



# Association of American Universities

February 19, 2003

Brandeis University  
Brown University  
California Institute of Technology  
Carnegie Mellon University  
Case Western Reserve University  
Columbia University  
Cornell University  
Duke University  
Emory University  
Harvard University  
Indiana University  
Iowa State University  
The Johns Hopkins University  
Massachusetts Institute of Technology  
McGill University  
Michigan State University  
New York University  
Northwestern University  
The Ohio State University  
The Pennsylvania State University  
Princeton University  
Purdue University  
Rice University  
Rutgers, The State University  
of New Jersey  
Stanford University  
Stony Brook University –  
State University of New York  
Syracuse University  
Texas A&M University  
Tulane University  
University at Buffalo –  
State University of New York  
The University of Arizona  
University of California, Berkeley  
University of California, Davis  
University of California, Irvine  
University of California, Los Angeles  
University of California, San Diego  
University of California, Santa Barbara  
University of Chicago  
University of Colorado, Boulder  
University of Florida  
University of Illinois, Urbana-Champaign  
University of Iowa  
University of Kansas  
University of Maryland, College Park  
University of Michigan  
University of Minnesota, Twin Cities  
University of Missouri, Columbia  
University of Nebraska - Lincoln  
University of North Carolina at Chapel Hill  
University of Oregon  
University of Pennsylvania  
University of Pittsburgh  
University of Rochester  
University of Southern California  
University of Texas at Austin  
University of Toronto  
University of Virginia  
University of Washington  
University of Wisconsin - Madison  
Vanderbilt University  
Washington University in St. Louis  
Yale University

The Honorable William Thomas  
Chairman  
House Ways and Means Committee  
1102 Longworth House Office Building  
Washington, DC 20515

Dear Chairman Thomas,

On behalf of the Association of American Universities (AAU), an organization of 62 leading public and private research universities, I write to highlight two changes in tax policy that our members seek.

First, I urge you to continue to support the so-called Individual Retirement Account (IRA) charitable rollover provision that will encourage IRA holders to make donations to charities from their retirement savings. If this provision were to become law, it would provide a valuable new way for charities, including colleges and universities, to receive charitable gifts. AAU is grateful for the inclusion of the IRA charitable rollover in the Charity Aid, Recovery, and Empowerment Act (CARE) Act recently approved by the Senate Finance Committee, and we urge you to include this provision in charitable giving legislation that the Ways and Means Committee might consider.

Second, I urge you to support allowing favorable tax treatment for undergraduate and graduate students who receive scholarships, fellowships, or grants. Currently, under Section 117 of the Internal Revenue Code (IRC), only the portion of funds received in the form of a scholarship, fellowship, or grant that is used for the payment of tuition and required fees, books, supplies, and equipment is excluded from gross income and thereby is not subject to taxation if the recipient is a candidate for a degree at a primary, secondary, or post-secondary educational institution. However, amounts used for living expenses, including room and board, are not excludable from income and are therefore subject to taxation. This unfavorable tax treatment applies to all forms of grant assistance, including Federal Pell Grants and fellowships for graduate students provided by the National Institutes of Health and the National Science Foundation.

Unlike scholarships, fellowships, and grants, other forms of Federal educational assistance provide favorable tax treatment for qualified higher education expenses as defined by the Department of Education, which include

limited living expenses, such as room and board. One example is that amounts withdrawn from a Coverdell education savings account under Section 530 of the IRC receive favorable tax treatment if the distributions do not exceed the amount spent on qualified higher education expenses, including room and board.

This uneven tax treatment of different types of Federal educational assistance imposes an additional tax on certain students based on the form of education assistance received. In addition, this uneven treatment creates unneeded complexity and administrative burdens on schools and students and undermines the policy and goals of student aid.

AAU supports introduction of legislation that would provide that amounts received as part of a scholarship, fellowship or grant be excluded from income if used for qualified higher education expenses.

Thank you once again for your leadership on the IRA charitable rollover. We hope you can give your support to modifying Section 117 to benefit students.

Cordially,

A handwritten signature in cursive script that reads "Nils Hasselmo".

Nils Hasselmo  
President