that help students and families pay for college and employers build a skilled workforce.**

Taxpayers would benefit from simplification of the current system through the creation of a single, permanent tax credit with automatic inflation adjustments, making them easier to use and more effective. A single, permanent, refundable credit, available beyond the first four years of college, would negate the need for the separate higher education provisions, which currently include the American Opportunity Tax Credit and the Lifetime Learning Credit.

Further, more should be done to make it easier for students to claim education benefits. Since the inception of the education tax credits, there has been widespread taxpayer confusion, misapplication of the rules by Internal Revenue Service agents carrying out individual audits, and misinterpretation of amounts reported on the Form 1098-T by professional tax preparers and tax preparation software programs. As tax writers revisit the education credits, they should consider that the Form 1098-T will only ever serve as a momentary snapshot of a student's account, rather than a "plug-and-play" number that accurately reflects what amounts the taxpayer may claim for a credit.

- **NACUBO supports expanding the Student Loan Interest Deduction.**

Currently, the Student Loan Interest Deduction allows certain individuals to deduct up to \$2,500 in student loan interest, with a phase-out for certain taxpayers. Recent federal actions have increased the borrowing costs for students and recent graduates by implementing interest charges for graduate students while they are in school and by eliminating the six-month interest forgiveness college graduates have traditionally received. With these increased loan costs, the deduction for student loan interest becomes even more important and should be expanded.

## Conclusion

The value of a college education to an individual over a lifetime is considerable. But higher education institutions themselves, as well as an educated populace, play significant and beneficial roles in our communities, our society, and our economy. As a result, postsecondary institutions are responding simultaneously to calls to increase the share of Americans who have a college degree and to criticisms and concerns with college prices and costs.

NACUBO urges tax writers to consider the financial and nonfinancial returns with each of the issues we have outlined above and to recognize how they enable our institutions to take steps to ensure students from all backgrounds have access to college, regardless of their ability to pay.

The aggregate impact of the various tax reform proposals currently under consideration could have a disruptive impact on our nation's institutions of higher education, impacting budgeting and planning at colleges and universities, large and small, with detrimental effects on both revenue streams and expenditures. Changes to student and family education tax credits could impact the enrollment outlook across all sectors; transformation of the charitable giving landscape and modifications to the treatment of endowment earnings could reduce funds available both for student aid and operating expenses; and

the elimination of access to tax-exempt bond financing and removal of long-standing employee benefit programs could have a significant effect on the higher education workforce and would increase costs in the two most significant budget areas at colleges and universities: human resources and capital and facilities expenditures.

NACUBO thanks the committee for the opportunity to provide comments. We appreciate your interest in our views and look forward to working with you as the process moves forward.