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THE CHRONICLE OF HIGHER EDUCATION

Today's News

Wednesday, April 4, 20

Senator Wants Reviews of Tax Breaks for College-Issued Bonds and Sports

By [PAUL FAIN](#)

An influential Republican senator has asked the Congressional Budget Office to investigate how tax-exempt bonds are used by universities and to review the tax-exempt status of college sports.

The studies were requested by Sen. Charles E. Grassley of Iowa, the senior Republican on the Senate Finance Committee, in two letters sent on Tuesday. The letters, copies of which were obtained by *The Chronicle*, are the latest in a series of rumblings from Congressional Republicans who are threatening to tighten tax rules relating to universities.

Mr. Grassley and other members of Congress have been scrutinizing possible tax abuses in other nonprofit sectors, including recent inquiries into executive compensation at the Smithsonian Institution and broad scrutiny of the tax-exempt status of nonprofit hospitals.

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Sen. Max S. Baucus, a Montana Democrat and the Finance Committee's new chairman, did not sign the letters on college

bonds and sports. Some observers have wondered if Mr. Grassley has the clout to enact tax-policy shifts regarding higher education. But by enlisting the Congressional Budget Office, which prepares wide-reaching nonpartisan studies for Congress, Mr. Grassley has added heft to the debate.

Information Technology

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In his [letter on tax-exempt bonds](#), Senator Grassley calls for a study similar in scope to a report by the Congressional Budget Office on nonprofit hospitals, released in December. That [study](#) discussed how hospitals and other nonprofit institutions use tax-free debt to finance buildings and equipment that could have been paid for by the selling off of investments, and analyzed the effects of limiting that capacity. If Congress were to expand the definition of tax arbitrage (the difference in earnings between invested assets and interest paid on debt), nonprofit hospitals would have to reduce their issuance of tax-exempt bonds by an estimated 28 percent, the report found.

A broader definition of tax arbitrage could substantially increase costs for universities, said Kelly D. Farmer, director of the tax department at the University of Minnesota-Twin Cities.

"It's a whole new way of doing business," Mr. Farmer said.

However, Mr. Farmer said lawmakers and federal tax regulators might find it "problematic" to attempt to apply expanded arbitrage rules to university endowments. He said the typical endowment's earnings and principal are restricted and cannot be spent on new buildings.

Mr. Grassley's letter asks the Congressional researchers to measure the scale of tax-exempt borrowing by universities, to show how universities use the proceeds from tax-exempt bonds, and to compare the value of tax breaks to the costs of raising capital through the market.

The letter closed with a request for guidance on types of additional reporting to the IRS and the public that would "provide useful information with respect to the borrowing by colleges and universities of tax-exempt financing while maintaining large untaxed portfolios of assets."

The requested inquiry on college sports builds on Congressional complaints from last year about the increasing commercialization of intercollegiate athletics.

"We would like to gain a better understanding of the economic

benefits received from the tax-exempt status of college athletics," Mr. Grassley wrote.

In [the letter](#), he called for research on:

- The use of tax-exempt bonds to finance the construction and renovation of university athletics facilities.
- Charitable status for booster programs, including those created to give boosters the right to purchase tickets
- The distribution of tax benefits among the participants in college athletics, including colleges, administrators, coaches, athletes, alumni, donors, and spectators.
- The economic effects of the tax treatment of college athletics.

Background articles from *The Chronicle*:

- [NCAA Defends Tax-Exempt Status as Congressional Scrutiny of Colleges Increases](#) (11/16/2006)
- [Congressman Sends Letter Grilling NCAA on Tax-Exempt Status of College Sports](#) (10/5/2006)
- [Congress Broadens an Investigation of College Sports](#) (9/22/2006)
- [Congress Considers Taxing College Sports Revenue](#) (3/24/2006)

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