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December 6, 2017

HOUSE AND SENATE CONFEREES ON TAX REFORM LEGISLATION

Dear Conferees:

As you negotiate final Tax Cuts and Jobs Act legislation, the University of California urges your consideration of our attached recommendations.

As the largest public research university system in the nation, and the third largest employer in the state of California, UC is deeply concerned about several proposals in the House and Senate versions of the Tax Cuts and Jobs Act that could harm our University community, including provisions that would:

- Repeal higher education tax benefits;
- Dramatically weaken charitable giving tax incentives;
- Repeal Private Activity Bonds and Advance Refunding Bonds, which are critical tools used by UC to finance capital and infrastructure projects; and
- Change existing tax code relative to Unrelated Business Interest Taxation that would substantially increase tax burdens for tax-exempt organizations, including UC.

The attached document outlines several additional concerns regarding provisions that would adversely impact our students, staff and faculty – including their families – as well as our alumni and other members of the University community.

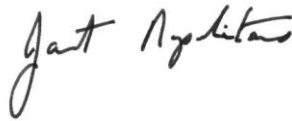
UC also strongly opposes the repeal of the individual insurance mandate requirement for individuals to purchase health insurance, included in the Senate bill, and urges the conferees to reject the inclusion of this provision in any final conference agreement. In addition, UC is concerned that due to the “Statutory PAYGO” law, there is also a risk of new cuts to Medicare and other important mandatory programs, as well as the elimination of federal support for Build

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America Bonds and Tax Credit Bonds, to make up for the cost of the tax legislation.

If you have questions about UC's position on the proposals before the tax conference committee moving through Congress, please contact me or Interim Associate Vice President for Federal Governmental Relations Chris Harrington. He can be reached by telephone at (202) 974-6314 or by email at Chris.Harrington@ucdc.edu.

Yours very truly,

A handwritten signature in black ink that reads "Janet Napolitano". The signature is written in a cursive style with a large initial "J".

Janet Napolitano
President

Attachment

cc: Senate Majority Leader Mitch McConnell
Senate Democratic Leader Charles Schumer
Senate Majority Whip John Cornyn
Minority Whip Richard Durbin
Members of the California congressional delegation
Chris Harrington, interim associate vice president

University of California Views on the Conference of H.R. 1, the Tax Cuts and Jobs Act

UC urges conferees to reject changes to the U.S. Tax Code that would make higher education more expensive and less accessible, have a negative financial impact on our students, faculty, staff and retirees, and make it more difficult for the university to carry out its core missions.

UC is also deeply concerned about two other adverse impacts associated with the Senate tax bill. The first is the proposed repeal of the individual insurance mandate requirement for individuals to purchase health insurance. Second, due to Senate reconciliation rules and the “Statutory PAYGO” law, there is also a risk that federal support for Build America Bonds and Tax Credit Bonds would be eliminated – along with cuts to Medicare and other important mandatory programs – to make up for the cost of the tax legislation.

Please find below UC’s position on provisions that are of greatest concern to the university:

HIGHER EDUCATION TAX BENEFITS:

- **UC supports retaining and enhancing higher education-related tax benefits and opposes the House-proposed repeal of higher education tax benefits. UC is pleased that the Senate legislation does not include provisions to repeal or reduce higher education tax benefits, many of which benefit students from low and middle-income families.**

UC Conference Request: UC urges Congress to maintain all existing higher education-related tax benefits, and to reject provisions in House Sections 1201-1204 that would repeal or undermine critical benefits. UC urges Congress to reject the repeal of: the Lifetime Learning Credit, the Hope Scholarship Credit, Coverdell Education Savings Accounts, the Student Loan Interest Deduction, the Deduction for Qualified Tuition and Fees, Interest on U.S. Savings Bonds, Section 127 Employer-Provided Educational Assistance, and Section 117 Qualified Scholarships, including Section 117(d) Qualified Tuition Reductions, which allows for qualified tuition reductions provided by educational institutions to their employees, to be excluded as taxable income for the employee, such as a graduate student receiving tuition benefits in exchange for serving as a teaching or research assistant.

TAX EXEMPT BOND FINANCING:

- **UC urges Congress to preserve tax-exempt bond financing options, which are critical to UC’s ability to continue to fund capital and infrastructure projects.**

UC Conference Request: UC urges Congress to preserve vital tax-exempt bond financing options and to reject the inclusion of Senate Section 13532 Repeal of Advance Refunding Bonds, and House Sections 3601 Termination of Private Activity Bonds and 3602 Repeal of Advance Refunding Bonds. Tax-exempt financing helps UC to finance a variety of academic, student housing, hospital and other projects across all campuses and medical centers. These investments in the university’s facilities and infrastructure are critical to meet its mission of teaching, research, health care and public service.

UNRELATED BUSINESS INCOME TAXATION (UBIT):

- **UC objects to the inclusion of UBIT provisions that would substantially increase tax burdens for tax-exempt organizations.**

- **UC opposes House Section 5001. Clarification of unrelated business income tax treatment of entities treated as exempt from taxation under section 501(a)**, which would repeal the UBIT exemption for income derived from the public pension plans of government-sponsored entities, such as the University of California's Retirement Plan (UCRP), and treat certain UCRP investment income as subject to UBIT. This provision would substantially increase UC's tax liabilities and make it more difficult to ensure sufficient UCRP pension funds are available to benefit UC's employees and retirees.

UC Conference Request: UC urges Congress to reject the inclusion of House Section 5001, Clarification of unrelated business income tax treatment of entities treated as exempt from taxation under section 501(a) in any final legislation, and to continue to allow for a UBIT exemption to exist for investment income derived from public pension plans.

- **UC opposes Senate Section 13702, Unrelated Business Taxable Income (UBTI) Separately Computed for Each Trade or Business**, which would require net operating loss calculations for all unrelated trades or businesses to be calculated separately for each trade or business activity, rather than the current law's practice of allowing tax-exempt entities to determine the net income and losses from all unrelated trade or business activities.

UC Conference Request: UC urges Congress to reject Senate Section 13702 and to continue to allow net operating losses from one activity to be used to offset income by taking into consideration the full picture of income and losses for all unrelated trade or business activities.

- **UC opposes the House Section 5002. Exclusion of research income limited to publicly available research**, which would eliminate the current exemption from UBIT for income derived from research performed at UC campuses, to allow for an exclusion from UBIT of research income to be available only if the results are freely made available to the public.

UC Conference Request: UC urges Congress to reject House Section 5002 and to allow for a UBIT exemption for fundamental research.

UC Conference Request: UC urges Congress to ensure that name and logo royalties remain exempt from UBIT. UC appreciates that the Senate version does not include a provision which would have eliminated the UBIT exemption for name and logo royalties.

CHARITABLE GIVING:

- **UC urges Congress to retain strong charitable giving tax incentives. UC is also concerned about the impact on charitable giving that may occur due to the changes to the estate tax, which is in both the House and the Senate bills.**

UC Conference Request: UC urges Congress to include a universal above-the-line charitable deduction in any final tax agreement, so non-itemizers, as well as tax payers filing itemized returns, are incentivized to make charitable contributions. UC is concerned that absent the inclusion of a universal, above-the-line charitable deduction, the tax legislation will have a significant negative impact on charitable giving to the university.

ENDOWMENTS:

- **UC opposes provisions that negatively impact the tax treatment of endowments.**

UC Conference Request: UC urges Congress to reject House Section 5103 and Senate Section 13701, which impose a 1.4 percent excise tax on certain private university endowments. While the language would not apply to UC as a public institution, the university remains concerned about the inclusion of any language that negatively impacts the tax treatment of endowments.

INDIVIDUAL MANDATE REPEAL:

- **UC urges Congress to reject Senate Section 11081, Individual Mandate Elimination of Shared Responsibility Payment for Individuals, that repeals the individual mandate requirement for individuals to purchase health insurance under the Affordable Care Act.**

UC Conference Request: UC urges Congress to maintain the existing individual health care coverage mandate, and to reject Senate Section 11081. If a repeal of the individual mandate is enacted, many Californians dependent upon exchange health plans would likely see their exchange plan premiums increase, as younger, healthier people no longer have a requirement to purchase insurance.

EMPLOYER/EMPLOYEE AND OTHER ISSUES:

Outlined below are provisions in the tax reform proposals that would also adversely impact our employees and their families, as well as members of our alumni community and others.

- **Repeal of deduction for personal exemptions:** UC is concerned that the elimination of the deduction for personal exemptions under Senate Section 11041 and House Section 1003 could increase tax liabilities for the families of UC students since parents would no longer be able to take a deduction for any dependents, as well as for students who are independent tax filers.

UC Conference Request: UC urges Congress to maintain the current tax law's deduction for personal exemptions in any final tax reform legislation.

- **Limitation on exclusion for employer-provided housing:** UC is concerned that House Section 1401 limits the exclusion from income for employer-provided housing under Section 119, which will impact certain employees who reside in UC-provided housing. This provision will harm UC's ability to ensure that employees who need to reside on UC property do not incur additional personal income tax liability in a state with a high cost of living.

UC Conference Request: UC urges Congress to reject House Section 1401, and to ensure that the current law's exclusion from income for employer-provided housing is retained.

- **Excise tax on excess tax-exempt organization executive compensation:** UC opposes Senate Section 13602 and House Section 3803, which impose a 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. These provisions will impose new excise tax liabilities on UC.

UC Conference Request: UC urges Congress to reject Senate Section 13602 and House Section 3803, which impose new excise tax liabilities on tax-exempt organizations.

- **Charitable Contributions:** UC is concerned that Senate Section 13703 and House Section 1306 would repeal 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 athletic events.

UC Conference Request: UC urges Congress to maintain the current tax law’s special rule for College Athletic Seating Rights, and to reject Senate Section 13703 and House Section 1306.

- **Repeal of deduction for moving expenses:** UC is concerned that Senate Section 11050 and House Section 1310 repeal the deduction for qualified moving expenses, such as payments received from an employer in conjunction with starting a new job. Repealing this provision may negatively impact UC’s ability to recruit and retain faculty and staff.

UC Conference Request: UC urges Congress to retain the deduction for qualified moving expenses, and to reject Senate Section 11050 and House Section 1310.

- **Medical expenses deduction:** UC is pleased that Senate Section 11028, Temporary Reduction in Medical Expense Deduction Floor, retains the taxpayer deduction for out-of-pocket medical expenses. Unfortunately, House Section 1308 repeals the medical expense deduction, which will harm UC employees and patients incurring high medical expenses.

UC Conference Request: UC urges Congress to include Senate Section 11028.

- **UBTI increased by amount of certain fringe expenses for which deduction is disallowed:** UC is concerned that House Section 3308 repeals 132(f) Qualified Transportation benefits, which allows employees to pay for certain transportation expenses on a pre-tax basis.

UC Conference Request: UC urges Congress to retain 132(f) benefits and to reject the House proposal to repeal the ability for employees to pay for certain transportation expenses on a pre-tax basis.

- **UC is pleased that the Senate passed version no longer includes Subtitle M. Retirement Savings 1. Conformity of contribution limits for employer-sponsored retirement plans, which would have substantially decreased the amount of retirement savings participants of 403(b) and 457 retirement plans, such as UC employees, may set aside.**

UC Conference Request: UC urges Congress to continue to reject limitations on retirement savings that participants of 403(b) and 457 retirement savings plans may set aside.

OTHER IMPACTS:

- **Risk of mandatory programs sequestration under Statutory PAYGO law. UC is concerned that Direct Subsidy Payments on Build America Bonds and Tax Credit Bonds could be eliminated to offset the cost of the tax legislation.**

UC Conference Request: UC urges Congress to protect federal support for Build America Bonds (BAB) and Tax Credit Bonds (TCB), as well as Medicare, Medicaid, Social Security and other programs critical to sustaining a healthy democracy and economy. Due to Senate reconciliation rules and the “Statutory PAYGO” law, there is a risk that federal support for these programs could be jeopardized to offset the cost of the tax legislation.