

JOHN HARVARD'S JOURNAL



KLARMAN CONSTRUCTION: A mid January view of Klarman Hall, the new auditorium-conference-convening complex scheduled for completion later this year at Harvard Business School. The facility, which will replace Burden Hall and define a new campus quadrangle and roadway, can accommodate up to 1,000 people at a time: more than an entire M.B.A. class, for instance, or joint events with engineering and applied sciences professors and students, with whom HBS is already building academic and degree collaborations in advance of completion of the new home for most of that school's faculty, rising across Western Avenue and expected to open in 2020. The eastern end of HBS's campus will, upon completion, include not only Klarman, but also expanded and renovated executive-education quarters, consistent with the school's aim of bringing together business leaders from around the world. Details about the new facility were reported at harvardmag.com/klarman-hall-16.

Endowments, Taxed

THE TAX CHANGES enacted by the Republican majorities in the U.S. House of Representatives and Senate just before Christmas and signed into law by President Donald Trump did not incorporate many of the features that most alarmed the higher-education community (see "Taxing Matters," January-February, page 17). Thus, graduate students do not face an onerous cash tax bill for the imputed income associated with their (typically waived) tuition bills, nor do students and families face the loss of the deductions associated with interest on their education loans. Universities and colleges can still resort to the tax-exempt bond market to finance construction projects (although advance refinancings—to take advantage of more favorable interest rates, for instance—are prohibited).

But the issue that most troubled Harvard's

leaders, and those of a couple of dozen other fortunate institutions, has become law: those whose endowments exceed \$500,000 per student, and with more than 500 students, are now subject to a 1.4 percent tax on annual investment earnings. The roster of affected schools begins with Princeton and extends through Yale, Harvard, Stanford, and MIT, through colleges such as Pomona, Amherst, Swarthmore, Grinnell, and Williams.

President Drew Faust and other universi-

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ties' leaders lobbied hard to defeat the endowment levy. In a statement after it was enacted, she said, "I am deeply concerned that the adoption of an unprecedented excise tax on charitable organizations that targets certain colleges and universities will weaken our ability to support students and research. The provision will constrain the resources that enable us to provide the financial aid that makes college more affordable and accessible and to undertake the inquiries that yield discoveries, cures, innovation, and economic growth." She promised that "We will assess the damaging impacts of this tax legislation moving forward, and we will continue to engage policy makers in substantive conversations on higher-education finance to ensure a deeper understanding of the role college and university endowments play in making higher education accessible to students from across the country."

The University will calculate the exact impact after analyzing the legislation's final details and the ensuing regulations. Given the formula, more schools could become subject to the provision as their endowments appreciate or as they enroll more students—and of course, revenue-hungry lawmakers could easily boost the government's take in the future.

In the near term, Faust estimated that Harvard would have had to pay about \$40 million on its investment earnings during the fiscal year ended last June 30 (see harvardmag.com/endowment-tax-17). The longer term is less calculable, and perhaps of greater concern. The tax law both increased the standard deduction for individuals and families, which may make

prospective donors less eager to act philanthropically (since the value of itemizing charitable deductions is diminished), and limited the deduction for state and local tax payments and deductions for interest payments on future large mortgages—both of which raise the costs for many prospective donors. The increase in the estate-tax threshold may also undercut the incentive to give.

More schools could become subject to the endowment tax, and lawmakers could easily boost the government's take in the future.

An interesting possible straw in the wind may be discerned in the recent \$12-million grant by Priscilla Chan '07 to support public-service activities at Phillips Brooks House Association (PBHA; see harvardmag.com/chan-grant-17). She and her husband, Mark Zuckerberg '06, LL.D. '17, have embarked on a multibillion-dollar program of philanthropic activity, based on their Facebook wealth, through their Chan Zuckerberg Initiative. But rather than *endowing* positions or programs, they are sponsoring term- and topic-limited *research* efforts in areas of interest (biomedical discovery, education). Chan's PBHA grant is of this form.

Harvard is surely glad to receive this fellowship support. But because it is in the form of a grant, rather than an endowment, the University will *not* be able to make its usual assessment on continuous distributions of income from the endowed principal to help defray administrative overhead costs.

(Perhaps some assessment will be imposed to cover expenses associated with the non-fellowship parts of the Chan gift.) The new tax is an additional, and highly visible, wrinkle that financially sophisticated donors may consider when deciding to how to structure their philanthropic support for elite colleges and universities. That comes just as Harvard and peer institutions are worrying about the ability of their heavily endowment-depen-

dent financial models to support research, teaching, libraries and other academic infrastructure, as well as financial aid.

As if speaking to these concerns generally, in early December Moody's Investors Service issued a report changing its 2018 outlook for the entire sector from "stable" to "negative," citing slowing revenue growth outpaced by rising expenses (estimated at 3.5 percent and 4.0 percent, respectively, for higher education as a whole). In partial confirmation of the challenge, the Commonfund Institute's higher education price index for fiscal year 2017, published in mid December, rose to 3.7 percent—up from 1.8 percent the prior year and the fastest rate of growth since 2008. Contributing factors included employee benefits, up 5.9 percent, reflecting an aging work force using more medical services, and administrative and clerical salaries, up 3.0 percent (outpacing growth in faculty salaries, at 2.5 percent).

—JOHN S. ROSENBERG

Final-club Finality

PRESIDENT Drew Faust and Corporation senior fellow William F. Lee on December 5 brought an end to 19 months of formal faculty debate about and challenges to the College's sanctions on undergraduate membership in unrecognized single-gender social organizations (USGSOs: final clubs, fraternities, and sororities). At the monthly Faculty of Arts and Sciences (FAS) meeting that afternoon, Faust read a statement from the Corporation, announcing that the policy promulgated in May 2016 by College dean Rakesh Khurana, and accepted by Faust,

would be implemented. Accordingly, current freshmen and their successors will be prohibited from serving as leaders of recognized social organizations and clubs, or as captains of athletic teams, and from receiving the required endorsement for academic fellowships such as the Rhodes and Marshall scholarships, if they belong to a USGSO. (Read a full account at harvardmag.com/implementation-17.)

In choosing to adopt the policy, Faust and her fellow Corporation members signaled their sense of urgency on the subject ("the University must act"), and their rejection of alternative courses: a proposed outright ban on membership in a USGSO, or a third op-

tion, which might have involved concerted efforts to change the undergraduate culture of pursuing social life that is associated, particularly, with the long-established male final clubs that own Harvard Square facilities and have the means to stage parties.

The Faust-Lee statement focused especially on those clubs and on "eliminating the allocation of social opportunities on the basis of gender." It described the sanctions regime as one that "does not discipline or punish the students," because they would remain in good standing within the College otherwise (albeit excluded from other leadership positions or fellowships), even if they decide to join a USGSO. In fact, tricky