

# UNIVERSITY OF CALIFORNIA

BERKELEY • DAVIS • IRVINE • LOS ANGELES • MERCED • RIVERSIDE • SAN DIEGO • SAN FRANCISCO



SANTA BARBARA • SANTA CRUZ

1111 Franklin Street  
Oakland, CA 94607-5200  
Phone: (510) 987-9074  
<http://www.ucop.edu>

November 29, 2017

The Honorable Mitch McConnell  
Majority Leader  
United States Senate  
U.S. Capitol Building, Room S-230  
Washington, DC 20510

The Honorable Charles Schumer  
Democratic Leader  
United States Senate  
U.S. Capitol Building, Room S-224  
Washington, DC 20510

The Honorable John Cornyn  
Majority Whip  
United States Senate  
U.S. Capitol Building, Room S-208  
Washington, DC 20510

The Honorable Richard Durbin  
Minority Whip  
United States Senate  
U.S. Capitol Building, Room S-321  
Washington, DC 20510

The Honorable Orrin Hatch  
Chairman  
U.S. Senate Committee on Finance  
United States Senate  
219 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Ron Wyden  
Ranking Member  
U.S. Senate Committee on Finance  
United States Senate  
219 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Dianne Feinstein  
United States Senate  
331 Hart Senate Office Building  
Washington, DC 20510

The Honorable Kamala Harris  
United States Senate  
112 Hart Senate Office Building  
Washington, DC 20510

Dear Majority Leader McConnell, Democratic Leader Schumer, Majority Whip Cornyn, Minority Whip Durbin, Chairman Hatch, Ranking Member Wyden, Senator Feinstein and Senator Harris:

On behalf of the University of California (UC), the largest public research university system in the nation, and the third largest employer in the state of California, I write to urge you and your colleagues to oppose the Tax Cuts and Jobs Act when it comes to the floor of the United States Senate. If enacted, this legislation will be harmful to universities, students, faculty, and staff here in California and across the country.

Senator McConnell, Senator Schumer, Senator Cornyn, Senator Durbin, Senator Hatch, Senator Wyden, Senator Feinstein, and Senator Harris  
November 29, 2017  
Page 2

UC appreciates Congress's efforts to simplify the tax code, and recognizes that federal policymakers must balance competing priorities, especially as they relate to the current economic challenges facing our nation. But, tax reform should not come at the expense of students or colleges and universities. Universities across the nation serve as engines of economic growth and innovation in their communities, educate the next generation's workforce, pursue groundbreaking research, and deliver cutting-edge medical education and health-care services. Unfortunately, the legislation before the Senate would make higher education less affordable and less accessible.

UC is pleased that, unlike the House-passed legislation, the Senate bill does not include the provisions of H.R. 1 that repeal critical higher education tax benefits, many of which benefit students from lower-income and middle-income families. UC supports retaining and enhancing higher education related tax benefits, and urges the Senate to reject the inclusion of H.R. 1's repeal of education tax related provisions in any final bill. UC is also pleased that the Senate bill retains the deduction for out-of-pocket medical expenses. This provision is particularly important to many of our UC medical center patients who suffer from highly acute medical conditions that necessitate complex and expensive treatment.

However, UC opposes the Senate bill as it includes a number of provisions that would negatively impact the University community. While these provisions are detailed in the attached analysis, UC is most concerned with the legislation's adverse impact on charitable giving; the language which repeals Advance Refunding Bonds, which are a critical tool used by the University to finance numerous capital projects; and the inclusion of Unrelated Business Income Taxation (UBIT) provisions, which would substantially increase tax burdens for UC and other tax-exempt organizations, such as the requirement that net operating loss (NOL) calculations for all unrelated trades or businesses be calculated separately for each trade or business activity and the repeal of the exemption for name and logo royalties. UC also has a number of additional provisions that would negatively impact the University and our employees.

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

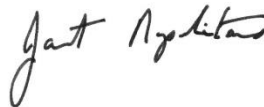
Senator McConnell, Senator Schumer, Senator Cornyn, Senator Durbin, Senator Hatch, Senator Wyden, Senator Feinstein, and Senator Harris  
November 29, 2017  
Page 3

with cuts to Medicare and other important mandatory programs – to make up for the \$1.5 trillion cost of the tax legislation.

As you and your colleagues continue to consider tax reform legislation, UC urges you to adopt amendments that support higher education, serve as a catalyst for research and health-care enterprises, provide increased educational tax benefits for students, and make wise investments in our nation's workforce. We ask that any legislation passed not come at the expense of our neediest students or most vulnerable patients being able to maintain access to quality higher education and health-care services.

If you have questions about UC's position on the tax reform proposals 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](mailto:Chris.Harrington@ucdc.edu).

Yours very truly,



Janet Napolitano  
President

Attachment

cc: Members of the California congressional delegation  
Interim Associate Vice President Chris Harrington

## University of California Tax Reform Analysis

H.R. 1, the Tax Cuts and Jobs Act, and the Senate version of the Tax Cuts and Jobs Act both include numerous changes to the U.S. Tax Code that will have a negative impact on the University of California (UC). These bills would make higher education more expensive and less accessible and have a negative financial impact on the university and our students, faculty, staff and retirees, ultimately making it more difficult for UC to continue to operate effectively.

With more than 264,000 students, 165,000 faculty and staff, and 1.8 million living alumni, the University of California is the largest public research university system in the world. The UC system includes 10 campuses and five medical centers, and is the third largest employer in the state of California. The tax reform proposals currently under consideration threaten UC's ability to carry out its research, education, health care and public service missions.

In addition to the concerns laid out in detail below, UC is 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 \$1.5 trillion cost of the tax legislation.

UC opposes the Senate's version of the Tax Cuts and Jobs Act and H.R. 1, the Tax Cuts and Jobs Act, in their current forms.

Please find below UC's analysis of specific provisions of the House and Senate proposals that are of greatest concern to the university:

### **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.**

As the nation's largest public research university, UC depends on charitable giving and the strong charitable giving tax incentives that exist under current law to support the university's research, education, public service and health care missions. Adverse changes to the charitable contribution deduction under the U.S. Tax Code would significantly impact this important source of support – with the potential for drastically reducing charitable giving. At a time when UC is increasingly reliant on private support, any reduction in charitable giving could be devastating to the university.

Charitable contributions serve a critical role in all aspects of UC's operations, including helping to ensure that UC students receive the institutional financial support they need. The 2017 fiscal year

was a strong fundraising year for UC with the university raising slightly more than \$2 billion. Consistent with prior years, this philanthropic support positively impacts virtually every aspect of the university –from student financial aid and research to departmental support and financing capital facilities.

UC receives support from a broad base of donors – well over 300,000 individuals, corporations and foundations – and while the base is broad, and many small donations are made, a significant amount of support comes to UC in gifts of \$1 million or more. The experience at UC is generally consistent with national data reflecting the impact of economic conditions on charitable giving by taxpayers. As a result, UC anticipates that any adverse change in the charitable income tax deduction would negatively impact charitable giving. While difficult to quantify, the timing and the extent of charitable giving is significantly influenced by tax and financial considerations.

Student support has always been a focal point for philanthropic support at UC as well as colleges and universities across the country. UC has a deep and longstanding commitment to ensuring that financial aid is available for students and their families. This commitment is met through federal aid (Pell Grants), state aid (Cal Grants), UC's commitment of its own resources and increasingly, privately funded scholarships and fellowships. 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 aid.

In addition to providing financial support to UC students, charitable giving supports UC's ability to drive innovation through cutting edge research, including advancing scientific breakthroughs, finding cures to diseases and supporting cancer research and precision medicine activities. Charitable giving also supports UC's health sciences and medicine programs; our ability to provide medical care to patients; the training of medical students and the next generation of health science professionals; and plays a critical role in supporting UC's faculty, academic departments, museums and libraries. Charitable giving provides funding to assist with making critical infrastructure improvements, such as to assist with the construction and renovation of student housing and facilities to support scientific discovery.

### **Impact of the Senate legislation and H.R. 1 on Charitable Giving:**

UC is concerned that the Senate legislation and H.R. 1 will have a significant negative impact on charitable giving to the university. Specifically, the bills increase the standard deduction for tax filers, which is predicted to reduce charitable giving, since fewer tax filers would choose to file itemized returns, which is necessary to claim the charitable deduction. A [report](#) issued in May 2017 by the Independent Sector and Indiana University's Lilly Family School of Philanthropy, *Tax Policy and Charitable Giving Results*, predicted that charitable giving could drop significantly as a result of increasing the standard deduction, due to the resulting drop that would occur in the number of itemizers. To help minimize the negative impact on charitable giving because of fewer tax filers choosing to file itemized returns, UC supports enactment of a universal, above the line charitable deduction, which would allow tax payers to subtract their charitable contributions from their taxes, before choosing whether to file itemized or non-itemized returns.

UC is also concerned about the negative impact on charitable giving that could result from the estate tax changes in Subtitle E, Increase in Estate and Gift Tax Exemption, of the Senate legislation and in Subtitle G, Estate and Generation-skipping Transfer Taxes of H.R. 1, since fewer individuals may choose to make charitable bequests as part of their estate planning because of the

language. UC joins with the larger charitable community in encouraging further examination of the potential impact on charitable giving before proposing such dramatic changes to the current tax law.

### **ENDOWMENTS:**

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

Endowments assist higher education institutions in achieving their missions by providing a stable source of revenue for student financial aid, teaching, research, other operating expenses and capital improvements. At colleges and universities across the nation, endowment funds provide critical support for today's faculty and students, and endowments established today are intended to provide support for future generations. While the language in the Senate legislation and Section 5103 of H.R. 1 that establishes an excise tax based on investment income for certain private colleges and universities 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. The creation of new excise tax liabilities on university endowments sets a bad precedent given the critical role endowments play in helping colleges and universities provide institutional financial aid to their students and support for faculty.

### **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 the inclusion in the Senate legislation Name and logo royalties treated as unrelated business taxable income.** Specifically, the proposal would amend Section 513 of the Internal Revenue Code to provide that any sale or licensing by a tax-exempt organization of any name or logo of the organization (including any trademark or copyright related to a name or logo) be treated as an unrelated trade or business that is regularly carried on by the organization. The proposal would also amend Section 512 to provide that any income from the licensing of name or logo would be treated as unrelated business taxable income (UBTI), notwithstanding the provisions of Section 512(b). Subjecting UC to taxation on income derived from the licensing of its name and logos will significantly increase UC's taxable income, while reducing the assets available to UC campuses to support core student and campus activities. At one UC campus alone, the estimated royalties received annually is in the \$2-3 million range, but it is unknown how much may be offset. Furthermore, because current law does not require UC to treat name and logo royalties as UBTI, the exact monetary impact of this provision is unknown and may be difficult to calculate. As noted above, name and logo royalties received by UC campuses generate resources that provide critical support to students and campus activities and should continue to be considered core mission-related activities exempt from taxation as an unrelated trade or business. UC urges Congress to reject the inclusion of this provision in the Senate legislation and to retain the exemption from UBIT for name and logo royalties.
- **UC opposes the inclusion in the Senate legislation Unrelated business income separately computed for each trade or business,** which would require net operating loss (NOL) 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. The Senate proposal will only allow NOLs to be used to offset income from those activities to which they are specifically related, rather than the current practice, which permits an organization to determine net income by taking into consideration the full picture of income and losses for all unrelated trade or business activities. The loss of UC's ability to use consolidated losses against all activities generating unrelated business taxable income will significantly increase UC's tax liabilities and will make computing tax liabilities more difficult and administratively burdensome. Although the proposal allows an unlimited carryover of the NOL deduction, it limits the usage of the NOL to 90 percent of taxable income. It is unclear in the Senate proposal how the use of foreign tax credits and general business credits will be available under the "basketing" provision and whether they are limited to an activity by activity basis.

The Senate legislation will put tax-exempt organizations at a disadvantage as compared to corporations and other for-profit entities, which will still be able to calculate losses and gains on an aggregate basis, as a standard practice, and will not be required to calculate losses and earnings on a per activity basis. This proposal penalizes tax-exempt organizations in comparison to for-profit entities and treats tax-exempt organizations differently with no underlying rationale. This proposal will harm tax-exempt organizations and make it more difficult to continue to operate effectively. UC urges Congress to reject the inclusion of this provision in the Senate legislation and to preserve the current law's practice of allowing tax-exempt organizations to calculate UBTI based on allowing the net operating losses from all activities to be used to offset the net income from all activities.

- **UC opposes the UBIT provisions included 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 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 investment income of UCRP as subject to UBIT. UC urges Congress to reject the inclusion of Section 5001 as tax reform moves forward.
- **UC opposes the inclusion in H.R. 1 of 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 of which are freely made available to the public.

UC urges Congress to reject changes to the existing UBIT rules, as tax reform legislation is considered.

### **TAX EXEMPT BOND FINANCING:**

- **UC urges Congress to preserve tax-exempt bond financing options, which are critical to financing capital projects, and to reject the provision in the Senate legislation, Repeal of advance refunding bonds, and the provisions in H.R. 1, Section 3601. Termination of private activity bonds, and Section 3602., Repeal of advance refunding bonds, which will severely impact UC's ability to continue to fund capital and infrastructure projects.**

UC increasingly relies on financing to fund capital projects in the environment of less state funding. The university currently has approximately \$19 billion in bonds issued by or for the benefit of the university outstanding, approximately \$13 billion of which is tax-exempt debt. UC benefits from tax-



exempt financing rates, which are lower than taxable financing rates. If UC's ability to issue tax-exempt financing is restricted, UC would be faced with the options of issuing taxable financing at a higher rate, placing an increased operating burden on campuses and medical centers; finding other sources of funding, for which options are very limited; or foregoing certain projects. Tax-exempt financing has helped finance a variety of academic, student housing, hospital and other projects across all campuses and medical centers. These projects are investments in the university's facilities and infrastructure, which are critical for the university to meet its mission of teaching, research, health care and public service. Some recent examples of tax-exempt bond financed projects include: the Clinical Sciences Building seismic retrofit at UC San Francisco, the Coastal Biology Building at UC Santa Cruz, the Tercero Student Housing project at UC Davis, and the Jacobs Medical Center at UC San Diego.

- **UC opposes the inclusion in the Senate legislation, Repeal of advance refunding bonds, and in H.R. 1, Section 3602. Repeal of advance refunding bonds:** The repeal of the ability to advance refund bonds on a tax-exempt basis would negatively impact UC's ability to finance capital projects. The university issues advance refunding bonds when interest rates are low for interest rate savings (similar to refinancing a home mortgage), and this provision would adversely impact the university's ability to achieve interest cost savings in a low interest rate environment.
- **UC opposes the inclusion in H.R. 1 of Section 3601. Termination of private activity bonds:** The termination of tax-exempt private activity bonds would have a significant negative impact on UC's ability to finance capital projects. The university has benefited from the issuance of tax-exempt private activity bonds to finance numerous capital projects and intends to utilize tax-exempt private activity bonds in the future for additional capital projects, such as student housing. This provision would adversely impact the university's cost and ultimately, its ability to finance these projects.

UC urges Congress not to include changes to tax-exempt bond financing mechanisms as part of tax reform legislation.

### **INDIVIDUAL MANDATE REPEAL:**

- **UC urges Congress to reject the inclusion of language in the Senate legislation that repeals the Individual Mandate requirement for individuals to purchase health insurance under the Affordable Care Act (ACA).**

During the Senate Committee on Finance's markup, a provision was added that would repeal the Individual Mandate requirement for individuals to purchase health insurance under the ACA. Passage of the ACA has allowed 1.5 million Californians to purchase private insurance through California's state health exchange, Covered California. The individual coverage mandate has encouraged young, healthy people who do not otherwise have a forum for purchasing insurance (e.g., do not have employer-sponsored insurance or qualify for Medicaid or Medicare), to purchase qualified health plans sold on the Covered California exchange. Younger, healthier people purchasing insurance in conjunction with multiple insurance issuers offering exchange qualified health plans through Covered California has allowed California to keep its individual insurance rates affordable to most exchange enrollees.

If a repeal of the individual mandate were 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. Additionally, persons of a middle-class background who depend upon Covered California health plans for coverage would see any potential tax liability decrease experienced under tax provisions of the bill superseded by repeal of the mandate significantly driving up their healthcare coverage and out-of-pocket medical expense costs.

### **HIGHER EDUCATION TAX BENEFITS:**

- **UC supports retaining and enhancing higher education related tax benefits and opposes the repeal of higher education tax benefits included in H.R. 1. 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 lower-income and middle-income families.**

UC supports retaining and enhancing education tax benefits, which help UC students and their families afford college and repay student loans. These provisions help keep college affordable and ensure college is accessible. UC opposes the changes to higher education tax benefits in Subtitle C - Simplification and Reform of Education Incentives, which eliminates critical existing tax benefits, and makes the cost of attending college more expensive for students and their families. The university estimates that at least 30 percent of UC students and their families rely heavily on the current law's tax provisions. H.R. 1 will hurt UC students and their families who are just out of reach of need-based financial aid programs, but still struggle with the cost of attending college, most of which are living expenses such as housing, food, books and supplies. UC's views on specific changes to education tax benefits in H.R. 1 are outlined below.

### **Section 1201. American Opportunity Tax Credit (AOTC):**

- **American Opportunity Tax Credit (AOTC):** H.R. 1 retains the AOTC, and would expand the time limit available to use the AOTC to five years, instead of four years, but in the 5<sup>th</sup> year, the benefit is reduced by half. It is positive that H.R. 1 retains the AOTC, but most other important higher education tax benefits would be repealed.
- **Lifetime Learning Credit (LLC):** UC opposes the repeal of the LLC, which is an especially important credit available to students since the LLC is currently available for an unlimited number of years. In particular, the elimination of the LLC would harm many graduate and non-traditional students, including transfer and re-entry students.
- **Hope Scholarship Credit:** UC opposes the repeal of the Hope Scholarship Credit, which provides an education tax benefit that allows taxpayers a credit of up to \$2,500 (per student, per year) if they paid qualified tuition and related expenses for the first four years of postsecondary education. This tax credit is another useful tool for our middle-income households that live in a high-cost state.

### **Section 1202. Consolidation of education savings rules:**

- **Coverdell Education Savings Accounts:** Section 1202 prohibits new contributions to Coverdell Education Savings Accounts after 2017. UC encourages families to save for college to the extent that they are able and reducing the opportunities or tools that promote savings, such as eliminating Coverdell Education Savings Accounts, will make college expenses more difficult to manage.

### **Section 1203. Reforms to discharge of certain student loan indebtedness:**

- Section 1203 would exclude from taxable income any income resulting from the discharge of student debt on account of death or total disability of a student. This change would be positive.

**Section 1204. Repeal of other provisions relating to education:**

UC opposes the repeal of the education benefits listed under Section 1204, including:

- **Interest Payments on Qualified Education Loans (Student Loan Interest Deduction):** UC opposes the repeal of the Student Loan Interest Deduction, which provides for a deduction for interest payments on educational loans. This is an important tax incentive currently available to help students pay their loan costs.
- **Deduction for Qualified Tuition and Related Fees:** UC opposes the repeal of the deduction for Qualified Tuition and Related Fees, which is another helpful tax incentive currently available that helps students.
- **Interest on United States Savings Bonds:** UC encourages families to save for college to the extent they are able. H.R. 1 repeals the current law’s exclusion from income interest on U.S. savings bonds if used to pay for qualified education expenses, which will reduce available savings options.
- **Section 127 Employer-Provided Education Assistance:** UC opposes the repeal in H.R. 1 of Section 127 Employer-Provided Education Assistance, which is an important tax benefit under existing law that allows employers to provide tax-free tuition assistance to their employees, of up to \$5,250 annually, to cover educational expenses, which can be excluded from an employee’s taxable income. Repealing this provision will reduce the opportunities for employees to attend college. This provision has provided assistance to UC students, as well as UC graduates. UC urges Congress not to repeal Section 127 benefits.
- **Section 117 Qualified Scholarships:** UC opposes the repeal of Section 117, including Section 117(d) Qualified Tuition Reductions, which allows for qualified tuition reductions provided by educational institutions to their employees, to be excluded from income for the employee. Repealing Section 117(d) will have a significant negative impact on UC’s graduate students who serve as research assistants, teaching assistants, readers, and tutors, and under the terms of their employment, may be eligible for Qualified Tuition Reductions under 117(d). Over 23,000 graduate students—more than 40 percent of UC’s graduate students—received over \$250 million in tuition and fee remission in 2015-16, which was treated as a Qualified Tuition Reduction under 117(d). An unknown number of additional UC employees have also been able to take advantage of qualified tuition reductions. Repealing Section 117(d) will result in a significant increase in income tax liability for UC’s graduate students since payment of income taxes will be required on any tuition reductions limiting these students’ financial resources and increasing their graduate student loan burden.

UC urges Congress not to repeal critical education tax benefits, as part of tax reform legislation.

**EMPLOYER/EMPLOYEE AND OTHER TAX ISSUES OF CONCERN TO THE UNIVERSITY**

Below are additional provisions in the Senate and H.R. 1 that would have a negative impact, including, but not limited to:

- **Repeal of deduction for personal exemptions:** UC is concerned that the elimination of personal exemptions under the Senate legislation and Section 1003. of H.R. 1 could increase

tax liabilities for the families of UC students, since parents would no longer be able to take a deduction for any dependents (such as their children who are college students) as well as for students who are independent tax filers (such as many graduate students) who would no longer be able to take any personal exemptions.

- **Excise tax on excess tax-exempt organization executive compensation:** UC opposes the provision in the Senate legislation and Section 3803. of H.R. 1, 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. This section will impose new excise tax liabilities on UC, which may impact UC's ability to recruit top level medical professionals.
- **Charitable Contributions:** UC is concerned that the Senate legislation and Section 1306 of H.R. 1 repeals 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.
- **Repeal of deduction for moving expenses:** UC is concerned that the Senate legislation and Section 1310. of H.R. 1 repeals the deduction for qualified moving expenses, such as payments received from an employer incurred in conjunction with starting a new job. Repealing this provision may negatively impact UC's ability to attract faculty and staff to work at the university.
- **Medical expenses deduction:** UC is pleased that the Senate legislation, unlike Section 1308. of H.R. 1, retains the taxpayer deduction for out-of-pocket medical expenses of the taxpayer, a spouse or a dependent. The inclusion of this provision in H.R. 1 may harm UC employees and our patients incurring medical expenses. Many UC medical center patients suffer from highly acute medical conditions that necessitate complex and expensive treatment.
- **Section 1401. Limitation on exclusion for employer-provided housing:** UC is concerned that Section 1401 of H.R. 1 limits the exclusion for employer-provided housing under Section 119, which will impact certain employees who reside in UC-provided housing.
- **Section 3308. Unrelated business taxable income increased by amount of certain fringe expenses for which deduction is disallowed:** UC is concerned that Section 3308 of H.R. 1 repeals 132(f) Qualified Transportation benefits, which allows employees to pay for certain transportation expenses on a pre-tax basis, such as to help defray costs for the use of van pools, public transportation or for certain parking expenses. The availability of 132(f) benefits has been an important benefit available to UC's employees to help defray transportation costs. UC urges Congress to retain 132(f) benefits.

## **RETIREMENT SAVINGS:**

- **UC opposes the inclusion in the Senate legislation of Subtitle M. Retirement Savings 1. Conformity of contribution limits for employer-sponsored retirement plans, which would substantially decrease the amount of retirement savings participants of 403(b) and 457 retirement plans, such as UC employees, may set-aside.**

UC offers employees the option of participating in both 403(b) and 457(b) retirement plans. UC is concerned that this provision in the Senate legislation would apply a single total contribution limit for UC employees enrolled in both 457(b) and 403(b) plans, rather than continuing to allow maximum contribution and deferral amounts for each plan separately, which will reduce the amount of retirement savings UC employees may set-aside. This proposal would negatively impact approximately 10 percent of UC employees who use both plans to make elective deferrals. The \$54,000 aggregate contribution limit includes both employer and employee contributions. The employee deferral limit would cap employee contributions to elective deferrals (which is currently \$18,000). UC is concerned that this proposal would limit the amount of current retirement savings

available to 403(b) and 457(b) plan participants, and urges Congress not to include changes to these savings plans.

**OTHER IMPACTS:**

- **UC is also concerned about the Risk of Elimination of Direct Subsidy Payments on Build America Bonds and Tax Credit Bonds, which could be jeopardized in order to offset the \$1.5 trillion cost of the tax legislation.**

Due to Senate reconciliation rules and the “Statutory PAYGO” law, there is a risk that federal support for Build America Bonds (BAB) and Tax Credit Bonds (TCB) could be jeopardized in order to offset the \$1.5 trillion cost of the tax legislation. The BAB and TCB subsidies – along with a portion of Medicare, student aid administration and other important mandatory programs involving border security and law enforcement – could face deep cuts or be eliminated altogether. Between 2009 and 2012, UC issued – and currently has outstanding – approximately \$3 billion in BABs and tax credit bonds, which were established by the American Recovery and Reinvestment Act. The federal government provides a 35 percent direct subsidy on the interest payments for BABs and a higher percentage for TCBs. The university benefits significantly from these subsidies, which amount to approximately \$60 million annually. A reduction or elimination of these subsidy payments could critically impact the university’s operations.