



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 Charles Grassley
Chairman
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Grassley,

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 wish to thank you for your leadership on the Charity Aid, Recovery, and Empowerment Act (CARE) Act, and specifically the inclusion of 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 CARE Act and we support your efforts to enact this legislation.

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