

PLYMOUTH INSTITUTE FOR FREE ENTERPRISE

TAX ON LARGE COLLEGE ENDOWMENTS

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**ADVANCING AMERICAN
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TOPLINE: The One Big Beautiful Bill (OB3) increased federal taxes on large private college and university endowments.

BACKGROUND: Most private colleges and universities are organized as nonprofit entities. Unlike for-profit companies, nonprofits have no shareholders and don't pay dividends or distribute profits. Some colleges have developed [large endowments](#) over the years—permanent funds set aside for specific purposes. Harvard University, for example, [reported](#) having a \$56.9 billion endowment in June 2025, the largest of any private college. That endowment generated an 11.9% return in 2025. A portion of that return was distributed and used as part of the university's annual operating budget, and the remaining portion represented growth in the endowment.

As nonprofit 501(c)(3) entities, colleges' returns on their endowments historically weren't taxed. In contrast, individuals with long-term capital gains face federal tax rates of 15%, 20%, or 23.8%, while corporate capital gains are taxed at a 21% rate. Then, in 2017, the [Tax Cuts and Jobs Act](#) imposed a flat 1.4% excise tax on the net investment income of private colleges with at least 500 students *and* an endowment that is greater than \$500,000 per student.

What OB3 Did:

- [Replaced](#) the previous single-rate endowment excise tax with a 3-bracket structure applying tax rates of 1.4%, 4.0%, and 8.0% to net investment income:
 - The 1.4% tax applies to institutions with endowments of \$500,000 - \$750,000 per student.
 - The 4.0% tax applies to institutions with endowments of \$750,000 - \$2 million per student.
 - The 8.0% tax applies to institutions with endowments of more than \$2 million per student.

Why It Matters?

- Individuals with long-term capital gains face federal tax rates of 15%, 20%, or 23.8%.
- The tax rate on corporate income (including investment income) is 21%.
- JCT estimates the endowment tax increase will raise [\\$761 million](#) over 10 years (accounting for less than 0.2% of federal revenue).

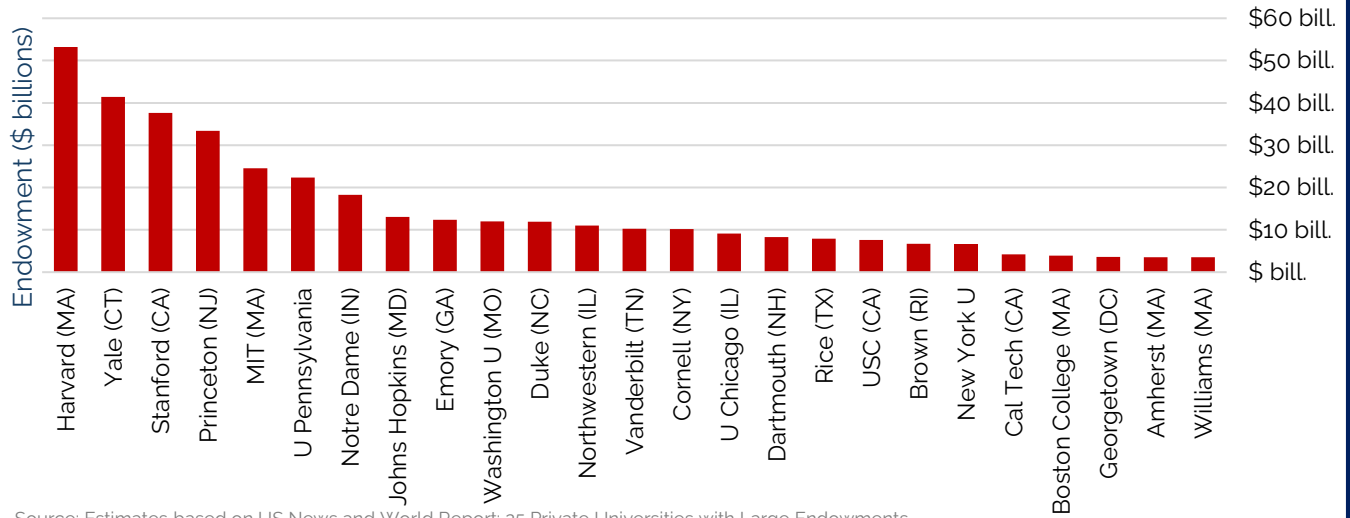
Where Can I Find the Changes? OB3 Sec. [70415](#); [26 U.S.C. § 4968](#).

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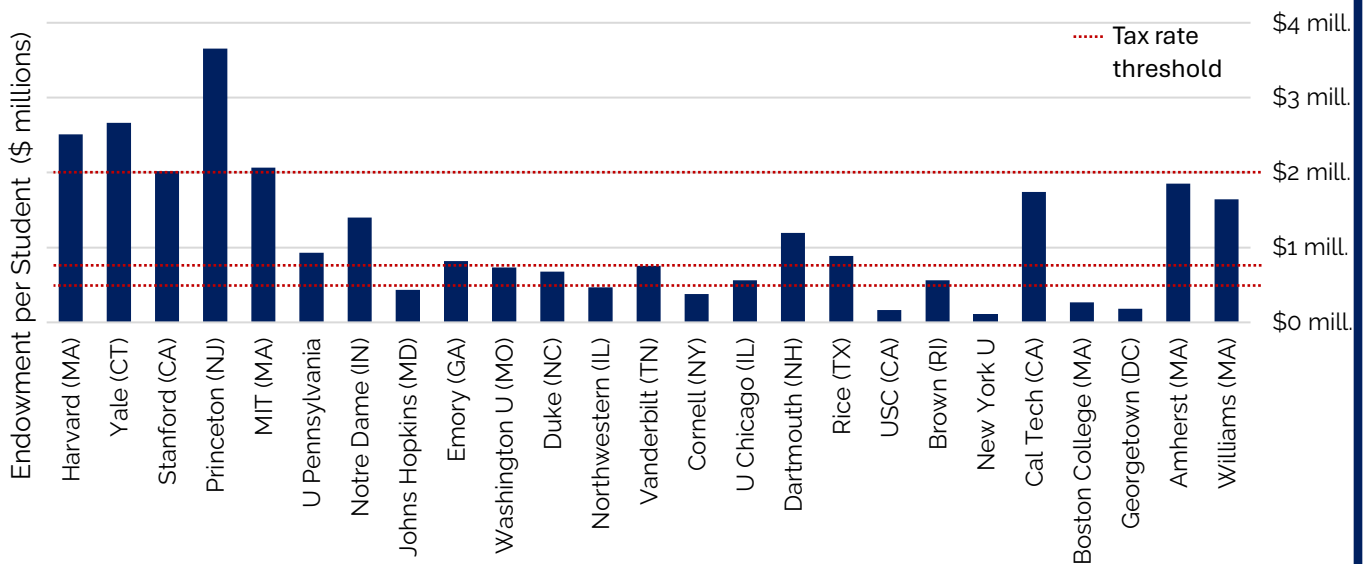


Advancing American Freedom Foundation is a nonprofit institution that promotes and defends policies that elevate traditional American values.

Largest Private College Endowments (2024)



Endowment per Enrolled Student (2024)



BOTTOMLINE: The distinction between nonprofit organizations and for-profit companies is more about organization than about having a positive, charitable mission. Many private colleges have lost the public's goodwill by indoctrinating students in a leftwing ideology that is hostile to America's founding and Judeo-Christian values. Pushback against their favored tax treatment is then hardly surprising. However, conservative lawmakers should bear in mind that taxes on investment income also affect capital markets, making it harder for businesses looking for equity financing to find it. Ideally, any increase in tax on nonprofit endowments would be at least offset by other tax cuts on capital income.

