ThinkAdvisor

How the House and Senate Tax Bills Would Raise College Costs

The House bill contains many more provisions than the Senate bill that would affect students, their families and colleges

NOVEMBER 17, 2017
BY BERNICE NAPACH, SENIOR WRITER

Prepare for potentially higher college costs if Congress succeeds in passing a tax bill. The House just passed a tax bill that takes $110 billion out of funding for higher education over 10 years, including $65 billion that directly affects students and families, according to the American Council on Education.

Its net effect, said ACE President Ted Mitchell in a statement, would be to "discourage participation in postsecondary education, make college more expensive for those who do enroll and undermine the financial stability of public and private, two-year and four-year colleges and universities."

The Senate Finance Committee passed its own tax bill with far fewer provisions affecting college financing and affordability. If the Senate succeeds in passing its own tax bill — and that's a big if at this point — the two bills would have to be reconciled into one final bill subject to a congressional vote.

The House bill includes provisions that will impact students and their families as well as higher education institutions; the Senate bill focuses primarily on the institutions.

Here are the items in both bills, along with some of their potential effects.

The House Tax Bill

- Eliminates the deduction for interest on student loans.

- Repeals the tax exclusion for employer-provided education assistance and the tax exclusion for tuition discounts that college employees and graduate student teaching and research assistants — primarily doctoral students — receive.

- Eliminates the Lifetime Learning Credit, which has a $2,000 maximum and can be used by graduate students and students who attend less than half-time, but retains the American Opportunity Tax Credit, which has a $2,500 maximum and can be used by only undergraduate students attending school full-time or half-time. AOTC eligibility is extended for a fifth year but only for half the amount.

- Repeals the qualified tuition deduction used by those students who don’t take either of the above-mentioned tax credits.

- Ends the tax exclusion that businesses receive for providing education assistance for their employees.

- Bans new contributions to Coverdell savings accounts and expands 529 savings plans to include contributions and distributions for private elementary and secondary schools. This change is not necessarily a negative for students and families since 529 plans have no contribution limits, unlike Coverdell accounts, and their distributions count for far less in the FAFSA formula used to assess financial aid.

In addition to provisions that affect students and families, the House bill also includes items that affect schools directly and could potentially reduce the funds available for financial aid.

- Repeals the tax exemption for all private activity bonds that colleges and universities use to finance building of dormitories and other projects. A subset of those loans are qualified student loan bonds whose proceeds are used to fund low-cost student loans after students and families have maxed out on federal student loans.

- Levies a 1.4% tax on the net investment income of university endowments that have more than 500 tuition-paying students and an endowment whose assets are equivalent to $250,000 per student. This provision affects about dozen colleges and universities with large endowments.

- Repeals the tax deduction on charitable donations related to tickets for college sports events, donations that help fund athletic programs.

- Modifies the unrelated business income tax (UBIT). Universities that derive income from research activity will no longer be able to exclude that income if the results are not made available to the public.

The Senate Tax Bill

The Senate tax bill is an “important improvement over the House bill because it doesn’t contain any of the $65 billion in cuts to students and families,” says Steven Bloom, director of government relations for American Council on Education, which represents higher education institutions and related trade groups. But the bill does contain provisions that will impact colleges and universities, which could spill over into the funds available for students and their families.

- Like the House bill, the Senate bill includes a 1.4% tax on the net investment income of university endowments that have more than 500 tuition-paying students and an endowment whose assets are equivalent to $250,000 per student.

- The Senate bill also makes changes to the UBIT but not the way the House bill does. It repeals the tax exemption on royalties generated from a university’s name or logo and it ends the practice that allows colleges with more than one business activity to cancel out the gains from one activity with the losses from another. Many schools license their logos to third parties, which brings in money that can be used for financial aid, said Bloom.

Whether or not any of these provisions become law will depend on the horse trading that goes on between House and Senate leaders in order to get a final tax bill passed. College funding and financing are important issues for schools, students, families and the states, which have their own higher education institutions, but they are not necessarily the issues that can potentially make or break a tax bill, like the elimination of the individual mandate for health insurance coverage or the elimination or cutting of the deduction for state and local taxes. Stay tuned.