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New Tax Law Takes Aim at Higher Education’s Millionaires Club

24–30 minutes

The four top-earning private-college leaders in 2015 were (left to right) Nathan Hatch, Wake Forest U.; James Wagner, Emory U.; C.L. Max Nikias, U. of Southern California; and Amy Gutmann, U. of Pennsylvania. Their pay would subject each of their institutions to a new tax under legislation about to be enacted.

An overhaul of the nation’s tax code, which is expected to be passed by Congress and signed by President Trump, includes a new revenue source: taxing highly paid employees of nonprofit organizations.

The bill would impose a 21-percent tax on annual compensation in excess of $1 million paid to the five highest-paid employees of a nonprofit group — including college presidents, chancellors, and coaches. For medical professionals, however, compensation that is directly related to medical or veterinary services would not be taken into account.

Lawmakers have long sought to rein in what they see as excessive executive compensation at colleges. Some version of a tax on high levels of nonprofit pay has bounced around for several years. In 2013 the Internal Revenue Service released the results of its Colleges and Universities Compliance Project, which randomly selected institutions and examined their federal tax filings, known as Form 990s, for compensation that could be deemed unreasonable under federal law.

The next year, a draft of tax-reform legislation included a provision similar to the one in the current bill; it levied a 25-percent tax on compensation in excess of $1 million.

The House version of the current legislation would have placed a 20-percent tax on the compensation. The tax was raised by one percentage point in the House-Senate conference committee.

Colleges would be on the hook for the tax, but it is unclear when or how they would be responsible for paying it.

So who would the tax affect?

According to an analysis by *The Chronicle*, America’s private, nonprofit colleges had 158 million-dollar employees in the 2015 calendar year, excluding medical staff members. The highest earners primarily included chief executives, athletics staff members, and investment officers. Mike Krzyzewski, head coach of the men’s basketball team at Duke University, topped the list, earning $7.4 million in 2015.

The Chronicle’s analysis is based on the latest available Form 990s of the 500 private, nonprofit colleges with the largest endowments. Reportable taxable compensation is the sum of base salaries, bonuses, and other compensation paid to employees by the institution and its related organizations. It remains to be seen whether the IRS will use the same Form 990s to levy this new tax.

These compensation figures might deviate from those reported as part of *The Chronicle*’s annual look at private-college executive compensation, which includes nontaxable benefits in the final figures. Some nonprofit colleges, which don’t report the value of their endowments to the Integrated Postsecondary Education Data System, were excluded from our analysis. Private nonprofit colleges that cite a religious exemption from filing the Form 990 were also excluded.

A Tax on Colleges' Millionaire Coaches and Other Officials

Academic Medical Professionals Are Also Affected by the Tax Law

The effect of the new tax on the pay of medical-faculty members is less straightforward than it is for other higher-education executives. In 2015, 93 academic medical personnel earned more than $1 million. Pay in excess of that amount for work related to medical services would be exempt from the new tax. But if the pay is related to medical-school or hospital management, it would be subject to the tax. Here are million-dollar employees affiliated with academic medical programs and hospitals. Because *The Chronicle* can't be certain of their exact roles within their medical systems, it is unclear how their compensation would affect their universities' tax liability.