



October 15, 2024

Chairman Jason Smith  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, DC 20515

Tax Subcommittee Chairman Mike Kelly  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, DC 20515

## **Comments to the House Ways and Means Committee Tax Teams**

Dear Chairman Smith and Chairman Kelly:

On behalf of the American Council on Education and the higher education associations listed below, which represent the full spectrum of U.S. postsecondary education, we thank you for the opportunity to share our views with the House Ways and Means Committee's Tax Teams on several tax provisions that are important to college students, families, and institutions. When Congress embarks on tax reform in 2025, it will have an opportunity to address many policies that would support students and families, encourage charitable giving, and strengthen institutions. However, we want to bring the Committee's attention to four critical policy proposals in particular that would benefit students and strengthen institutions:

- Reform and simplify higher education tax credits to improve efficiency and increase access; and,
- Repeal the taxability of Pell Grants and fix Pell interaction with the American Opportunity Tax Credit;
- Restore advance refunding of tax-exempt bond financing; and
- Repeal or reform the excise tax on investment income of private colleges and universities.

### **Reform and Simplify Higher Education Tax Credits to Improve Efficiency and Increase Access**

The higher education tax credits—the American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit (LLC)—have become a critical tool to help millions of students, especially from low-to-moderate income families, pay for their postsecondary education. In 2023, almost 9.5 million taxpayers, the majority of whom had incomes below \$80,000, received \$14 billion through higher education tax credits.<sup>1</sup> However, these credits are overly complicated and difficult for taxpayers to correctly use, particularly for the lowest-income students attending the lowest-cost schools, who receive little if any benefit from the current credits. Additionally, these credits should be reformed to enhance access to postsecondary education for post-traditional students—now the majority of the undergraduate population—

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<sup>1</sup> Estimates of Federal Tax Expenditures for Fiscal Years 2023-2027, Joint Committee on Taxation, <https://www.jct.gov/getattachment/4bb6796c-df84-4179-9226-8cce61c7c4b5/x-59-23.pdf>

who are older, may have parenting responsibilities, are employed, and/or are serving in the military, leading them to take longer to complete their degrees.<sup>2</sup>

We have supported numerous bipartisan bills<sup>3</sup> over the years to consolidate and simplify these tax credits to maximize their impact and enhance access to higher education. We believe that a consolidated credit would simplify these tax benefits while retaining the positive aspects of the present credits to better serve low- and middle-income students, helping them attain an associate or bachelor's degree or pursue post-baccalaureate education or lifelong learning.

Specifically, we strongly support a consolidated AOTC with two parts:

- 1) Part one would consist of the current AOTC, which offers up to \$2,500 with a portion refundable, to any student enrolled at least half-time for undergraduate education.
- 2) Part two would provide a non-refundable credit of \$2,000 (like the LLC), but, as with the AOTC, it would cover 100 percent of the first \$2,000 of eligible expenses beyond the first four years of college for post-traditional students, graduate students, and lifetime learners, with the goal of creating greater parity for these learners.

In addition, the consolidated credit would cover an expanded set of eligible expenses including computer or peripheral equipment and child and dependent care. It would also replace the current limit on the number of years a student can use the AOTC with a \$15,000 lifetime cap. Finally, as discussed in more detail below, the revised credit would address a longstanding issue with the current AOTC by better coordinating the credit with the Pell Grant, making college more affordable for low- and middle-income students, particularly those attending lower-cost schools.

### **Repeal the Taxability of Pell Grants and Fix Pell Interaction with the AOTC**

We strongly support repealing the taxability of Pell Grants to better support low-income students, strengthen the bipartisan federal commitment to the Pell Grant program, and resolve the issue that prevents hundreds of thousands of Pell Grant recipients from accessing the AOTC due to the current tax rules.

Since 1986, scholarship and grant aid, including Pell Grants, used for non-tuition costs like room and board have been taxed as a form of unearned income. Eliminating the tax on Pell Grants would simplify the tax code and allow low-income students to retain more of this vital financial aid, helping them better cover the cost of college.

Moreover, in addition to potential taxation, Pell students receive little or no benefit of the AOTC, which contains a grant/scholarship offset provision that has the unintended effect of sharply limiting or eliminating the benefit for these students. In the 2021-22 academic year, the most recent year with available federal data, the Pell Grant program helped 6 million students pay for college, about 1.6 million of whom were enrolled in community college. The program is based on need, with over 90 percent of recipients coming from families with

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<sup>2</sup> Post-Traditional Learners, American Council on Education, <https://www.acenet.edu/Research-Insights/Pages/Student-Support/Post-Traditional-Learners.aspx>

<sup>3</sup> See Student and Family Tax Simplification Act (H.R. 3393 – 113<sup>th</sup> Congress), Expand American Educational Opportunity Act of 2021 (H.R. 4174 – 117<sup>th</sup> Congress).

incomes of \$60,000 or less. However, based on data from the Department of Education, we estimate that approximately 550,000 students are adversely affected by this interaction issue each academic year, limiting the aid available through the AOTC for students with some of the greatest financial need.

Fixing the AOTC-Pell interaction issue by repealing the taxability of Pell Grants and the AOTC-Pell offset would advance efforts to simplify the tax code by ensuring low-income students access a tax benefit they qualify for and which many of their peers are using, while also making it easier for these students to navigate their tax obligations.

### **Restore Advance Refunding of Tax-Exempt Bond Financing**

Colleges and universities have long been tax-exempt entities because the federal government has recognized them as essential to fostering the civic engagement and productivity of students and communities and strengthening the United States in a multitude of ways. This tax-exempt status enables institutions to provide greater access at lower cost to millions of students and conduct innovative research in fields like healthcare and artificial intelligence. In short, higher education builds America.

Public universities are typically a component of state or local governments, while private nonprofit institutions are organized as tax-exempt organizations under section 501(c)(3) of the Internal Revenue Code. While these classifications have enabled institutions to provide greater benefits than otherwise would be possible, policy modifications would provide additional resources that would help institutions serve their public purposes more effectively, remain world leaders in their field, and benefit students, communities, and the country.

We ask the Committee to reinstate the advance refunding of tax-exempt bonds during tax reform in 2025. Before being eliminated as part of the 2017 Tax Cuts and Jobs Act, advance refunding played a significant role in helping minimize debt service costs by expanding access to lower interest rates. While reinstating this policy would potentially help all institutions, it would be particularly helpful to teaching hospitals.

Colleges and universities need multiple tools to respond to student and institutional needs as they build for the future. Protecting and enhancing access to low-cost financing can strategically help institutions make other scarce resources available, allowing proven or new capital financing options to be used to support research infrastructure and our nation's innovation capacities.

### **Repeal or Reform the Excise Tax on Investment Income of Private Colleges and Universities**

The Tax Cuts and Jobs Act imposed an excise tax on investment income (known as the "endowment tax"), primarily on the charitable resources at certain private nonprofit colleges and universities. This tax undermines the teaching and research missions of the affected institutions without doing anything to lower the cost of college, enhance access, or address student indebtedness. We opposed this tax at its implementation and continue to strongly urge the Committee to repeal it.

While college and university endowments differ in size, structure, and organization, their broad purposes are uniform: to advance an institution’s charitable mission to expand and enhance educational and research opportunities and programming that benefit the public good. Additionally, while the current and potential institutions subject to the tax are diverse—from liberal arts colleges to research universities to stand-alone medical schools—they all share a tremendous commitment to student financial aid and access. In fact, many have led the nation in providing debt-free access to low- and middle-income students, relying heavily on institutional and endowment resources. Currently, about two-thirds of endowment spending is allocated to boosting financial aid and academic programs.<sup>4</sup>

The endowment tax takes money directly away from student financial aid, teaching, research, and numerous other mission-focused activities. It also undermines institutional philanthropic efforts to further expand generous financial aid offerings for students and support excellence. Unfortunately, more institutions are facing the impacts of the tax; the two years of Internal Revenue Service data on the tax show the number of covered institutions increased by about 76 percent from one year to the next.

We strongly believe the Committee should repeal this tax or reform the tax in ways proposed by then-Ways and Means Member Rep. Brendan Boyle (PA-02) in H.R. 5152, the Higher Education Endowment Tax Reform Act (117th Congress), which would mitigate the effect of the tax on covered institutions that choose to devote more resources to student financial aid.

## **Conclusion**

Our nation’s long-term economic growth depends upon a larger well-educated and trained workforce. Tax reform provides an opportunity to enhance access to and completion of higher education and advance the goal of producing a skilled workforce essential to our economy. Reforming key tax provisions would make them more effective for students. It is also important to address existing policies that significantly and negatively impact institutions and thereby harm students and our communities.

We thank the Committee for the opportunity to submit these comments and for considering our views. As efforts to reform the tax code move forward, we stand ready to work with you.

Sincerely,



Ted Mitchell  
President

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<sup>4</sup> 2023 *NACUBO-Commonfund Study of Endowments*, National Association of College and Business Officers, Feb. 15, 2024, <https://www.nacubo.org/Press-Releases/2024/US-Higher-Education-Endowments-Report-7-7-Return-for-FY23-While-Spending-More>.

On behalf of:

American Association of Colleges of Osteopathic Medicine  
American Association of Community Colleges  
American Association of State Colleges and Universities  
American Council on Education  
Association of American Medical Colleges  
Association of Community College Trustees  
Association of Governing Boards for Universities and Colleges  
Association of Public and Land-grant Universities  
Career Education Colleges and Universities  
College and University Professional Association for Human Resources  
Consortium of Universities of the Washington Metropolitan Area  
Council for Advancement and Support of Education  
Council for Christian Colleges & Universities (CCCU)  
Council for Higher Education Accreditation  
Council for Opportunity in Education (COE)  
Council of Graduate Schools  
Council on Social Work Education  
National Association of College and University Business Officers  
National Association of Colleges and Employers  
State Higher Education Executive Officers Association