Tax plans and science

The United States Congress has been taking steps toward passage of a law that would dramatically modify income tax policy. At the time of this writing, different bills have been passed by the House of Representatives and the Senate, and the process of reconciling these into a single bill is under way. These have several provisions that directly affect higher education, including science training. Disturbingly, these provisions emerged from a remarkably opaque process with little or no discussion of their policy objectives or analysis of data that would inform these important decisions.

A provision to make tuition waivers, often provided by institutions to graduate students, taxable has received considerable discussion. These waivers can amount to tens of thousands of dollars so that this provision could dramatically increase the tax liability of graduate students who usually receive modest stipends to cover the cost of living during their graduate training. If enacted, this provision could limit the ability of graduate students to complete their training programs and would particularly affect those students without other means to help support their studies. It is not clear what the objective is, as the new policy would disproportionately affect students without additional resources to support their educations and would likely decrease economic viability and competitiveness as talent is lost from the science, technology, engineering, and mathematics (STEM) enterprise. The House bill also repeals the deduction for student loan interest, further exacerbating this effect. There are certainly important issues related to science education and training that would benefit from discussion and thoughtful policy changes, but the process used to arrive at taxes on tuition has not provided any means for this.

Another provision present in different forms in the House and Senate bills would subject income from university endowments to an excise tax for universities with large endowments per student. This provision is presumably driven by concerns that universities with large endowments are growing their endowments without investing sufficient amounts of the income from these endowments in reducing tuition costs and in programs including student support. That tuition costs have consistently risen at rates higher than inflation is certainly an important issue that bears examination. However, the creation of an excise tax to extract funds that might otherwise be used to improve the affordability of education or to support potentially important research or other scholarly activities seems to undermine the presumed policy goals.

A final point about these tax bills relates to their impact on the U.S. national debt. The cornerstones of these bills are reductions in corporate tax rates. Such reductions are intended to stimulate the U.S. economy through increased corporate investment and, perhaps, through the transfer of additional resources to employee compensation. Some argue that tax cuts will pay for themselves—that is, stimulation of the economy will generate so much additional revenue that increased tax receipts will make up for the loss of revenue associated with decreases in the tax rates. However, analyses from economists from a wide range of perspectives refute this notion. Stimulation of the economy associated with tax cuts will diminish the impact of such cuts, but not nearly enough to pay for lost revenue associated with the rate changes. Ignoring evidence that is widely agreed upon by a field of qualified economists while presenting tax changes that seem to be based on wishful thinking is a bad foundation for policy changes. Evidence and transparency must be brought to bear on the decision-making processes that shape a nation’s economic health as the proposed provisions will undermine U.S. science and technology and will substantially influence the lives of many people, alter the ability of the government to support programs including those related to science, and affect generations to come.

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