

December 9, 2019

The Honorable Richard Neal  
Chairman  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, DC 20515

The Honorable Kevin Brady  
Ranking Member  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, DC 20515

The Honorable Charles Grassley  
Chairman  
Committee on Finance  
U.S. Senate  
Washington, DC 20510

The Honorable Ron Wyden  
Ranking Member  
Committee on Finance  
U.S. Senate  
Washington, DC 20510

**RE: Kiddie Tax Scholarship Fix, Extension of Tuition Deduction and  
Repeal of Parking Tax and Endowment Tax**

Dear Chairman Neal, Ranking Member Brady, Chairman Grassley, and Ranking  
Member Wyden:

On behalf of the American Council on Education and the undersigned higher education associations, I am writing today to urge you to enact legislation this year to address the so-called “kiddie tax” changes in the Tax Cuts and Jobs Act of 2017 (TCJA) that inadvertently harms some scholarship students, to retroactively extend the above-the-line deduction for qualified tuition and related expenses (tuition deduction), and to repeal the Unrelated Business Income Tax (UBIT)-qualified transportation fringe benefit tax (parking tax) and the net investment income tax on certain private colleges and universities (endowment tax), both of which were enacted in the TCJA.

In May, by an overwhelming bi-partisan vote, the House passed H.R. 1994, the “Setting Every Community Up for Retirement Enhancement Act of 2019” (SECURE Act), which included provisions to correct changes made to the kiddie tax in TCJA that inadvertently cause harm to many low- and middle-income students who rely on scholarship aid to pay for their college education.

Since 1986, scholarships and grants spent on non-tuition expenses such as room and board have been taxed. Prior to the TCJA, full-time students under age 24 had that scholarship money taxed under the so-called “kiddie tax” at the marginal rate of the students’ parents, which is almost always very low, particularly for low-income students. The TCJA changed the rate rules for the kiddie tax, applying the much higher rates used for trusts and estates. 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. It seems clear that Congress did not intend for this unfortunate outcome.

The provisions included in the SECURE Act would repeal the TCJA changes to the kiddie tax, returning the expenses subject to the tax to their original lower rates. Individuals who paid the higher tax in returns filed for the 2018 tax year would be able to file amended returns seeking refunds. We support these provisions and urge the Congress to fix this problem before the end of this year.

Expired at the end of 2017, the tuition deduction helps reduce the cost of college by allowing students or their parents to deduct up to \$4,000 in eligible higher education expenses from their taxable income. The tuition deduction is particularly important to graduate students, who are ineligible for the American Opportunity Tax Credit. Regrettably, its expiration in 2017 means many students and families lost a valuable benefit that helps them finance a college education.

The TCJA also included a provision imposing a 21-percent tax on the expenses that tax-exempt nonprofits, including colleges and universities, incur for providing transportation fringe benefits to their employees, such as parking and transit passes. This tax should be repealed as it imposes significant new costs and administrative burdens on colleges and universities, which will harm students and families by driving up the cost of college.

Finally, the TCJA also unwisely included a new net investment income tax of 1.4 percent levied on certain private colleges and universities. The so-called endowment tax is unprecedented in targeting a segment of the tax-exempt community and will be damaging to the teaching and research missions of the affected institutions. This tax will take money directly away from teaching, research, and support services and countless other mission-focused activities. Importantly, it will also impede institutional efforts to further expand generous financial aid offerings for students and support excellence. We urge the Congress to repeal this misguided tax as part of any end of 2019 tax legislation.

We strongly urge Congress to act before the end of the year to address the kiddie tax scholarship issue, retroactively extend the tuition deduction, and to repeal the parking tax and the endowment tax.

Sincerely,

A handwritten signature in black ink, appearing to read "Ted Mitchell".

Ted Mitchell  
President

On behalf of:

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 Advancement and Support of Education  
Council for Christian Colleges & Universities  
Council of Graduate Schools  
EDUCAUSE  
NASPA - Student Affairs Administrators in Higher Education  
National Association of College and University Business Officers  
National Association of Independent Colleges and Universities  
National Association of Student Financial Aid Administrators