Research donations

Tax bill provides fewer breaks for US education

Washington

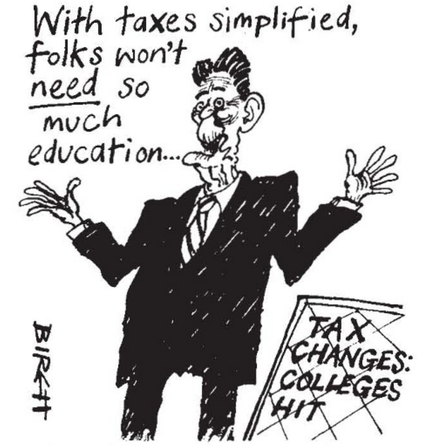
CHEERS rang out late Saturday night 17 August in a room crowded with lobbyists, journalists and legislators, as a House of Representatives and Senate conference committee reached an agreement on a major overhaul of US tax law. The agreement came only after weeks of give and take among conferees, watched and prodded by a dizzying array of lobbyists, as they struggled to find a bill acceptable to both houses of Congress. The new law has the White House's blessing, and final passage is expected when legislators return from their summer recess.

The new tax law will mean significant changes for all sectors of the economy. The number of tax brackets for individual taxpayers will be reduced to two, with a maximum rate of 28 per cent, down from the current 50 per cent. For corporations, the top rate drops from 46 to 34 per cent. The bill is not intended to raise or lower total revenues generated by taxes. Instead, it is an attempt at a more equitable system, with narrower loopholes and fewer breaks for special interest groups. The tax burden will fall more heavily on businesses under the new law, although lowered rates for individuals will be offset by the loss of certain allowances.

Few segments of the economy emerged as clear-cut winners or losers, but one self-declared loser is higher education. Thomas Head, senior federal relations officer for the Association of American Universities (AAU), says education took a beating on nearly every item on its tax agenda. Head feels the biggest blow is the way gifts of appreciated property are treated. Under current law, the entire value of a donated gift can be deducted from taxable income. In the new law, the amount the gift has appreciated is used in calculating a special "alternative minimum" tax that is usually applied to wealthier taxpayers — those most likely to make sizeable donations. The cost of giving appreciated property is therefore much increased. Sheldon Steinbach, general counsel for the American Council on Education, says that 40 per cent of gifts over $5,000 to universities and colleges come in the form of appreciated property.

Gifts from smaller donors are also likely to decrease because of a change in the reporting requirements for charitable contributions. Taxpayers are offered a choice between taking a standard deduction and itemizing their expenses; under the new law, only itemizers may claim a deduction for their charitable contributions. Only 20 per cent of tax payers are expected to itemize their deductions under the new law. Also limiting donations will be the lowered tax rates, as tax savings from contributions will be proportionately lower.

Gifts to charitable institutions, including those that support scientific research, will also decrease markedly under the new law. Dr Lawrence Lindsey of Harvard University has used an econometric model to predict that total charitable donations in fiscal year 1988 would have been between $72,000 million and $75,000 million. But with the new rules total donations will fall by about 14 per cent, and donations by the wealthiest taxpayers by about 36 per cent, or $1,000 million. The drop in charitable contributions that will be brought about by the inability of non-itemizers to deduct contributions is estimated at $6,000 million, and that due to the overall drop in tax rates at $4,000 million. Some charities are planning major fund-raising campaigns this year to take advantage of the existing law before it is superceded.



Major private research universities expect to be hurt by restrictions on access to the tax-free bond market. Tax-free bonds generally have lower interest rates than taxable ones, making them a cheaper way to borrow money. The new law places a $150 million cap per institution on these bonds. Says David Morse, director of federal relations at the University of Pennsylvania, as many as twenty large universities will be shut out of the tax-free bond market. Smaller private colleges will be unaffected.

Universities are also dismayed by the change in tax status for scholarships and fellowships given to students. In the past, these funds have not been subject to income tax, but the new law makes any funds not applied directly to tuition or required equipment taxable. AAU's Head points out that since gifts are not taxable, students whose families can afford to give them money for their education would pay no taxes, but a poorer student on a scholarship could face a tax liability.

Another potentially expensive change for universities and colleges is the treatment of pension plans, says Head. These must be shown to apply equally to all university employees. Head says that most plans tend to be more favourable to faculty, and universities may have to cut back on faculty benefits to make plans equitable. In any case proving that plans are equitable will be a drain on university resources.

Not all the news for universities is bad. A new 20 per cent tax credit for industry support of basic research performed at universities and tax-exempt, independent research institutes appears in the new tax law. Dr. Melvin Eggers, Chancellor of the Syracuse University and vice-chairman of the Coalition for the Advancement of Industrial Technology (CAIT), an *ad hoc* group backing the new tax credit, says it will encourage closer cooperation between company and university researchers, speeding up commercialization of research efforts. According to CAIT's estimates, the new credit could bring as much as $475 million in new research investments at universities. This is a relatively small amount compared to the estimated $50,000 million industry spends annually on research and development, but supporters believe it is a step in the right direction. The credit will be available through 1988.

Despite criticism that has been levelled against it in the past (see *Nature* **310**, 615; 1984), the existing research and development tax credit is preserved in the new tax bill through 1988, although the rate drops from 25 to 20 per cent. Robert Lawrence, a senior fellow at the Brookings Institution, says that in real terms the credit only amounts to about 6 per cent because of the way it is calculated — the credit applies to spending above the previous three years' average. Only 65 per cent of money spent in supporting university-based research figures in the credit calculations. While some have called for eliminating the research and development tax credit, Lawrence thinks the government must give industry even stronger incentives to encourage more spending on research.

The new tax law's chances for passage when Congress returns are good, but some changes may still occur. The rationale for the tax reforms was to deemphasize taxation as a driving force behind business decisions. But taxes are bound to remain an important consideration for corporate decisions, and whole legions of tax lawyers will be kept busy figuring out just what the new realities are.

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