Let's Tax Harvard

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Taxing authorities are increasingly challenging the tax-exempt status of non-profits. More and more non-profits look like businesses. They charge fees and sell products and services to raise money. As state and local governments face declining tax revenues, exempting these institutions from taxation makes less and less sense.

James D. Miller, an Economics professor from Smith College wrote a column which appeared at www.insidehighered.com entitled "Massachusetts Should Tax Harvard." He says:

"Some Massachusetts legislators want to tax rich colleges. Under their proposal, as reported on *Inside Higher Ed*, Massachusetts colleges would pay a 2.5 percent tax on all assets over $1 billion. (The idea is part of a broader push to question whether some colleges with hefty endowments are inappropriately hoarding wealth while continuing to raise their tuitions sharply.) Nine schools, including Harvard and Smith College (my employer), are wealthy enough to be subject to the tax." Harvard's endowment is $34.6 billion.

The Senate Finance Committee has been looking at the idea of requiring colleges to pay out a minimum proportion of their endowment funds. The problem is that universities with huge endowments are not doing enough to help students afford college. Instead, they raise tuition at an alarming rate. One proposed solution is to force institutions to pay out at least 5% of the endowment annually, just like private foundations are currently required to do. After all, where is the public benefit in hoarding the money?

Universities, like other charities, are given tax exemptions because they provide a public benefit or reduce the burdens on government. Is growing your endowment year after year while you raise tuition a public benefit?

Two Senators wrote the presidents of 136 colleges in January asking for data and explanations about their admissions, financial aid and endowment spending policies and practices. "We would appreciate additional information about tuition costs and your institution's endowment," which receive “very generous tax breaks under the Internal Revenue Code,” the two Senators wrote. “We want to better understand how these tax benefits for higher education endowments are improving education and making undergraduate studies more affordable for low and middle income families today.”

Lynne Munson, a research fellow at the American Enterprise Institute is coming out with a book tentatively titled Scrooge U: The Illusion of Generosity. Munson says “decades of hoarding” have resulted in a situation where “it would take a rainy day of biblical proportion to require significant tapping into these stockpiles.” When institutions face budget difficulties, she said, they are “far more likely to cut educational expenditures than to tap into endowments.”

Pressure works. In December, Harvard announced a decision to limit annual tuition and room and board costs to 10% of income for families earning $120,000 to $180,000. This puts a limit of $18,000 on expenses for these families. Below $120,000 the percent of income drops steadily until it reaches zero at $60,000. The full cost of a year at Harvard is $45,600. A number of other universities have jumped on the band wagon - University of Pennsylvania, Yale and Stanford, to name a few. Now that sounds more charitable, doesn’t it?