

Legislative Proposal

College Scholarship Sponsorship Tax Credit

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LEVERAGING A PUBLIC-PRIVATE PARTNERSHIP

In recent testimony before a subcommittee of the House Education and Labor Committee, public policy advocates called for establishing a public-private partnership to encourage private sector investment in student financial aid. The following proposal for a college scholarship sponsorship tax credit is a practical and easily implementable method of accomplishing this goal.

Currently, more than 10,000 private foundations, non-profit organizations, community groups, corporations and philanthropists award more than 1 million scholarships and fellowships worth more than \$3 billion each year. Creating a tax credit for contributions to tax exempt scholarship organizations would leverage a significant increase in the number and amount of scholarships and fellowships awarded each year. This will make college more affordable for more students, at minimal cost to the federal government.

Under current law, individuals and businesses may take a charitable deduction for contributions to tax exempt charitable organizations. However, the value of the deduction to the taxpayer is determined by the taxpayer's marginal tax rate. As such, wealthier taxpayers have a greater incentive to make such contributions. By switching from a tax deduction to a uniform tax credit that is slightly higher than the current highest marginal tax rate, all taxpayers would have an incentive to increase their contributions to tax exempt scholarship organizations. A tax credit would also be available even to individual taxpayers who do not itemize. This tax credit would stimulate an increase in private investment in the higher education of American students.

This proposal includes draft legislative language to illustrate how such a tax credit might work. The legislation includes provisions to prevent self-dealing and double-dipping.

The bill would benefit students by increasing the number and amount of available private scholarships. Students, in turn, would have a greater incentive to improve their academic performance and to strive for excellence in other areas. The bill would also help students meet financial need that is unmet by existing student aid programs.

The bill benefits taxpayers by reducing the cost of donating funds to a tax exempt scholarship organization. Many would use the savings to increase the size of their donations. Some would increase their contributions even further.

The cost of the bill is minimal, because it would apply only to new contributions to tax exempt scholarship organizations and because overaward regulations reduce need-based financial aid when a student wins a private scholarship.

DRAFT LEGISLATIVE LANGUAGE

LEVERAGING SCHOLARSHIPS FOR POSTSECONDARY EDUCATION ACT OF ____

A BILL

To amend the Internal Revenue Code of 1986 to provide a tax credit for donations to non-profit scholarship organizations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the `Leveraging Scholarships for Postsecondary Education Act of ____'.

SECTION 2. INDIVIDUAL TAX CREDIT

- (a) In General - Subpart A of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by adding after section 25B and before section 26 the following new section:

`SECTION 25C. SCHOLARSHIPS SPONSORSHIP INDIVIDUAL TAX CREDIT.

- `(a) Allowance of credit - There shall be allowed as a credit against the tax imposed by this chapter for any taxable year, in the case of an eligible taxpayer, an amount equal to 50 percent of qualified contributions made by the eligible taxpayer during the taxable year.
- `(b) Eligible Taxpayer - For purposes of this section, the term 'eligible taxpayer' means a taxpayer which is an individual and which is not a disqualified person within the meaning given the term in section 4946(a) of the Internal Revenue Code of 1986.
- `(c) Qualified Contribution - For purposes of this section--
- `(1) IN GENERAL- The term `qualified contribution' means any contribution which is --
- `(A) in cash,
- `(B) not less than \$5,000, and
- `(C) made to a non-profit scholarship organization.
- `(2) NON-PROFIT SCHOLARSHIP ORGANIZATION - The term `non-profit scholarship organization' means an organization--
- `(A) which is described in section 501(c)(3) and exempt from tax under section 501(a), and

- ` (B) not less than 80 percent of the annual gross receipts of which are used to provide scholarships and fellowships in an objective and nondiscriminatory basis to eligible students to attend an eligible educational institution.
- ` (3) ELIGIBLE STUDENT - The term 'eligible student' means, with respect to any academic period, a student who --
 - ` (A) meets the requirements of section 484(a)(1) of the Higher Education Act of 1965 (20 U.S.C. 1091 (a)(1)), as in effect on the date of the enactment of this section, and
 - ` (B) is carrying at least 1/2 the normal full-time work load for the course of study the student is pursuing.
- ` (4) ELIGIBLE EDUCATIONAL INSTITUTION - The term 'eligible educational institution' means an institution --
 - ` (A) which is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on the date of the enactment of this section, and
 - ` (B) which is eligible to participate in a program under title IV of such Act.
- ` (d) Special Rules--
 - ` (1) DENIAL OF DOUBLE BENEFIT - Any contribution which is taken into account under subsection (a) shall not be taken into account under section 170, and no deduction shall be allowed under such section for such contribution.
 - (b) Regulations - The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section.
 - (c) Effective Date - The amendments made by this section shall apply to contributions made in taxable years beginning after the date of the enactment of this Act.

SECTION 3. BUSINESS TAX CREDIT

- (a) In General - Subpart D of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new section:

`SECTION 45S. SCHOLARSHIPS SPONSORSHIP BUSINESS TAX CREDIT.

- ` (a) In General - For purposes of section 38, in the case of an eligible taxpayer, the scholarships sponsorship business tax credit determined under this section for any taxable year is an amount equal to 50 percent of qualified

contributions made by the eligible taxpayer during the taxable year.

- ^(b) Eligible Taxpayer - For purposes of this section, the term 'eligible taxpayer' means a taxpayer which is a corporation and which is not a disqualified person within the meaning given the term in section 4946(a) of the Internal Revenue Code of 1986.
- ^(c) Definitions - For purposes of this section the terms 'qualified contribution', 'non-profit scholarship organization', 'eligible student', and 'eligible educational institution' are given the meanings as defined in section 25C(c) of the Internal Revenue Code of 1986.
- ^(d) Special Rules-
 - ^(1) DENIAL OF DOUBLE BENEFIT - Any contribution which is taken into account under subsection (a) shall not be taken into account under section 170, and no deduction shall be allowed under such section for such contribution.
- (b) Credit Treated as Part of General Business Credit - Section 38(b) of the Internal Revenue Code of 1986 is amended by striking 'and' at the end of paragraph (29), by striking the period at the end of paragraph (30) and inserting ', plus', and by adding at the end the following new paragraph:
 - ^(31) the scholarships sponsorship business tax credit determined under section 45S.'
- (c) Clerical Amendment - The table of section for subpart D of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new item:
 - ^Sec. 45S. Scholarships sponsorship business tax credit.'
- (d) Regulations - The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section.
- (e) Effective Date - The amendments made by this section shall apply to contributions made in taxable years beginning after the date of the enactment of this Act.