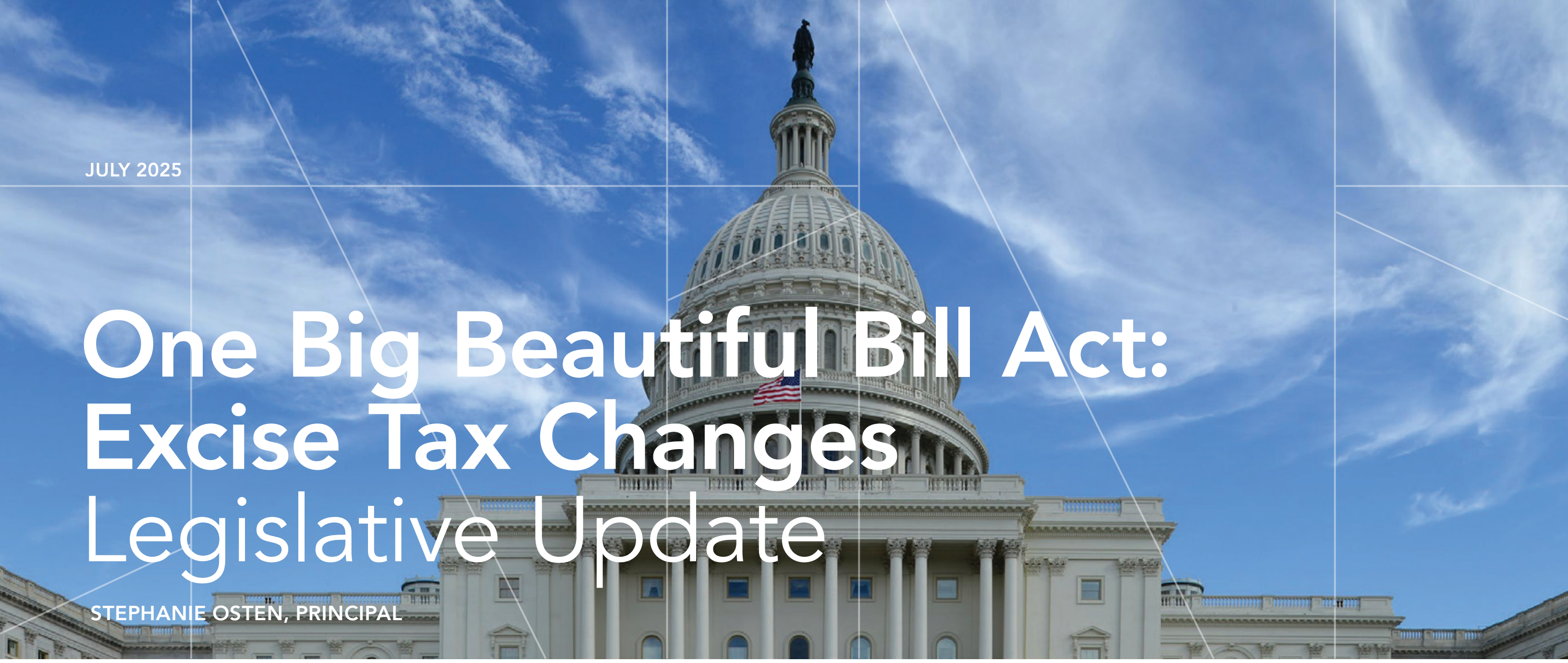

JULY 2025

One Big Beautiful Bill Act: Excise Tax Changes

Legislative Update

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The One Big Beautiful Bill Act was passed by Congress and signed into law by President Donald Trump on July 4, 2025. The legislation includes significant updates to the excise tax structure on net investment income of certain educational institutions, with direct implications for private colleges and universities related to their endowments.

Changes to the Current Excise Tax

Previously, private colleges and universities with at least 500 students and $500,000 in endowment assets per student were subject to a **flat 1.4% excise tax** on net investment income. The act increases the eligibility threshold for the excise tax: Institutions must now have **at least 3,000 tuition-paying students** to be subject to the tax. This change is expected to narrow the scope of impacted institutions while increasing the potential tax liability for the largest endowments.

Effective for tax years after December 31, 2025, the law introduces a **graduated tax structure** based on endowment size and student count, detailed at right.

Student-Adjusted Endowment per FTE Student	New Excise Tax Rate
$500,000–750,000	1.4%
$750,000–2 million	4.0%
Over $2 million	8.0%

The new excise tax rate is ultimately lower than tiered rates proposed in early legislation but still represents a meaningful change for universities with student-adjusted endowments over certain thresholds. Institutions near the $2 million per student threshold may face significantly higher tax liabilities.

Private Foundation Excise Tax Remains Flat

While earlier proposals sought to introduce a tiered tax on private foundation investment income, the **final legislation preserved the current flat 1.4% rate.** This stability is welcome news for private foundations, but legislative appetite for higher taxes on endowed entities is clearly growing.

Considerations for Investors

Institutions should model excise tax exposure under the new tiered structure and determine their student-adjusted endowment size. Affected institutions should evaluate their overall financial and investment position considering the changes to determine if adjustments are needed:

- As tax burdens rise for large endowments, Boards and Investment Committees should evaluate the role of **tax-efficient strategies** within the investment portfolio. Endowments facing a tax increase have strong incentives to realize gains prior to year-end, in the absence of other constraints.

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- **Review spending policy** and liquidity needs considering reduced net returns and higher potential tax outflows.
- **Stay tuned for further IRS guidance,** which is expected later this year to clarify implementation details.

Universal Charitable Deduction Should Encourage Giving

One of the more notable provisions in the legislation is the **reinstatement of a universal charitable deduction.** Starting in **tax year 2026,** all taxpayers — regardless of whether they itemize — will be able to deduct **up to $1,000** ($2,000 for couples filing jointly) in charitable contributions annually. This deduction is expected to:

- **Encourage broader participation in annual giving,** especially among younger and non-itemizing donors
- **Support giving campaigns** tied to scholarships, student programs, and unrestricted funds
- Potentially **stimulate donor pipelines** at a time when universities are facing both rising costs and increasing scrutiny over endowment size

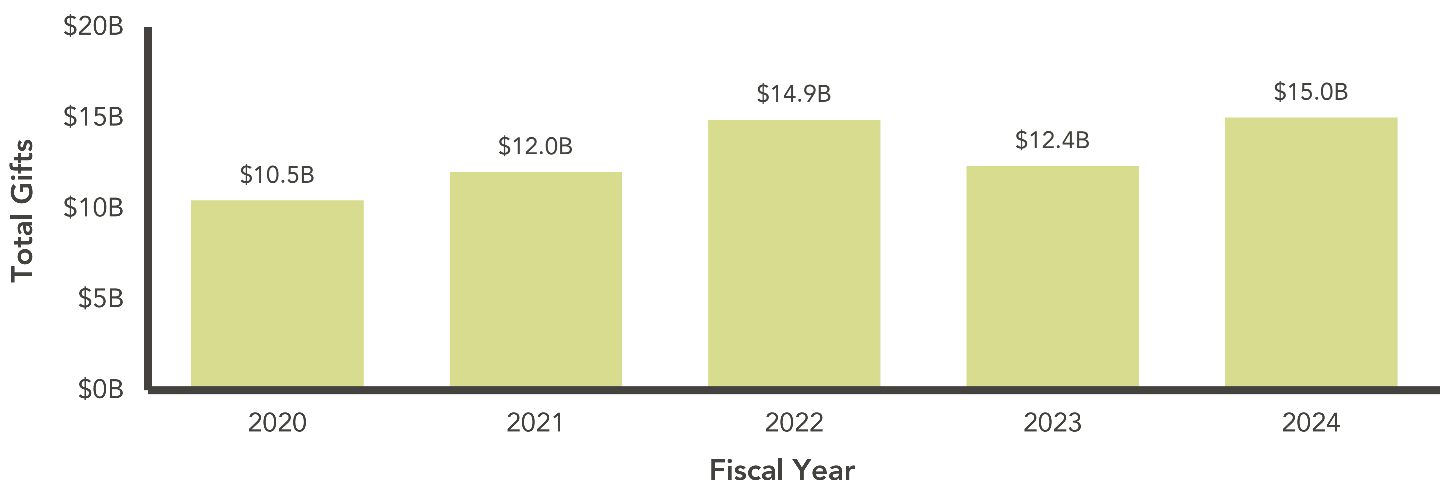
Nonprofit clients who rely on donations as a source of funding may want to align messaging and outreach strategies to highlight this renewed tax incentive, particularly in year-end campaigns and initiatives focused on young donors.

POTENTIALLY ON THE HORIZON: TAX-EXEMPT DEBT UNDER SCRUTINY

Access to tax-exempt municipal bonds was not included in the bill, though **several lawmakers have revived interest in limiting or eliminating access to tax-exempt debt for private colleges and universities,** particularly those with large endowments.

Potential changes to municipal debt issuance echo prior tax reform efforts (e.g., 2017's Tax Cuts and Jobs Act) and are gaining attention in fiscal reform circles. While no changes were enacted in this round, the **possibility of future restrictions on university debt issuance remains active** in legislative conversations.

Exhibit 1: Total gifts to endowments increased in FY24 after briefly declining in FY23



Source: NACUBO-Commonfund Study of Endowments 2024, 2023, NACUBO-TIAA Study of Endowments 2021 All fiscal years ending June 30.

Conclusion

The changes enacted in the One Big Beautiful Act represent a shift in taxation of university endowments. Institutions should assess the specific impact of the excise tax changes on their organization and determine if any adjustments to the current investment strategy are appropriate.

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