

EXPAND THE UNIVERSITY ENDOWMENT TAX



Distinguishing between universities and hedge funds

ESTIMATED REVENUE \$99.4 BILLION*

SUMMARY

The Internal Revenue Code exempts specified nonprofit organizations from paying federal income tax. The government confers this preferential tax treatment to support organizations that advance the public good. The 501(c)(3) designation includes universities and their endowments, to which individuals and entities can contribute with tax-deductible contributions, and which can then grow tax-free in perpetuity.

The Tax Cut and Jobs Act (TCJA) imposed a 1.4% excise tax on net investment income for private colleges and universities with at least 500 students and with endowments valued at more than \$500,000 per student. In 2023, this endowment tax raised about \$380 million from 56 institutions of higher education.

Congress should expand the endowment tax to cover universities with endowments greater than \$250,000 per student and increase the rate to match the corporate tax rate. Revenue collected can be redeployed towards purposes that advance the public good.

THE CASE FOR EXPANDING THE UNIVERSITY ENDOWMENT TAX

The valuations of many university endowments have soared, accumulating enormous wealth far beyond what is used to support their educational mission. Growing endowments have been matched by growing tuition costs, student debt burdens, and administrative bloat. This disaggregation between public good and private profit has effectively transformed many universities into hedge funds that teach classes and conduct research on the side. Increasing the tax rate and expanding its application creates a strong incentive for universities to use their endowments to fund their core educational missions rather than to amass financial empires that insulate them from accountability.

The House Republican Budget Committee pay-for menu includes an endowment tax increase, and there have been several congressional proposals along these lines. For instance, Rep. Troy Nehls (R-TX)'s *Endowment Tax Fairness Act* would increase the endowment tax rate to 21% and raise between \$38.5 billion and \$112.3 billion over 10 years depending on investment return rates, according to the Tax Foundation.

*2025–2034. This assumes expanding the endowment tax to cover universities with endowments greater than \$250,000 per student, increasing the tax rate to 21%, and an endowment growth rate of 7.75%.

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