How the One Big Beautiful Bill Act Impacts College Endowment Taxes



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On July 4, 2025, President Trump signed into law the budget reconciliation bill originally named the One Big Beautiful Law Act. The law modified the excise tax imposed by Internal Revenue Code Section 4968 on net investment income of certain private colleges and universities. To understand this fully, let's examine its key components.

Who pays the tax?

The law targets applicable educational institutions, which are defined as private colleges and universities with the following characteristics:

- Described in Section 481 of the Higher Education Act of 1965 (HEA)
- Eligible to participate in a program under Title IV of the HEA
- At least 3,000 tuition-paying students during the preceding taxable year
- Over 50% of tuition-paying students located in the United States
- At least $500,000 of student adjusted endowment (as defined below)

Simple math- 3,000 students multiplied by $500,000 of endowment per student- implies that the law targets institutions with at least $1.5 billion of assets.

Public colleges and universities are excluded. The final bill also removed provisions passed by the House of Representatives that would've exempted religious-affiliated schools and schools that don't receive federal aid from paying the tax.

How is student adjusted endowment calculated?

Student adjusted endowment is calculated by taking the value of the institution's assets and dividing it by the number of its students.

The value of assets is determined by taking the aggregate fair market value of the institution's assets- other than those assets used directly in carrying out its exempt purpose- at the end of the preceding taxable year and adding the value of assets of related organizations. Assets not used directly in carrying out an institution's exempt purposes include assets held for the production of income or investment (e.g., stocks, bonds, and interest-bearing notes) and property used for the purpose of managing the institution's endowment funds (e.g., offices and equipment). Any reasonable method that's consistently applied can be used to determine fair market value.

The number of students is determined by the daily average number of full-time students attending the institution. Part-time students are considered on a full-time student equivalent basis, e.g., a student attending school half-time is

counted as 0.5.

What is a related organization?

A related organization has one or more of the following characteristics:

- Controls the institution
- Controlled by the institution
- Controlled by one or more people who also control the institution
- A supporting organization under IRC Section 509(a)(3)

What income is included in net investment income subject to tax?

In addition to the traditional net investment income calculation (e.g., capital gains, dividends, interest), the following income is included:

- Interest income from student loans made by the institution or any related organization
- Royalty income derived from grants or payments between any federal agency and the institution, any related organization, or any student or faculty member used in the research, development, or creation of patent, copyright, or other intellectual or intangible property
- Net investment income of any related organization

What if a related organization doesn't plan to use certain assets or investment income for the benefit of the institution?

The law provides that assets and net investment income not intended or available for the use or benefit of the institution can be excluded unless the institution controls the organization or the organization is described in Section 509(a)(3) with respect to the institution for the taxable year.

How much is the tax on net investment income?

If student adjusted endowment is at least...	and not more than...	then the tax is:
$500,000	$750,000	1.4%
$750,001	$2,000,000	4%
$2,000,001	-	8%

Can assets, endowment funds, or net investment income be rearranged or restructured to avoid the tax?

The law explicitly instructs the IRS to prescribe regulations or other guidance to prevent avoidance of tax through restructuring of endowment funds or other arrangements reducing or eliminating the value of net investment income or assets subject to the tax. Institutions should prepare for future IRS examinations or other measures aimed at evaluating compliance.

What else should I know?

The law requires institutions subject to the tax to report on Form 990, *Return of Organization Exempt from Income Tax*, both its number of tuition-paying students and total number of students.

If you have any questions as to how the law may affect your organization, please contact your trusted Dean Dorton advisor.