Talking Points: H.R. 1, the Tax Cuts and Jobs Act

Overview

- UC opposes H.R. 1, the Tax Cuts and Jobs Act, as it will make higher education more expensive, less accessible; and have a negative financial impact on UC, our students, faculty and staff. Furthermore, it threatens the university’s ability to carry out its research, education, health care and public service missions.
- H.R. 1 would ultimately hurt the long-term viability of UC to serve as an engine for economic growth and innovation, educate the next-generation’s workforce, pursue groundbreaking research and deliver cutting-edge medical education and health care services.

H.R. 1 includes provisions that would adversely impact UC, including in the areas of:

Charitable Giving

- UC urges Congress to retain strong charitable giving tax incentives, which preserve the value of the charitable deduction. UC supports a universal, above-the-line deduction for charitable giving, to allow tax payers to subtract charitable donations from their income, regardless of whether they file itemized returns.
- UC depends on charitable giving and the associated tax incentives to support the university’s research, education, health care and public service missions.
- The proposed changes in H.R. 1 would negatively impact this support – with the potential for drastically reducing charitable giving. Specifically, UC is concerned about the negative impact on charitable giving that could result from fewer individuals choosing to make charitable bequests as part of their estate planning. Also, by increasing the standard deduction, without including an above-the-line universal charitable deduction, that would allow non-itemizers and itemizers to take the charitable deduction, it is predicted that there would be far fewer tax filers filing itemized returns, which is necessary to take the charitable deduction.
- Philanthropic support to UC positively impacts every aspect of the university. Charitable giving supports UC’s ability to drive innovation through cutting-edge research – advancing scientific breakthroughs, finding cures to diseases, and supporting cancer research and precision medicine activities – and assists with critical infrastructure improvements, such as assisting with the construction and renovation of student housing and facilities to support scientific discovery.
- In recent years, nearly 28,000 students received privately funded scholarships and fellowships — totaling over $150 million each year. These awards consist of almost equal parts current use gifts and payout from endowment funds. In 2016-17, just over $191 million of gifts received by UC were designated for student support.

Unrelated Business Income Taxation (UBIT)

- UC opposes the inclusion of the UBIT provision in H.R. 1, Section 5001. Clarification of unrelated business income tax treatment of entities treated as exempt from taxation under section 501(a), which would make certain investment income derived from the University of California’s Retirement Plan (UCRP) taxable, potentially subjecting UC to millions of dollars in new tax liabilities annually.
This provision will have a drastic impact on UC’s pension funds, and will negatively impact both the ability of UC to provide pension benefits to retirees and existing employees and to retain the best faculty and staff.

**Tax-Exempt Bond Financing**

- H.R. 1, would terminate private activity bonds (PABs) and advance refunding bonds. These mechanisms are critical tools used by the university to finance certain capital projects such as student housing (PABs) and refund existing debt for cashflow savings (advance refunding).
- If UC’s ability to issue tax-exempt financing in the form of private activity bonds and advanced refunding bonds is restricted, UC would be faced with the options of issuing taxable financing at a higher rate for certain projects that would have been issued as PABs; foregoing savings on projects that could be advance refunded on a tax-exempt basis, placing an increased operating burden on campuses and medical centers and require finding other sources of funding, for which options are very limited; or perhaps, foregoing executing certain infrastructure projects.

**Higher Education Tax Benefits**

- UC supports retaining and enhancing education tax benefits, which help UC students and their families afford college and repay student loans.
- H.R. 1’s repeal of higher education tax benefits is of great concern to UC, as it would threaten the affordability and accessibility of higher education. UC estimates that at least 30 percent of our students and their families rely heavily on the current law’s tax provisions.
- UC opposes:
  - Repeal of the Lifetime Learning Credit and the Hope Scholarship Credit;
  - Repeal of the current law’s exclusion from taxable income interest on U.S. savings bonds, if used to pay for qualified education expenses;
  - Repeal of the student loan interest deduction benefit; the deduction for qualified tuition and related fees;
  - Repeal of the employer-provided education assistance benefit, and Section 117 Qualified Scholarships.
- Under the Qualified Tuition Reductions benefit available under 117(d), more than 23,000 UC graduate students (more than 40 percent of all UC graduate students) earned over $250 million in tuition benefits in 2015-16. Without this provision, UC graduate students will incur personal tax liability on the amounts UC provides in tuition benefits, thereby reducing their financial resources to pay for living expenses and substantially increasing their taxable income.

**Select Number of Employer/Employee and Other Related Tax Provisions**

- There are a number of additional provisions in in H.R. 1 that would have a negative impact on the university and our employees. UC opposes:
  - The elimination of personal exemptions which would adversely impact parents who would no longer be able to take a deduction for any dependents (such as their children who are college students) and for graduate students who would no longer be able to take any personal exemptions.
  - The 20 percent excise tax on the compensation in excess of $1 million paid by tax-exempt organizations to any of its five highest paid employees per year (necessary to attracting and retaining top flight health sciences faculty and researchers).
  - Limiting the exclusion for employer-provided housing, which will likely impact employees who reside in UC-provided housing.
The repeal of the special rule for College Athletic Seating Rights that allows donors to take a charitable deduction for 80 percent of the amount paid for the right to purchase seating for college athletic events.

The repeal of the deduction for qualified moving expenses, such as payments received from an employer incurred in conjunction with starting a new job, which would negatively impact UC’s ability to attract the most qualified faculty and staff.

The repeal of the taxpayer deduction for out-of-pocket medical expenses of the taxpayer, a spouse or a dependent. This could harm UC employees and our patients incurring medical expenses.

The repeal of Qualified Transportation benefits, which allow employees to pay for certain transportation expenses on a pre-tax basis to help defray costs for the use of van pools, public transportation or for certain parking expenses, thereby helping attract a high-quality work-force, providing incentives for employees to use public transportation and carpool and benefiting California’s environment.

Attachment: Tax Reform: H.R. 1, the Tax Cuts and Jobs Act, and the Impact to the University of California