

**SOUTH DAKOTA BOARD OF REGENTS**

**Academic and Student Affairs**

**AGENDA ITEM: 8 – F**  
**DATE: December 5-7, 2017**

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**SUBJECT**

**Federal Tax Reform Proposals Update**

**CONTROLLING STATUTE, RULE, OR POLICY**

None

**BACKGROUND / DISCUSSION**

Federal tax reform proposals under consideration by Congress could have considerable impact on Regental system institutions, students, and graduates. Both houses of Congress are considering proposals and differences exist between the House and Senate. The attached document briefly summarizes key components of those proposals and the potential effects on higher education in South Dakota. In addition, the document provides links for further reading and study on particular aspects of the proposed legislation.

**IMPACT AND RECOMMENDATION**

Multiple provisions under consideration by Congress have consequences for the Regental system. For example, elimination of some deductions and tax credits for education purposes potentially adds financial burden to students and families. Proposals to make tuition and fee waivers for graduate students taxable income greatly reduces the likelihood of students entering graduate education programs in all disciplines. Proposals to change charitable giving deductions may lead to fewer alumni making contributions to their alma mater. Additional Unrelated Business Income Tax (UBIT) provisions reduce income and add tax liability for licensing a university's name or logo, or holding a public event. These consequences could threaten current Regental system goals and priorities. Examples include but are not limited to adding burdens to meeting the statewide education attainment goal, slowing the growth of graduate education, reducing institutional research capabilities, and diminishing efforts to enroll more students from underrepresented populations.

Regents, Board staff, and institutions should monitor developments as they occur. Regents may wish to consider engaging our congressional delegation in discussion on key issues.

**ATTACHMENTS**

Attachment I – Federal Tax Reform Proposals Update

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**INFORMATIONAL ITEM**

## PROPOSED TAX REFORM PROVISIONS IMPACTING HIGHER EDUCATION

As of 11/15/2017

The following chart illustrates provisions in current tax reform bills under consideration by the US Congress as they relate to higher education. A brief explanation of each provisions follows the chart. Hyperlinks to additional reading are located at the conclusion of this report.

TAX REFORM PROPOSAL	HOUSE BILL	SENATE BILL
<i>Elimination of the Lifetime Learning Credit</i>	✓	
<i>UBIT tax on licensing (name, logo) and non-education business income</i>		✓
<i>UBIT tax on income from research not made publicly available</i>	✓	
<i>Elimination of the student loan interest deduction</i>	✓	
<i>Elimination of employer-provided tuition assistance</i>	✓	
<i>Tax on tuition remission waivers for graduate students as income</i>	✓	
<i>Reduction in charitable giving</i>	✓	✓
<i>Elimination of college-age dependent deductions</i>	✓	✓
<i>Repeals Advance Refunding Bonds</i>		✓
Impacts Higher Education but not BOR (below)		
<i>Tax on employees paid in excess of \$1 million</i>	✓	✓
<i>Tax on private university endowments meeting specified standards</i>	✓	✓

- *Elimination of the Lifetime Learning Credit*

The Lifetime Learning Credit provides up to a \$2,000 credit annually for undergraduate, graduate, and professional degree courses, and courses to acquire or improve job skills.

Additional information on the current Lifetime Learning Credit:

<https://www.irs.gov/credits-deductions/individuals/lc>

- *UBIT tax on licensing (name, logo) and non-education business income*

Institutions would pay new or additional Unrelated Business Income Tax (UBIT) on royalties from the sale of athletic apparel, logo licensing agreements, facility rentals, and special events for the general public.

Additional information:

<https://www.insidehighered.com/news/2017/11/13/senate-tax-plan-would-add-new-taxes-college-royalties>

- *UBIT tax on income from research not made publicly available*

Institutions would pay new Unrelated Business Income Tax (UBIT) on income from research not freely available to the general public.

- *Elimination of the student loan interest deduction*

Currently, taxpayers may deduct the lesser of \$2,500 or the amount of student loan interest actually paid during the year.

Additional information on the existing deduction:

<https://www.irs.gov/taxtopics/tc456>

- *Elimination of employer-provided tuition assistance*

Employees who use an employer's tuition reimbursement program may deduct up to \$5,250 annually from their taxes. In addition, employers may deduct these costs as a business expense.

Additional information on the current deduction:

<https://www.aau.edu/sites/default/files/AAU%20Files/Key%20Issues/Taxation%20%26%20Finance/Section-127-FINAL.pdf>

- *Tax on tuition remission waivers for graduate students as income*

Currently, graduate students receiving tuition and fee waivers do not count those waivers as income for tax purposes.

Additional information on the current tax code:

<https://www.aau.edu/sites/default/files/AAU%20Files/Key%20Issues/Taxation%20%26%20Finance/Section-117-d-Qualified-Tuition-Reduction-FINAL.pdf>

- *Reduction in charitable giving*

The proposal doubles the standard deduction for individuals and couples, reducing the number of taxpayers who itemize and reducing the value of a charitable deduction. An expected result is fewer donations to colleges and universities.

Additional information on the current deductions:

<https://www.irs.gov/pub/irs-pdf/p526.pdf>

- *Repeals Advance Refunding Bonds*

Proposal eliminates financing tool allowing institutions to refinance outstanding debt at lower interest rates. [SDCL 13-51A-33](#), [SDCL 13-51A-34](#), [SDCL 13-51A-35](#), and [SDCL 13-51A-36](#) provide authority for the Board of Regents to utilize such bonds.

- *Elimination of college-age dependent deductions*

Taxpayers currently can claim a deduction (\$4,050 in 2017) from income for each dependent, including children ages 19 to 23 who are full-time college students. The House bill eliminates all personal exemptions, replacing them with higher standard deductions.

- *Tax on employees paid in excess of \$1 million*

For tax-exempt organizations (including colleges and universities), adds a 20% excise tax on compensation over \$1 million paid to any of its five highest paid employees.

● *Tax on private university endowments meeting specified standards*

Adds a 1.4% excise tax on investment income for private institutions with endowments valued at least \$100,000 per each student and having at least 500 students.

Further Reading:

HOUSE: Text of HR 1 – Tax Cuts and Jobs Act:

<https://www.congress.gov/bill/115th-congress/house-bill/1/text>

SENATE: Text of Chairman’s Mark of the “Tax Cuts and Jobs Act”

<https://www.finance.senate.gov/imo/media/doc/11.9.17%20Chairman's%20Mark.pdf>

CUPA, Tax Reform, “Side-by-Side Provisions, Higher Ed Provisions”

<https://www.cupahr.org/wp-content/uploads/advocacy/2017-11-14-Side-by-Side-WCEY.pdf>

American Council on Education, “Tax Reform and Higher Education: What Students, Families, and Institutions Need to Know”

<http://www.acenet.edu/news-room/Documents/House-Tax-Reform-Bill-TPs.pdf>

*US News & World Report*, “GOP Tax Plan Would Eliminate Student Loan Deduction, Educational Assistance Programs”

<https://www.usnews.com/news/education-news/articles/2017-11-02/gop-tax-plan-would-eliminate-student-loan-deduction-educational-assistance-programs>

*Forbes*, “The GOP Tax Plan Will Destroy Graduate Education”

<https://www.forbes.com/sites/startswithabang/2017/11/07/the-gop-tax-plan-will-destroy-graduate-education/#6c66e10f3d2f>

*The Chronicle of Higher Education*, “How the GOP Tax Plan Could Hurt Graduate Students — and American Research”

<http://www.chronicle.com/article/How-the-GOP-Tax-Plan-Could/241702>

*Inside Higher Education*, “Higher Ed in the Senate Tax Bill”

<https://www.insidehighered.com/news/2017/11/10/senate-tax-bill-has-some-not-all-provisions-alarmed-higher-education-leaders-house>

*The Chronicle of Higher Education*, “Republican Tax Proposal Gets Failing Grade From Higher-Ed Groups” <http://www.chronicle.com/article/Republican-Tax-Proposal-Gets/241662>

*Insider Higher Education*, “Tax Benefits at Risk for Colleges, Student Borrowers”

<https://www.insidehighered.com/news/2017/11/03/gop-tax-overhaul-would-eliminate-tax-breaks-used-colleges-and-students>

*The Chronicle of Higher Education*, “Senate Bill Would Impose Endowment Tax but Keep Tuition Waivers Tax-Free”

<http://www.chronicle.com/article/Senate-Bill-Would-Impose/241742>