General Overview of the Potential Implications that the Tax Reform Bill will have on Higher Education

Both the House and the Senate have submitted their own distinct drafts of **Bill H.R. 1, "The Tax Cuts and Jobs Act".** A Conference Committee made up of members from both the House and Senate will determine the ultimate tax reform bill to be presented to the President for his approval. The main provisions of each proposed bill affecting the education sector have been summarized below.

Common or identical tax provisions in both the House and Senate bills are as follows:

- Increase to the standard deduction (House proposes $24,000 for joint filers and $12,000 for single filers, while the Senate proposes $24,400 for filers and $12,200 for single filers)
- Elimination of the deductions for personal exemptions
- Maximum $10,000 deduction for state and local real property taxes, no deduction for state and local income taxes
- Students would be discharged from education related debt upon their death or disability
- Elimination of the charitable deduction allowed if athletic seating rights are provided to the donor
- Cash donations to the university are deductible up to 60% of the donor's adjusted gross income instead of 50%
- The Estate and Gift tax exemption amounts get doubled to $10,000,000, however, the House proposes to eliminate the federal estate tax all together after December 31, 2024
- 1.4% excise tax on the net investment income of endowments held by private colleges with at least 500 students when the fair market value of the endowment is equal to at least $250,000 [House Bill] per full time student. The senate bill imposes the tax when the fair market value of the endowment is equal to $500,000 per full time student.
- Distributions up to $10,000 from 529 plans can be used for elementary or secondary public, private or religious schools.

Tax provisions proposed only in the Senate Bill are as follows:

- 7 marginal individual income tax brackets – 10%, 12%, 22%, 24%, 32%, 35% and 38.5%
- Deduction for out of pocket teacher expenses increases to $500 from $250
- Moving expenses paid on behalf of new employees would be a taxable fringe benefit to them and the expenses would no longer be deductible
- Tax exempt organizations are subject to a 20% excise tax on taxable compensation paid over $1,000,000 to its five highest paid employees
- Unrelated Business Taxable Income can no longer be offset from losses from separate, unrelated business activities

Tax provisions proposed only in the House Bill are as follows:

- 4 marginal individual income tax brackets – 12%, 25%, 35% and 39.6%
- Tuition waivers or tuition reductions would be taxable to employees (and their spouses and dependents) and to graduate teaching and research assistants

- The American Opportunity Tax Credit (AOTC) is modified and the Lifetime Learning Credit is eliminated. The AOTC would be available for the first five years of a student's post-secondary education. For the first four years, a tax credit up to $2,500 a year per eligible student is available. In the fifth year, a tax credit up to $1,250 is available per eligible student. For each year, 40% of the allowable credit is refundable.
- Deduction for student loan interest would be eliminated
- Eliminate the ability of employers to provide $5,250 of tax free educational assistance to its employees under an Education Assistance Program
- Taxable unrelated business income (UBIT) would include all research generated income that is not available to the general public
- Additional financial reporting requirements with respect to donor-advised funds