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UT LAW CLE

TEXAS Law
The University of Texas at Austin
School of Law

RECENT DEVELOPMENTS IN COLLEGE & UNIVERSITY TAX LAW

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AGENDA

- Legislative Developments
- IRS Updates
- Special Issues
- Compensation & Fringe Benefits
- Reporting Requirements
- Charitable Giving
- Unrelated Business Taxable Income (UBTI) and Other Topics

The nation should have a tax system that looks like someone designed it on purpose – William E. Simon, Former Secretary of Treasury of the U.S

Legislative Developments

"Congress can raise taxes because it can persuade a sizable fraction of the populace that somebody else will pay." -- Milton Friedman

- **One Big Beautiful Bill** - On May 12, Ways and Means Chair Smith (R-MO) released a draft of Title XI of the budget reconciliation bill with a section by section summary.
  - Rules Committee Print 119-3 contained modifications.
- **Favorable Proposals**
  - **Reinstate the nonitemizer charitable deduction,**
  - **Make permanent the application of employer-provided loans under section 127 to student loan payments and index it to inflation,**
  - **Raise the reporting threshold of Form 1099 from $600 to $2,000 and index it to inflation.**

Other Proposals

- **Parking Tax** – The bill would reinstate the “parking” tax which subjects to UBIT the employer’s expenses when providing section 132(f) qualified transportation fringe benefits. Would begin Jan. 1.
- **Taxation of Royalties** - It also proposes to tax royalties as UBTI from the license of an organization’s name or logo.
- **Excess Compensation** – It would expand the excise tax on excess compensation under section 4960 to cover all employees who earn compensation over $1M.
- **Credits** – It would eliminate and phase-out energy tax credits.

Other Proposals: Rules Committee Print

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Net Investment Income (NII) Tax

- **Modifications to NII (dubbed the endowment tax) in Section 4968** – The bill would create a tiered rate structure based on the student adjusted endowment size:
  - **$500,000-$750,000: 1.4%**
  - **$750,000-$1,250,000: 7%**
  - **$1,250,000-$2,000,000: 14%**
  - **Above $2,000,000: 21%**
- **Threshold** – It would change the threshold by excluding most international students from the denominator when computing the $500,000 threshold and would add a reporting requirement to Form 990 regarding the number of such students.
- **Exclusions and Exceptions** – It would exclude public colleges and universities and would except certain religiously affiliated colleges and universities.
- **Effective Date** - Beginning FY27.

Title search: Recent Developments in College and University Tax Law

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