

The One Big Beautiful Bill Act: Analysis of Key Amendments to the Excise Tax Imposed on Certain Private College and University Endowments

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On July 4, 2025, President Donald Trump signed [H.R. 1](#) into law, the budget reconciliation bill known as the One Big Beautiful Bill Act (the BBB). This legislation includes significant amendments to the excise tax imposed on the net investment income of certain private college and university endowments (the Endowment Tax) under Section 4968 of the Internal Revenue Code (the Code). This alert summarizes certain key changes to the Endowment Tax that could impact higher educational institutions that are potentially subject to it.

The amendments made to the Endowment Tax under the BBB will generally take effect in taxable years beginning after December 31, 2025. Thus, for private colleges and universities having a tax year ending June 30, such amendments will first apply in the tax year beginning July 1, 2026 (with the previous Endowment Tax continuing to apply to such institutions' tax years ending June 30, 2026).

I. Applicable Educational Institutions Subject to the Endowment Tax:

- **Law Prior to Enactment of the Act** – A private college or university is subject to the Endowment Tax if it constitutes an “applicable educational institution.” An applicable educational institution is defined as a private college or university if (i) such institution had at least 500 tuition-paying students during the preceding taxable year, (ii) more than 50% of such institution’s tuition-paying students are located in the U.S., and (iii) the aggregate fair market value of such institution’s assets (other than those assets which are used directly in carrying out the institution’s exempt purpose) at the end of the preceding year was at least \$500,000 per student.
- **BBB Rule** – The BBB adopts a similar rule, but materially increases the required minimum number of tuition-paying students before a private college or university becomes subject to the Endowment Tax. Specifically, under the BBB, a private college or university will constitute an applicable educational institution subject to the Endowment Tax if (i) such institution had at least 3,000 tuition-paying students during the preceding taxable year, (ii) more than 50% of such institution’s tuition-paying students are located in the U.S., and (iii) such institution has a student adjusted endowment of at least \$500,000. For these purposes, the BBB defines the term “student adjusted endowment” to mean (x) the aggregate fair market value of such institution’s assets (determined as of the end of the preceding taxable year), other than those assets which are used directly in carrying out the institution’s exempt purposes, *divided by* (y) the number of students of such institution. In contrast to the version of the bill originally passed by the U.S. House of Representatives, the BBB does not exclude religious institutions from the tax.
- **Troutman Take** – *With the BBB materially increasing the required minimum number of tuition-paying students (from 500 to 3,000) before a private college or university becomes subject to the Endowment Tax, many institutions with smaller enrollment will no longer be subject to this tax for taxable years beginning on or after*

II. Tax Rate:

- Law Prior to Enactment of the Act – The Endowment Tax imposes a flat 1.4% tax rate on the net investment income of applicable educational institutions.
- BBB Rule – The BBB adopts a tiered rate structure based on the student adjusted endowment (as defined above) of an applicable educational institution as set forth below:

Student Adjusted Endowment:	Tax Rate:
\$500,000 – \$750,000	1.4%
\$750,001 – \$2 million	4%
Over \$2 million	8%

- Troutman Take – While the scope of private colleges and universities subject to the Endowment Tax has been limited, the BBB significantly increases the maximum tax rate (from 1.4% to 8%) on the net investment income of applicable educational institutions that remain subject to the Endowment Tax and fall within the highest tier of student adjusted endowment. However, the maximum 8% tax rate under the BBB as signed into law is far less aggressive than the maximum 21% tax rate threatened in the earlier iteration of the One Big Beautiful Bill as originally passed by the U.S. House of Representatives.

III. Net Investment Income:

- Law Prior to Enactment of the Act – Code Section 4968 as existing prior to enactment of the BBB provided that the net investment income of an applicable educational institution shall be determined under rules similar to Code Section 4940(c) (regarding the excise tax on the net investment income of certain private foundations). Treasury Regulations promulgated under Code Section 4968 further define net investment income for purposes of the Endowment Tax to generally mean the amount by which the sum of an applicable educational institution's "gross investment income" and "capital gain net income" exceeds such institution's allowable deductions. However, such Treasury Regulations expressly exclude the following items from the definition of gross investment income (thereby exempting such items from the Endowment Tax): (i) interest income from a student loan that was made by the applicable educational institution (or a related organization) to a student of the applicable educational institution in connection with the student's attendance at the institution (student loan interest), and (ii) royalty income that is derived from patents, copyrights, and other intellectual property and intangible property to the extent those assets resulted from the work of student(s) or faculty member(s) in their capacities as such with the applicable educational institution.
- BBB Rule – The BBB similarly provides that, for purposes of the Endowment Tax, the net investment income of an applicable educational institution shall be determined under rules similar to Code Section 4940(c). However, the BBB overrides certain provisions of the existing Treasury Regulations, expressly providing that net investment income shall be determined by taking into account student loan interest and certain federally subsidized royalty income as gross investment income.
- Troutman Take – The BBB's inclusion within net investment income of previously excluded student loan interest and certain federally subsidized royalty income could substantially increase the amount of net investment income and resulting tax liability of private colleges and universities that remain subject to the Endowment Tax.

Conclusion

The BBB limits the number of private colleges and universities to which the Endowment Tax applies; however, those applicable educational institutions that remain subject to the tax may see their after-tax returns on investments reduced. Institutions potentially subject to the Endowment Tax should consider the impact of the amendments discussed above given their specific facts.

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