

June 21, 2019

The Honorable Mitch McConnell  
Majority Leader  
United States Senate  
Washington, DC 20510

The Honorable Charles E. Schumer  
Minority Leader  
United States Senate  
Washington, DC 20510

**RE: Urging Swift Passage of Kiddie Tax Scholarship Fix**

Dear Majority Leader McConnell and Minority Leader Schumer:

On behalf of the American Council on Education and the undersigned higher education associations, I am writing today to urge the Senate to swiftly correct a mistake made in the Tax Cuts and Jobs Act of 2017 (TCJA) that has inadvertently caused harm to many low- and middle-income students who rely on scholarship aid to pay for their college education. The Senate now has before it two bills - H.R. 1994, the *Setting Every Community Up for Retirement Enhancement Act of 2019* (SECURE Act) and S. 1667, the *Tax Relief for Student Success Act* – which contain provisions intended to correct this mistake. The Senate should move forward to enact the legislative fix for this problem as soon as possible.

As you are aware, college scholarships and/or grants have been exempt from federal income tax since 1986 if they are used to pay for tuition, required fees, books, supplies, and equipment. However, scholarships and/or grants for non-tuition expenses like room and board are taxed as a form of unearned income for some students under the so-called kiddie tax.

Prior to the TCJA, children subject to the kiddie tax had their net unearned income (total unearned income less \$2,100) subject to the marginal tax rate of their parents, which for low-income students is almost always low. The kiddie tax applies to full-time college students under age 24. The TCJA changed the rate rules for the tax. Instead of taxing a child's net unearned income at his or her parent's rates, the kiddie tax now applies the rates used for trusts and estates, which are higher and highly compressed compared to the tax rates for individual income filers.

Unfortunately, these changes to the kiddie tax sharply increased the tax levied on the portion of scholarships set aside for expenses such as room and board that colleges and universities award to students from families of little or modest means. Now these students are being taxed at the same rates as wealthy individuals.

Consider the impact on a full-time undergraduate student, claimed as a dependent by her parents, who have an income of \$50,000 a year and jointly file as a married couple.

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In this example, the student receives a full scholarship for the total cost of the education at a university, which includes tuition, room and board, books, and supplies.

Roughly \$11,500 of the scholarship is subject to taxation, because it pays for room and board and similar expenses. If that money was taxed under the same 12 percent rate that applies to the student's parents' regular income, the amount owed now would be less than \$1,400. But because it is taxed at the much higher trust and estates rates, the amount owed is more than \$2,600, an 85 percent increase.

Academic, need-based scholarship students are not the only ones impacted by the amended kiddie tax. College athletes on full scholarships, which include money for housing and other non-tuition expenses, are also impacted by the kiddie tax changes, many of whom, of course, come from economically disadvantaged families. Overall, based on Department of Education data, the increased tax on scholarship/grant aid could affect nearly 1.4 million students and their families.

The problems caused by the change to the kiddie tax extend beyond higher education. We understand that some "Gold Star" families receiving survivor benefits and others also are affected.

Thank you for your attention to this issue.

Sincerely,



Ted Mitchell  
President

On behalf of:

American Association of Collegiate Registrars and Admissions Officers  
American Association of Community Colleges  
American Association of State Colleges and Universities  
American Council on Education  
Association of American Medical Colleges  
Association of American Universities  
Association of Governing Boards of Universities and Colleges  
Association of Jesuit Colleges and Universities  
Association of Public and Land-grant Universities  
College and University Professional Association for Human Resources  
Council for Christian Colleges & Universities  
EDUCAUSE  
NASPA - Student Affairs Administrators in Higher Education  
National Association for Equal Opportunity in Higher Education

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National Association of College and University Business Officers

National Association of Independent Colleges and Universities

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