

May 20, 2019

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

RE: Support for Kiddie Tax Scholarship Fix in SECURE Act

Dear Mr. Chairman:

I am writing today to thank you for including provisions in H.R. 1994, the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act), to correct changes made to the so-called “kiddie tax” in the Tax Cuts and Jobs Act of 2017 (TCJA) that inadvertently causes harm to many low- and middle-income students who rely on scholarship aid to pay for their college education. We support these provisions and are pleased that the House will have the opportunity to fix this problem when the SECURE Act comes up for a floor vote later this week.

As you are aware, college scholarships and/or grants have been exempt from federal income tax since 1986 if they are used to pay for tuition, required fees, books, supplies, and equipment. However, scholarships and/or grants for non-tuition expenses like room and board are taxed as a form of unearned income for some students under the so-called kiddie tax.

Prior to the TCJA, children subject to the kiddie tax had their net unearned income (total unearned income less \$2,100) subject to the marginal tax rate of their parents, which for low-income students is almost always low. The kiddie tax applies to full-time college students under age 24. The TCJA changed the rate rules for the tax. Instead of taxing a child’s net unearned income at his or her parent’s rates, the kiddie tax now applies the rates used for trusts and estates, which are higher and highly compressed compared to the tax rates for individual income filers.

Unfortunately, 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. Now these students are being taxed at the same rates as wealthy individuals.

Consider the impact on a full-time undergraduate student, claimed as a dependent by her parents, who have an income of \$50,000 a year and jointly file as a married couple.

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In this example, the student receives a full scholarship for the total cost of the education at a university, which includes tuition, room and board, books, and supplies.

Roughly \$11,500 of the scholarship is subject to taxation, because it pays for room and board and similar expenses. If that money was taxed under the same 12 percent rate that applies to the student's parents' regular income, the amount owed now would be less than \$1,400. But because it is taxed at the much higher trust and estates rates the amount owed is more than \$2,600, an 85 percent increase.

Academic, need-based scholarship students are not the only ones impacted by the amended kiddie tax. College athletes on full scholarships, which include money for housing and other non-tuition expenses, are also impacted by the kiddie tax changes, many of whom, of course, come from economically disadvantaged families. Overall, based on Department of Education data, the increased tax on scholarship/grant aid could affect nearly 1.4 million students and their families.

The fix to the kiddie tax incorporated into the SECURE Act will limit the tax liability of these students by treating the portion of scholarship aid devoted to non-tuition expenses as a form of earned income that will be taxed at the student's income tax rate, which will be very low since these students will have little earned income. In addition, the provision is retroactive to December 31, 2017, which will mean that the fix applies to the 2018 taxable year. This will bring much needed relief to those who were harmed by the mistaken changes to the kiddie tax in the TCJA.

The problems caused by the change to the kiddie tax extend beyond higher education. We understand that some "Gold Star" families receiving survivor benefits and some Native American children receiving tribal payments also are affected. The provisions incorporated into the SECURE Act will rectify those issues as well

Thank you for your attention to this issue and including these provisions in the SECURE Act.

Sincerely,



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 Universities

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Association of Jesuit Colleges and Universities

Association of Public and Land-grant Universities

National Association of Independent Colleges and Universities

National Association of Student Financial Aid Administrators