2017 Federal Tax Bill and Higher Education

On December 19, 2017 Congress voted on the sweeping $1.5 trillion legislative package of tax cuts and tax code revisions. The Senate passed the conferenced bill with a 51-48 vote and the House adopted the agreement by a vote of 227-203. President Trump signed the bill into law on December 22, 2017 before going on Holiday recess. The bill has been the culmination of a six-week legislative effort with details of the agreement slowly emerging throughout the process including rate cuts for corporations, individuals and pass-through businesses. Although the number of the impacts of the tax legislation are still unknown and could be so for some time, there are some specific indications as to the direct impact it could have on higher education institutions, their students, staff, and faculty.

What has changed:

Standard deductions: The bill doubles the standard deduction to $24,000 for joint filers and $12,000 for individuals. Some believe this would lower the incentive for donating to colleges, as the number of taxpayers benefiting for itemized deductions would likely shrink.

Endowment Tax: The law includes a 1.4% excise tax on investment income at private colleges and universities with an enrollment of at least 500 students with assets valued at $500,000 per full-time student.

Athletic Donations: The new law removes tax deductions for alumni contributions related to season tickets which are a major source of income for athletics departments nationwide. Any contributions that are linked to the right to purchase season tickets will no longer be considered charitable donations.

State and local tax deductions: Some public higher education leaders had warned the change to eliminate the deductions would put pressure on state budgets that support public universities and lead to cuts in funding in the future. Taxpayers who itemize will be able to deduct their state individual income, sales and property taxes up to a limit of $10,000 in total starting in 2018. Currently the deduction is unlimited.

Advance Refunding Bond: The law eliminates the exclusion from income for interested on advance refunding bonds.

Student Loan Discharge: Student loans discharged by both public and private entities would be excluded from taxable income if a student dies or becomes totally disabled. The provision would apply to loans discharged after Dec. 31, 2017, and would sunset after 2025.

Education Savings Plans: Expands use of 529 college savings accounts to include k-12 private school tuition.

What remains the same:

Graduate Tuition Waiver: The law leaves a provision of the tax code that allows colleges and universities to waive or discount tuition for graduate students without having those benefits count as taxable income.

Employee-dependent Tuition Benefits: The law leaves a provision of the tax code that allows tax-exempt benefits for the spouses and dependent children of college employees.

Student Loan Interest: The law maintains tax benefits for student loan borrowers to deduct $2,500 paid toward student loan interest from their taxable income each year.

Dependent Care: The law maintains a break that allows workers to save up to $5,000 in pretax dollars ($2,500 for married taxpayers who file separately) in a dependent care flexible spending account to cover costs for qualifying dependents.

Private Activity Bonds: The bill maintains the tax-exempt private activity bonds.

Education Credits: The American Opportunity Tax Credit, the Lifetime Learning Tax Credit and the Hope Scholarship Tax Credit have also not been changed.

The American opportunity tax credit (AOTC) is a credit for qualified education expenses paid for an eligible student for the first four years of higher education. You can get a maximum annual credit of $2,500 per eligible student. If the credit brings the amount of tax you owe to zero, you can have 40 percent of any remaining amount of the credit (up to $1,000) refunded to you.

The Lifetime Learning Credit is for qualified tuition and related expenses paid for eligible students enrolled in an eligible educational institution. This credit can help pay for undergraduate, graduate and professional degree courses--including courses to acquire or improve job skills. There is no limit on the number of years you can claim the credit. It is worth up to $2,000 per tax return.

The Hope Scholarship Tax Credit is an education tax benefit that allows taxpayers a credit of up to $2,500 (per student, per year) if they paid qualified tuition and related expenses for the first four years of postsecondary education.

CONCLUSION:

In addition to many of the unknowns, it is possible and likely that some of the things that did not change in the tax bill this time around could still be on the table for reforms as the Higher Education Act or the Promoting Real Opportunity, Success, and Prosperity through Education Reform (PROSPER) Act is looked at again in 2018. The PROSPER Act quickly passed out of the House Education and Workforce Subcommittee in December 2017 by a vote of 23-17. The bill will impact a wide range of higher education issues, such as streamlining the federal student loan program and changing standards for how colleges will be held accountable for student outcomes.

Source: Lockridge Grindal Nauen P.L.L.P. Minneapolis and Washington D.C., www.locklaw.com