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PRESIDENT

AICCU
ASSOCIATION OF INDEPENDENT CALIFORNIA COLLEGES AND UNIVERSITIES

November 22, 2017

Subject: Effects of Tax Reform Legislation on California Higher Education

Dear Members of the California Congressional Delegation:

While simplifying the tax code is a worthwhile and important goal for our nation and economy, it should not be achieved at the expense of making it more difficult to obtain a college education or increasing the cost of education**.** On behalf of the Association of Independent California Colleges and Universities (AICCU) and the nonprofit higher education sector that we represent, I write to share our grave concerns with the Tax Cuts and Jobs Act (H.R. 1). We are opposed to several provisions that would harm Californians—students, their families, and educators.

AICCU is the organizational voice for California's private, nonprofit colleges and universities. AICCU institutions educate nearly 187,000 undergraduate students, and over 152,000 graduate students; and produce 22% of all undergraduates and 56% of graduate professionals that enter into the workforce each year.

H.R. 1 proposes the elimination of many benefits important to students and families, and the colleges and universities that serve them. According to the California Department of Finance, some of the education provisions would raise taxes on Americans by over $60 billion over ten years, which indicates a negative impact on California of at least $7 billion. Furthermore, the bill singles out private, nonprofit colleges and universities—institutions that play an integral part in California's Master Plan for Higher Education and in workforce development in the state—for new taxes and increased costs to finance campus facilities.

There are a number of provisions in the Tax Cuts and Jobs Act that will have serious ramifications for students and educators including:

Elimination of state and local tax (SALT) deductions on federal income taxes: Today, over 6 million Californians, including middle-income families, claim SALT deductions. The loss of this return and revenue to the state of California will result in these families, who have the least access to federal and state need-based financial aid funding, having to borrow more or defer college altogether. With reduced state general fund revenue, the state will be hard-pressed to make cuts in programs including support for higher education.

Excise tax on nonprofit colleges and universities' endowments: Both Senate and House versions of the *Tax Cuts and Jobs Act* assess a 1.4% excise tax on the investment income of certain nonprofit colleges and universities' endowments that are valued at $250,000, per full-time student. Six California institutions are impacted:

- California Institute of Technology
- Claremont McKenna College
- Harvey Mudd College
- Pomona College
- Scripps College
- Stanford University

AICCU opposes the provision, on principle, irrespective of how many or how few nonprofit colleges and universities feel the impact. We would also oppose similar taxes, if they were placed on public higher education institutions. This tax, coupled with the elimination of the tax-exempt bonds for nonprofit institutions, shows an explicit targeting of the private, nonprofit higher education sector. The result will further drive up costs and harm student access to independent institutions. This tax sets a precedent for all of higher education.

Investment income from endowments is used every day to support nearly every aspect of an institution's operations, from financial aid to research to student retention and success programs. This new excise tax would not assist in the education of students—it simply takes private donations to nonprofit entities, and redirects a portion to the federal government. This shifts critical funds away from our students and support for research and education. It would also effectively be a tax on donors' contributions and shift money from the dedicated purpose for the donation.

Elimination of private activity bonds will result in less access to capital to improve facilities: H.R. 1 would eliminate private activity bonds, which are used by nonprofit colleges and universities to finance capital projects, such as libraries, laboratories, classrooms, and other facilities that all support our students. This repeal would prevent institutions from using lower-cost, tax-exempt bond financing. It would essentially raise the cost of new construction. Higher borrowing costs could result in diminished investments in infrastructure, fewer jobs, reduced services, and increased service charges and other fees to students.

This type of bond financing for nonprofits is a proven tool, with a decade long record of success for providing vital public services and creating jobs. In California, bond issuance for nonprofit higher education institutions is overseen by the California Educational Facilities Authority (CEFA). CEFA's Bond Financing Program has issued, in total, over $12 billion in bonds to 59 nonprofit colleges and universities.

Elimination of the Student Loan Interest Deduction (SLID) will make it more difficult to repay loans: Currently, a filer may deduct up to $2,500 of the interest paid on a qualified student loan. Filers can claim deduction without having to itemize. The deduction is claimed as an adjustment to income, and phases out for individuals with a modified gross income of $65,000, or $130,000 for married couples who are jointly filing their taxes. The elimination of SLID amounts to an additional tax on students who must borrow to pay for college. In 2014, 12 million taxpayers benefited from SLID. These taxpayers and recent college graduates are working in middle to low-income careers, such as education or social work. Eliminating this provision would mean that, over the next decade, the cost of student loans for borrowers would increase by roughly $24 billion.

Repeal of Lifetime Learning Credit will have adverse impacts on nontraditional undergraduate students: H.R. 1 would repeal the Lifetime Learning Credit (LLC), while only expanding the American Opportunity Tax Credit to include a fifth year of reduced support. This would be a large step backwards for many nontraditional undergraduate students and graduate students, pursuing advance degrees, who benefit under current law. We are extremely concerned that the "enhanced" AOTC, as written, would simply preclude graduate students, part-time students, lifelong learners (particularly those seeking retraining), and any student taking longer than five years to complete their education, from accessing the AOTC.

This provision adversely impacts students' financial ability to pursue a degree or lifelong learning. In fact, under the changes proposed in the bill, many non-traditional students—the fastest growing segment of students in higher education—would lose significant tax benefits they currently rely upon to help finance their higher education. This would severely impact workforce development in California.

Elimination of Section 117(d)—Tax-Free Tuition Remission: Our employees, who are generally paid less than they could make in the private sector, work at our institutions because of the benefits of working in higher education and their desire to serve students. Among the most important benefits we provide is assistance to help pay their own, and their children's, tuition often through a tuition waiver. Taxing this benefit will make college more expensive for them and make it harder for us to attract workers. Eliminating this benefit would particularly harm employees, who are poised to send their children to college, and have premised their career choices and college savings decisions on the existing tuition benefits for their children, hurting the lowest-paid college employees the most.

Elimination of Section 117(d)(5)—Tuition reduction for graduate students: This important provision reduces the cost of graduate education and mitigates the tax liability of graduate students teaching and researching, as part of their academic programs. Roughly 145,000 graduate students received a tuition reduction in 2011-2012. Repeal of this provision would result in thousands of graduate students being subjected to a major tax increase. It would discourage students from seeking advanced degrees, at a time when the country needs a better educated workforce. According to data from the Department of Education, 57 percent of tuition reductions went to graduate students in STEM programs—engineering, biology and other fields—a workforce needed by California biotech and high-tech industries. As California struggles to fill jobs in these important fields, maintaining this provision is integral to our future economy.

Elimination of Section 127—Employer Provided Education Assistance: Section 127 provides assistance to working students by incentivizing employers to provide up to $5,250 in tuition assistance, which is excluded from taxable income. Most recipients of this benefit are nontraditional students, trying to improve their skills and workplace mobility. Colleges, businesses, and labor organizations all support this important benefit that allows employers to invest in their workforce, while allowing employees the ability to advance their education and experience.

According to the National Postsecondary Student Aid Study, in 2007, almost one million employees took advantage of Section 127 benefits. Almost 20 percent of Section 127 recipients are majoring in science, technology, engineering, and mathematics degrees.

Charitable donations becoming disincentivized: As written, both the Senate and House bills would lead to a decline in charitable giving. Charitable gifts support teaching, research, faculty, cultural activities, libraries, and facilities. Financial aid is also supported by charitable giving and is a way in which higher education institutions make higher education affordable to low-income students, providing affordable access to the college or university where they are most likely to succeed.

AICCU respectfully urges our California Congressional Delegation to reject the proposed taxes on nonprofit higher education and the elimination of tax benefits on hardworking California students and their families. By limiting higher education access and options, these provisions are harmful to California's citizens and threaten our workforce development needs. If these concerns are not addressed in the final version of the bill that emerges from conference committee, we believe higher education—access and affordability—will be irreparably harmed. We urge you to offer amendments to address the concerns that are still within the Senate version of the legislation. For those problematic provisions that are currently only included in the House's version, we would encourage you to stand against them during the conference committee process.

I am happy to discuss these concerns further with you in person, by phone, or by email (kristen.Soares@aiccu.edu).

Sincerely,

Kristen F. Soares
President

cc: AICCU Presidents
Michael Cohen, Director, California Department of Finance
Lark Park, Senior Policy Advisor, Office of Governor Jerry Brown