

TAX REFORM AND HIGHER EDUCATION

WHAT STUDENTS, FAMILIES, AND INSTITUTIONS NEED TO KNOW

Talking Points: College and University Endowments

Endowments have enabled institutions to dramatically increase student aid, enhance access for low- and middle-income students, and strengthen academic programming.

- Endowments help keep postsecondary education affordable for all students—particularly low- and middle-income students—through scholarships and other forms of financial aid, and bolster funding for an institution’s educational activities.
 - About two-thirds of annual endowment spending is allocated to boosting financial aid and academic programs.¹
 - Endowments help institutions provide financial aid to students who cannot afford the cost of attendance and empower them to respond more fully to changing demographics and families’ financial needs.
 - Colleges and universities with the largest endowments are often the ones most likely to offer need-blind admission and meet full demonstrated financial need, as well as offer no-loan financial aid packages.
- Endowments allow colleges and universities to maintain excellence and offer a broad array of student support services.
 - Endowments are important for public institutions, which have experienced significant fluctuations in state support over the past 20 years, often not keeping pace with costs for student aid and other services.
 - They are also important for private institutions, which do not benefit from state appropriations and rely on their endowments to provide students with a high-quality education at an affordable cost.
- Institutions with the largest endowments often have the lowest net prices because they provide significant grant aid to students.
 - The price for students who received financial aid at the 25 private institutions with the largest endowments was on average 70 percent lower than the posted price.
 - Increasingly, these institutions have adopted no-loan financial aid programs for low- and middle-income students.
 - Endowments drive innovative research, strengthen communities, and underpin U.S. global competitiveness.

¹ 2023 NACUBO-Commonfund Study of Endowments, National Association of College and Business Officers, Feb. 15, 2024, <https://www.nacubo.org/Press-Releases/2024/US-Higher-Education-Endowments-Report-7-7-Return-for-FY23-While-Spending-More>.

- Endowments enable faculty and students to conduct innovative research, explore new academic fields, develop and apply new technologies, and discover new knowledge, particularly where the work is so cutting edge that funding is not readily available from other sources.
 - The National Science Foundation found that institutions contribute 25 percent of the total funding for research conducted on campus, much of which comes from endowments.²
 - Institutions, often relying on philanthropy, conduct innovative research on crucial topics such as understanding a particular disease and developing prevention strategies; generate solutions to monumental challenges like climate change; and pursue technological breakthroughs in fields such as artificial intelligence, quantum sciences, and advanced manufacturing.
- Innovation and research funded by endowments have led to important discoveries in science, medicine, education, and other fields that benefit our nation.

Endowments advance an institution’s mission by funding programs that benefit students, staff, and the broader community.

- College and university endowments vary in size, structure, and organization, but they share a common, legally mandated purpose as public charities: to support their institution’s mission by expanding and enhancing education, research, and programs that serve the public good.
- Endowments support nearly every aspect of an institution’s activities and provide a foundation for all their important work— keeping college affordable, supporting educational activities, building the research programs that drive innovation, and serving as economic anchors for communities, all of which have impacts that extend well beyond campus.
- Endowments are aggregations of donor-directed gifts invested by a college or university to support its mission in perpetuity, allowing institutions to make commitments for educational activities now and far into the future with the knowledge that the resources to meet those commitments will be available.
- Historically, the federal government treated the endowments of all nonprofit colleges and universities the same, in recognition that—no matter the size—they must be used to support the institution’s philanthropic educational and research mission.

Endowments provide stability and ensure the long-term sustainability of postsecondary education.

- Endowments ensure intergenerational equity, guaranteeing that the education offered today remains available—and of the same value and quality—decades from now.
 - Colleges and universities exercise careful stewardship as they strive to spend as much as possible on the current generation without diminishing the resources available for future generations.
 - Endowments are managed so that, for example, a fund supporting a scholarship today will still be able to support students many years from now.
- Even in difficult financial times, endowments can sustain institutions’ teaching and research missions, allowing them to provide essential support for faculty and students.

² Michael T. Gibbons and National Center for Science and Engineering Statistics, *R&D Expenditures at U.S. Universities Increased by \$8 Billion in FY 2022*, NSF 24-307 (National Science Foundation: 2023), <https://ncses.nsf.gov/pubs/nsf24307>.

- Endowments provide stable support for core charitable activities year after year—even in times of market downturns.
- Endowments consist of many separate accounts—often funded by individual donations with specific restrictions—allowing donors to support specific purposes with the assurance that their gifts will fulfill their intentions over time.
- At institutions with larger endowments, annual endowment expenditures typically cover a greater share of the institution's expenses.

Congress should repeal or reform the “endowment tax” to bolster access, improve affordability, foster research, and support students and institutions.

- The Tax Cuts and Jobs Act (TCJA) imposed an unprecedented and damaging “endowment tax” that directly targets the charitable resources at certain private nonprofit colleges and universities.
 - The tax undermines the teaching and research missions of institutions.
 - Prior to this unprecedented tax, bipartisan majorities of lawmakers routinely supported protecting institutional autonomy by encouraging philanthropy and the strong partnership between higher education and the federal government in education and research.
- While the institutions subject to the tax are diverse, they all share a tremendous commitment to student financial aid and access.
 - The endowment tax takes money directly away from student financial aid, teaching, research, and numerous other mission-focused activities.
 - As tax-exempt entities, institutions affected by the tax have no access to standard tax planning tools, credits, or deductions. In some instances, these institutions pay more taxes than leading Fortune 500 companies.
 - Internal Revenue Service data on the tax show the number of covered institutions increased by about 70 percent since enactment. Given the structure of the tax, more and more institutions and students will be affected.
- Congress should repeal this tax or at least reform it to reduce its impact on covered institutions that devote substantial resources to student financial aid.
- Increasing or expanding the tax would have a devastating impact on U.S. competitiveness by eroding the ability of colleges and universities to pursue new initiatives and enhance financial aid.
 - An expanded tax would result in higher college costs and fewer breakthroughs in science and technology that strengthen the nation.

Philanthropy is vital in helping colleges and universities achieve their teaching, research, and public service missions, and endowments are a key mechanism for delivering philanthropy.

- Charitable donations are the primary source of endowments, which support student financial aid, faculty, libraries, laboratories, student services, and other critical education-related activities.
- The charitable deduction is vital for private nonprofit and public colleges and universities, generating private support to help achieve their educational missions of teaching, research, and public service.

- The TCJA greatly curtailed the efficacy of the charitable deduction, limiting philanthropy used to improve access and bolster education programs. It also disincentivized giving through the unprecedented tax on endowment income.
- The enactment of a temporary universal charitable deduction in the CARES Act proved to be an effective policy to boost charitable giving and is a policy supported by an overwhelming majority of Americans.
 - A poll from 2022 found that 85 percent of voters supported restoring the universal charitable deduction permanently for all taxpayers, including 77 percent that supported expanding the deduction to up to \$4,000 for all Americans.³
- We strongly support legislative proposals to reenact and expand the universal charitable deduction, like the bipartisan, bicameral Charitable Act (S. 566, H.R. 3435).

³ New Poll: Voters Want Congress to Strengthen Nonprofits , Independent Sector, 22 September, 2022, <https://independentsector.org/resource/new-poll-voters-want-congress-to-strengthen-nonprofits/>.