Summary of Higher Education Provisions in HR 1 – Tax Cuts and Jobs Act

Consolidation of higher education tax credits

The bill would consolidate the AOTC, the Hope Scholarship Credit and the Lifetime Learning Credit. The new AOTC, like the current AOTC, would provide a 100-percent tax credit for the first $2,000 of certain higher education expenses and a 25-percent tax credit for the next $2,000 of such expenses. Like the current AOTC, expenses covered under the credit include tuition, fees, and course materials. The AOTC would also be available for a fifth year of post-secondary education at half the rate as the first four years, with up to $500 of such credit being refundable. The HSC and LLC would be repealed. The provision would be effective for tax years beginning after 2017.

Modifications to education savings rules

Under the provision, new contributions to Coverdell education savings accounts after 2017 (except rollover contributions) would be prohibited, but tax-free rollovers from Coverdell accounts into section 529 plans would be allowed. Elementary and high school expenses of up to $10,000 per year would be qualified expenses for section 529 plans. Qualified expenses would also be expanded to cover expenses associated with apprenticeship programs.

Student Loan Forgiveness

Under the legislation, any income resulting from the discharge of student debt due to death or total disability of the student would be excluded from taxable income. The provision would exclude from income repayment of a taxpayer's loans pursuant to the Indian Health Service Loan Repayment Program. The provision would be effective for discharges of indebtedness received after 2017 and amounts received in taxable years beginning after 2017.

Repeal of certain education deductions - Interest Payments on Qualified Education Loans; Tuition and Related Expenses; Interest on United States Savings Bonds; Qualified Tuition Reductions for education institution employees; employer-provided education assistance

Under the provision, the deduction for interest on education loans and the deduction for qualified tuition and related expenses would be repealed. The exclusion for interest on United States savings bonds used to pay qualified higher education expenses, the exclusion for qualified tuition reduction programs, and the exclusion for employer-provided education assistance programs would also be repealed.

The exclusion for education assistance programs would be effective for amounts paid or incurred after 2017. The other provisions would be effective for tax years beginning after 2017.

Charitable contributions

College Athletic Event Seating Rights – the bill repeals the special rule that provides a charitable deduction of 80 percent of the amount paid for the right to purchase tickets for athletic events.

Tax on large private university endowments

Endowments at private colleges with assets of more than $100,000 per student would be taxed at 1.4 percent on net investment income, according to the bill. The provision would increase revenue by $3 billion between 2018 to 2027. The tax exempts small private schools.

Unrelated business income tax

Under current law, income derived from a trade or business regularly carried on by an organization exempt from tax under Code section 501(a) (including pension plans) that is not substantially related to the performance of the organization's tax-exempt functions is subject to the unrelated business income tax ("UBIT"). The highest corporate rate is applied to unrelated business income. A college or university that is an agency or instrumentality of a State government (or political subdivision) generally is subject to UBIT on any unrelated business taxable income. It is unclear, however, whether certain State and local entities (such as public pension plans) that are exempt under Code section 115(l) as government-sponsored entities as well as section 501(a) are subject to the UBIT rules.

Under the proposed legislation, all entities exempt from tax under section 501(a), notwithstanding the entity's exemption under any other provision of the Code, would be subject to the UBIT rules. The provision would be effective for tax years beginning after 2017.