



**April 15, 2015
Statement for the
United States Senate
Senate Finance Committee
Working Group on Business Income Tax**

The National Association of College and University Business Officers offers the following comments for consideration by the Senate Finance Committee Working Group on Business Income Tax on behalf of the undersigned associations.

We appreciate the Senate Finance Committee's exploration of options to reform the U.S. tax system and are eager to contribute to the robust discussion on possible directions as you seek efficiencies, fairness and simplicity in the tax code. Our institutions are complex organizations and we do not intend to comprehensively cover the tax law governing colleges and universities. Rather, with this brief paper submitted to the working group on business income tax, our aim is to simply open the conversation.

One of the many ways in which the federal government invests in human capital and innovation in the United States is by granting tax-exempt status to colleges and universities whose education and research missions contribute to wide-ranging societal benefits. Public universities are typically run by state governments, while private, or independent, institutions are nonprofit 501(c)(3) tax-exempt organizations.

Postsecondary education has long been recognized as a public good. Not only do access and success in higher education by U.S. citizens enhance global competitiveness, but individuals and society as a whole benefit in myriad ways. College-educated citizens are more likely to vote, volunteer in their communities, live healthier lifestyles, and are more likely to be employed and less likely to be dependent on federal, state and local income support programs.¹ Research by graduate students and graduate degree holders in science, medicine, health, education and the arts and humanities contributes directly to the groundbreaking discoveries, inventions and innovation which result in sustained economic growth and prosperity. College graduates at each level of postsecondary education have greater earnings and lower unemployment rates, which ultimately is reflected in increased productivity of the economic system overall.

We recognize tax-exempt and nonprofit status is an investment by federal, state and local governments in higher education, enabling colleges and universities to carry out their missions— typically teaching, scientific research, and community service.

¹ Sandy Baum, Jennifer Ma, Kathleen Payea, *Education Pays 2013: The Benefits of Higher Education for Individuals and Society*, College Board, <http://trends.collegeboard.org/education-pays>

We are fully cognizant that public unease with tuition costs has heightened in recent years. With concerns about tuition as a share of U.S. household income and national student debt levels, there is a resistance to increasing tuition from both outside and inside our member institutions. College administrators from small colleges to large universities are facing pressures to cut costs, enhance efficiencies and, in some cases, do so while serving more students and increasing student services.

To meet the budget demands, both public and private nonprofit institutions rely on endowments, private fundraising, and tax exemptions to help lower the pressure to increase tuition—in addition to the direct revenue support state and local governments provide through appropriations to community colleges and public institutions. For public and nonprofit institutions, the federal government's commitment to higher education as a public good, by way of tax-exempt status, combined with the effects of the charitable deduction and access to tax-exempt bond financing, is critical. These three elements of the tax code serve, in essence, as a financial foundation for college and university planning and budgeting.

College and university endowment funds are an important source of revenue which support teaching, research, and public service missions. Public attention focuses primarily on colleges and universities with large endowments, though most colleges and universities have only modest endowments and many have none at all. Endowments are complex and include funds that are subject to restrictions that donors impose and that institutions are legally required to uphold. Endowment funds are managed to provide a current and continuing source of income to support institutions' missions including financial aid; teaching (faculty chairs and professorships); scientific and scholarly research (including facilities); healthcare (patient care and research at university medical centers) public service; libraries and museums; and athletics.

Accountability. Given the distinction of tax-exempt status, postsecondary institutions strive to meet compliance obligations and excel at applying good governance practices. Many, if not most, colleges and universities have long had institutional policies and practices in place reflecting a commitment to stewardship, accountability and the highest standard of compliance with federal and state laws and regulations applicable to tax-exempt organizations. As stewards of federal education, research, and student aid funding; as large employers; as significant operators of, in some cases, massive physical plant operations; and as home to our nation's college students, institutions of higher education take very seriously their approach to compliance with federal rules and regulations.

Both private and public colleges and universities have well-established, sound and effective governing structures, most of which predate Internal Revenue Service efforts linking good governance with strong tax compliance and introducing governance-related questions to the Form 990. Publicly available information about governance, finances, compensation, lobbying, fundraising, foreign operations, tax-exempt borrowing, and more, for private institutions, can be found in the relatively recently expanded Form 990. As a result of states' open records rules, similar information from public colleges and universities is publicly disclosed as well.

Streamline the burden of reporting requirements. Although sometimes less visible to the public and to students and families, an institution's compliance with tax and other federal rules, regulations, and reporting requirements is undeniably part of the cost of a college education. Colleges and universities have markedly increased campus resources to meet the demands of federal tax compliance over the last 20 years. Beginning in the early 1990s, we began to see the appointment of campus tax directors at large research universities. Now it is not unusual for large institutions to require a tax compliance department, with staff members trained to stay abreast of tax rules and developing campus business processes to ensure compliance. Ultimately, we hope the Senate Finance Committee will utilize the information it has garnered as part of the working group process to explore valuable and sensible approaches to streamlining reporting requirements.

Boost, rather than diminish, the federal investment in higher education. We also urge the Committee to consider the impact potential changes to the tax code may have on the operating costs of colleges and universities, and ultimately on tuition pressure. Changes in the tax-exempt area, including new excise taxes, the tax treatment of name and logo royalties, qualified sponsorship payments, and overhauling the manner in which an entity's unrelated business income is calculated, all potentially lead to the same result— higher operating costs, which may result in diminished investments in infrastructure, fewer jobs, reduced public services, and increased charges and fees.

Depending on the size and mission of a particular institution, and whether it is public or private nonprofit, the combination of funding sources looks very different from one institution to the next. There is great diversity in the organization and guiding principles of colleges and universities in the United States that collectively are responsible for educating more than 20 million students each year. Revenue comes from governmental sources, tuition payments from students, gifts from alumni and other donors, investment income, and to varying degrees other auxiliary streams. Tax-exempt status leverages the value of that revenue, helping our institutions meet the needs they face in serving their students, and in many cases their research and service missions.

On behalf of:

American Council on Education (ACE)

Association of American Universities (AAU)

Association of Governing Boards of Universities and Colleges (AGB)

Association of Jesuit Colleges and Universities (AJCU)

Association of Public and Land-grant Universities (APLU)

Council for Advancement and Support of Education (CASE)

Council for Christian Colleges & Universities (CCCU)

Council of Graduate Schools (CGS)

National Association of College and University Business Officers (NACUBO)

National Association of Independent Colleges and Universities (NAICU)