RESEARCH REPORT

The Role of College and University Endowments

Sandy Baum  Victoria Lee

July 2019
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## Contents

Acknowledgments iv

### The Role of College and University Endowments 1

- The Subsidy to Higher Education 4
- Why Should Colleges and Universities Accumulate Endowment Assets? 5
- The Endowment Debate 7
- Measuring Endowments 8
- The Distribution of Endowment Assets, Enrollment of Low-Income Students, and Net Prices 17
- Spending from the Endowment 21
- Colleges and Universities as Charitable Organizations 24
- Measuring Charitable Activities 26
- Changing Public Policy 28
- Potential Institutional Responses 36
- Case Study: Harvard University 38
- Conclusion 40

### Notes 42

### References 45

### About the Authors 47

### Statement of Independence 48
Acknowledgments

This report is based on a larger project funded by the TIAA Institute through a grant to the Association of Governing Boards. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute’s funding principles is available at urban.org/fundingprinciples.

We are grateful to Larry Bacow, Harry Brighouse, Matthew Chingos, Catharine Hill, Donald Marron, Michael McPherson, Kim Rueben, Morton Schapiro, Eugene Steuerle, and Alex Tilsley for helpful comments on earlier drafts of this paper.
The Role of College and University Endowments

The Tax Cuts and Jobs Act of 2017 (TCJA) imposed a tax on the investment income of a small number of private nonprofit colleges and universities with large endowments. This action followed years of grumbling in Congress about wealthy institutions, their endowments, and their tuition prices. Politicians, scholars, and pundits critical of elite higher education have put forward a variety of proposals for taxing or otherwise constraining these institutions. Not surprisingly, the new tax has been met with strong objections, not only from the institutions affected but from throughout higher education, as well as from other observers concerned about the tax’s motivation and its implications.

The tax does not generate significant revenue for the federal government. Estimates suggest that the tax will yield only around $200 million a year now, rising to $400 million a year in a decade, covering about 0.2 percent of lost revenues from the TCJA.¹ Even a tax at the corporate rate of 21 percent on all income from endowments, significantly higher than the one Congress passed, would add only about 2 percent to corporate tax revenues.²

At its current level, the tax will not dramatically change finances at the affected institutions. One estimate suggests that Harvard University, which has the nation’s largest endowment, will pay about $40 million now—about 1 percent of Harvard’s $4.5 billion operating budget—rising to $70 million annually over the next decade. A similar calculation for Wellesley College also generates a tax of around 1 percent of the operating budget.³

Given the small amount of revenue at stake, why is there so much enthusiasm for reducing or eliminating the tax exemptions supporting higher education, and why is the opposition to the current tax so strong?

Some of the motivation for imposing taxes on selective educational institutions appears to be politically driven, arising out of partisan anger at colleges and universities. But some advocates of these policies claim to be trying to design incentives to change institutional behaviors, generating lower tuition prices, more generous financial aid, or more socioeconomic diversity on campuses. Others argue that the public subsidies represented by the tax exemption should be redirected to have a greater impact on social welfare.
Colleges and universities are concerned about losing funds that could otherwise be devoted to their educational mission, but they also see this tax as a foot in the door, setting a precedent for the government to abandon the long-standing practice of exempting educational institutions—and other charitable organizations—from taxation.

Educational institutions—such as nonprofit hospitals, religious organizations, human rights organizations, museums, and other organizations defined as charitable—are exempt from income taxes, except for income generated by activities not related to their charitable missions. They also are exempt from most property and sales taxes. These tax exemptions constitute a subsidy because tax revenues are lower than they would otherwise be. In addition, taxpayers who itemize deductions can deduct their donations to charitable organizations from their incomes, so in effect, part of each gift to a college or university comes from the donor, and part comes from taxpayers.

Discussions about college endowments are too often based on extremes. Either nonprofit postsecondary institutions bestow large social benefits and any effort to tax them diminishes their capacity to generate these benefits, or wealthy colleges and universities are gouging students, accumulating inordinate wealth, and exacerbating inequality. A more nuanced approach would recognize the complexity of the issues and provide stronger grounding for engaging in a more productive discussion of public policy and its impact. The question is not whether colleges and universities—or the spending from their endowments—further the public good. The question is what the optimal level of subsidy is and whether the current subsidies that support endowment growth are appropriate.

This report examines the justification for the tax-exempt status of public and private nonprofit college and university endowments—and the public subsidy that policy involves—and the merits of the arguments for and against modifying this exemption. We examine the distribution of endowment assets across institutions and the relationship to both the share of low-income students enrolled and the net prices those students pay. We also explore the potential of proposed policy changes for effecting positive social change. Given the dramatic inequality of resources across postsecondary institutions—only a portion of which is represented by endowments—it is reasonable to ask whether exempting all endowment income from taxation is the best way for the federal government to allocate its subsidies to higher education institutions.

This report covers many issues and arguments relating to college and university endowments, including the valuable contributions of these assets, as well as critiques from researchers and politicians, new laws, and policy proposals that, if implemented, could have a significant impact on
colleges and universities. We do not reach conclusions about the optimal level of endowment assets for individual institutions or about whether the income from endowments should always be tax-exempt, but we argue that if the goal is to increase college access, affordability, and success, taxing endowments is unlikely to be effective.

There are a number of key additional take-aways:

- A few colleges and universities have large endowments, but most have small endowments that do not contribute substantially to their annual revenues. In other words, endowment assets are unequally distributed across higher education institutions, and the subsidy associated with the tax exemption of endowment income is highly skewed.

- Colleges and universities have broader missions than educating undergraduate students. Many also educate graduate students, conduct research, and engage in other public service activities. This makes it difficult to compare endowment sizes. It also means that subsidizing the education of low-income undergraduates is only one of the social benefits these institutions generate.

- Many types of charitable organizations, including hospitals, museums, and other cultural institutions, have endowments. But most of the largest endowments are in the education sector. In addition, colleges and universities and hospitals generally own more property than other charitable organizations.

- The colleges and universities with the largest endowments tend to be more selective in admissions and tend to enroll smaller shares of low-income students than less wealthy institutions. But these institutions charge their low-income students less than the full published price, and, on average, low-income students pay less to attend these institutions than to enroll at less well-resourced institutions.

- Proposals for modifying the tax-exempt status of colleges and universities with endowments include various taxes on endowments or the income they generate, sometimes designed to change institutions’ behavior. Other proposals would require a minimum payout rate from endowments, similar to the law affecting private foundations. But colleges and universities function more like operating foundations, which are not subject to this requirement, than like foundations that distribute funds to others to support their activities.

- The 1.4 percent tax on the endowment income of a small number of private nonprofit colleges and universities imposed by the 2017 tax law represents a sharp break from previous policy.
Educational opportunities would be strengthened if there were less inequality across institutions and if students’ backgrounds were not so highly correlated with the resources of the colleges and universities they attend. The most affluent students tend to be enrolled at the wealthiest institutions, while less affluent students are concentrated at underresourced institutions.

It is highly unlikely, however, that taxing these nonprofit institutions—as the Tax Cuts and Jobs Act of 2017 does—will solve the problems of college access, affordability, and success.

The Subsidy to Higher Education

Much of the debate about the tax treatment of college and university endowments centers around the concept of a public subsidy. Because of the long-standing tax exemption on income from the endowments of charitable organizations, it is not surprising that higher education administrators view the idea of any tax on this income as a penalty and an abrogation of important principles. Singling out colleges and universities—as opposed to other nonprofits—contradicts the established definition of charitable organizations, which is clear about the centrality of education. Section 501(c)(3) of the Internal Revenue Code defines charitable organizations as those organized and operated exclusively for charitable, religious, educational, scientific, literary, or educational purposes; testing for public safety; fostering national or international amateur sports competition; or preventing cruelty to children or animals.4

The tax exemption on endowment income is a subsidy in the form of a tax expenditure, affecting the federal budget in the same way direct payments to these institutions would. Although proposals to tax nonprofit colleges and universities or other charitable organizations as though they were for-profit corporations are rarely if ever put forward, using the potential revenue from such a policy as the basis for measuring the subsidy to these institutions is reasonable. This is the revenue the federal government loses from not applying this tax to endowment income, assuming no change in the value of endowments depending on their tax status.

The Congressional Research Service estimates that at the new 21 percent corporate tax rate, the revenue from taxing the income from college and university endowments as if they were for-profit corporations would be approximately $9.9 billion a year. If only private universities and colleges were subject to the tax—possibly the only realistic option—the estimate would be $6.4 billion (Sherlock et al. 2018).
A report from a research center with roots in the for-profit sector of higher education estimated that private nonprofit institutions receive far larger per student subsidies than public institutions. The authors suggest that in 2013, Princeton University’s overall tax-exempt status generated more than $100,000 per full-time equivalent student in taxpayer subsidies, compared with $12,000 per student at Rutgers University, $4,700 per student at the nearby regional Montclair State University, and $2,400 per student at Essex Community College (Klor de Alva and Schneider 2015). Despite methodological issues that raise questions about these estimates, the central point deserves attention.

Whatever the exact value of these subsidies, they are distributed unevenly across institutions. Colleges and universities with large endowments that generate a lot of income would have large tax bills in an alternative universe where charitable organizations could not increase endowments tax-free without limit. The federal treasury is sacrificing that income in the interest of subsidizing charitable activity. But it provides little subsidy to institutions with minimal endowments. Given the dramatic inequality of resources across postsecondary institutions—only a portion of which is represented by endowments—it is reasonable to ask whether this is the best way for the federal government to allocate its subsidies to higher education institutions.

Why Should Colleges and Universities Accumulate Endowment Assets?

Like other private nonprofit and public entities, colleges and universities build and maintain endowments to supplement other revenues in supporting current expenditures and to ensure their long-term financial security. Endowments help institutions fulfill their educational and research missions and can, especially in large universities, help finance expansion in the scope of their activities. Endowments ensure that institutions can maintain their operations over the long run, protected from temporary declines in enrollment and revenues, disruptions in financial markets, and unanticipated major expenses. Endowments also offer a source of annual revenue, allowing institutions to spend more each year than would otherwise be the case, given tuition and other revenue sources (Baum, Hill, and Schwartz 2018).

An endowment also strengthens institutional independence. Although many gifts come with explicit restrictions, it is easier for institutions to decline gifts with strings attached, withstand political pressures, and support academic pursuits that do not have a strong short-term bottom line, as well as those that may threaten the status quo, if they are financially secure.
Nobel Prize–winning economist James Tobin wrote in 1974 that the trustees of an endowed university, whose task is “to preserve equity among generations,” are seeking the rate of consumption from endowment that can be sustained indefinitely. According to Tobin, current consumption should not benefit from the prospect of future gifts. Income from the endowment should, even without future gifts, sustain the current level of activity indefinitely (Tobin 1974). The framework suggests that endowments should provide a smooth flow of real income to the institution.

Henry Hansmann, a Yale University economist and professor of law who has been a powerful voice questioning the accumulation of large endowments, examined potential justifications for this form of asset accumulation and found the idea of intergenerational equity to be the most common justification for endowment preservation and growth. Institutions save money to ensure that future students will have the same subsidies and the same educational opportunities as current students. Other explanations include the need to smooth out uneven funding, maintain liquidity against short-term financial reversals, provide for long-term security, and ensure that certain values are passed to future generations (Hansmann 1990).

But Hansmann and other observers are skeptical of the commonly cited motivations for accumulating large endowments. Colleges and universities assume they will exist long into the future, and they want to maintain the real value of the endowment so it can support the same services for future students, which will inevitably become more expensive. But, critics argue, there is every reason to believe that the economy will continue to grow and that there will be continuing donations to the endowment. According to Hansmann, “When a university adds a dollar to its endowment for the purpose of making an intergenerational transfer, it is implicitly making the judgment that the dollar will have a higher rate of return if invested in stocks and bonds than in educating an undergraduate, or doing research in biophysics, or adding books to the library” (Hansmann 1990). But forecasts of the economic future remain speculative, and it seems reasonable that institutions would choose to minimize the risk of not being able to maintain the endowment’s support for current activities over the long run.

In many cases, the terms of endowment gifts require colleges and universities to ensure that the donated funds will support specified activities in perpetuity. Both guidelines for prudent endowment management and state Uniform Prudent Management of Institutional Funds Acts (UPMIFA) require the preservation of the endowment’s purchasing power so it can continue forever to fund the activities it supports. Established in 2006 and since adopted by 49 states, UPMIFA removes the earlier restriction against allowing the value of individual endowment funds to fall below the original amount donated but maintains a focus on preserving the purchasing power of endowment funds over time. The guidelines
suggest that spending should be moderated when markets are rising to make it possible to maintain spending when the endowment is declining and still preserve intergenerational equity (Bass 2010; Sedlacek and Jarvis 2010).

Colleges and universities are not unique in their endowment policies. For example, the PEER Network provides guidance about endowments to Presbyterian churches and related organizations. They describe the goals of an endowment spending policy as safeguarding the funds for future generations, with the benefits to future generations equal to the benefits to the current generation; supporting the maximum amount of spending that can be maintained long term; ensuring that the fund income is as stable and enduring as possible; and ensuring that the stated wishes of donors are honored.6

Most colleges and universities have modest or minimal financial assets, but some have accumulated large endowments that generate income that funds a significant share of their budgets. These institutions can spend more on education, research, and public service activities than institutions entirely dependent on tuition revenues. They subsidize their students, who generally pay less than the cost of their education, as well as research activities, and can provide services that would not be feasible without endowment revenue. If they were to spend down their endowments, these supplementary revenues would no longer be available.

But the positive impact of endowments does not necessarily imply that unending additions to these assets are beneficial to current students or to society at large—or that the government should subsidize all donations to and income from endowments through tax exemptions. Surely every endowment is not the “optimal” size, and determining the optimal size is not possible. But at some point, the marginal benefits of extra dollars of endowment that can fund additional activities in the future would be lower than the marginal benefit of those dollars spent now, either on the institutional mission or on broader social efforts to expand educational opportunity.

The Endowment Debate

Aside from politicians, law professors are the most common critics of unlimited endowment accumulation and of continuing the tax exemptions for these endowments. These critiques generally reject the argument that endowment spending rates should be kept down in the interest of intergenerational equity. One common observation is that universities sometimes cut their operating budgets during financial crises to protect their endowments. This strategy would seem to interfere with
the current educational mission, disadvantaging today’s students relative to future students (Brody 1997).

Some economists also have contributed to this line of thinking. Robert Eisner and Steven W. Black (1974, 438) cited concerns about endowment spending dating to the 1950s: “A university, it seemed, could improve by leaving the next generation a higher endowment than the amount it received, not by spending to leave a higher-quality faculty, a greater investment in research, or whatever else a college and university was supposed to be about.” Eisner and Black were concerned about spending formulas that would “reinforce and perpetuate the university practice of using endowments to build forever for the future. Jam tomorrow, but never jam today” (Eisner and Black 1974, 439).

Similarly, economist Perry Mehrling argues that if colleges cut programs and people to preserve the endowment, they are undermining the reason for an endowment and that the policy of holding current spending below the expected rate of return shifts risk onto present students to protect future students. Some arguments against cutting current spending to preserve the endowment in difficult economic times focus on research, arguing that it cannot be best for society to postpone important findings (Waldeck 2009).

Even the harshest critiques of endowment accumulation do not suggest that colleges and universities should not build and maintain endowments to support their ongoing activities. But the advantages of endowments do not necessarily imply that it is efficient—or in the public interest—for institutions to continue to build those endowments without limit. There may be arguments for spending more now instead of saving it for the future. The social benefits of increasing educational attainment are high, and the return to need-based aid and expanded enrollment and success among underserved students could accelerate growth and the options for future financing (Colas, Findeisen, and Sachs 2018). If intergenerational equity is not actually the motive for the seemingly limitless accumulation of endowments, perhaps it is habit, the trustees’ financial and corporate backgrounds, college presidents’ desire for prestige, or other factors less representative of the social good and less deserving of limitless tax exemptions for endowment income (Conti-Brown 2011).

### Measuring Endowments

The most common way to refer to the size of college and university endowments is by an institution’s total financial assets. About a dozen institutions (out of 3,300 public and private nonprofit colleges and
universities), including three public university systems, have endowments exceeding $10 billion, and just over 100 have endowments greater than $1 billion.8

But most colleges with large endowments also hold debt, so their endowment values overstate their wealth. An institution that borrows $100 million, leaving its endowment intact, is no wealthier than one that spends $100 million from its endowment instead of accruing debt. According to the National Association of College and University Business Officers Commonfund Endowment study, 584 of the 809 participating institutions held long-term debt in 2016–17, averaging $208 million. The institutions with the largest endowments have the largest debt, with averages declining from $1 billion for those with endowments larger than $1 billion, to $103 million for those with endowments between $101 million and $500 million, and to $28 million for those with endowments under $25 million (NACUBO and Commonfund 2018a).

There is wide variation in debt levels among high-endowment institutions. Among the 15 private nonprofit research universities with the largest endowments, debt-to-endowment ratios range from under 10 percent to over 75 percent, averaging about 30 percent.9 Among the 15 private nonprofit bachelor’s colleges with the largest endowments, the range is from virtually no debt to more than 35 percent of the endowment value, averaging about 20 percent. Comparisons of endowments, no matter how they are measured, do not incorporate these differences in institutional debt. As a result, a given tax will require different shares of the financial wealth of institutions with similar endowments.

Harvard’s $36 billion endowment in fiscal year 2017 was one-third larger than Yale’s (second on the list at $27 billion) and 50 percent larger than Princeton’s (fifth on the list at $24 billion). But these amounts have different meanings depending on the size of the operations they support. It is more reasonable to base comparisons on endowment per student, as the recently implemented federal tax does. Because Harvard enrolls almost four times as many students as Princeton,10 its endowment per student is about 60 percent less. Moreover, about two-thirds of Harvard’s students are graduate students, compared with just one-third of Princeton’s. Because graduate students are more expensive to educate, even this comparison understates Princeton’s wealth relative to Harvard’s.

At $1.7 billion, Boston University’s endowment ranks 26th among research universities, but with about 30,000 students, it falls to 53rd in rankings by endowment per student. Lewis and Clark College in Oregon, with a $204 million endowment, is 72nd among private bachelor’s colleges in terms of total endowment, but because its 3,500 students make it large for its sector, it ranks 141st by endowment per student.
A more revealing measure than endowment per student—although more difficult to estimate—is endowment size relative to total expenditures. Undergraduate colleges have narrower missions and smaller operations beyond instruction than research universities. The same endowment per student will stretch further at an institution with fewer activities. Because endowments support all the activities in which the institution engages, the ratio of endowment value to annual budget may be more meaningful than its ratio to the number of students. Of course, institutions with higher revenue from tuition or other sources will spend more relative to the endowment size than those with limited revenue, and increases in endowments are likely to increase expenditures. But if colleges and universities were sitting on large assets just to save for the future (which might never come), their endowment-to-spending ratios would increase as they accumulate assets for purposes other than supporting higher spending.

Some observers have focused on similar metrics (Waldeck 2009). One such metric is based on the number of years for which an institution could sustain itself if revenue declined significantly. Burt Weisbrod asked how long the endowment would last if it had to contribute an additional 10 percent of the annual budget. He estimated that in 2006, Princeton had a 141-year rainy-day fund, and Grinnell College, with a far smaller endowment, had the largest rainy-day fund of all colleges and universities—191 years. Harvard, Yale, and Stanford University, with far larger endowments, spend more, so their rainy-day funds (96, 92, and 53 years, respectively) did not make even the top 10. Still, declines in endowment value of 25 percent with no reduction in spending would leave their rainy-day funds covering many years of expenditures. Most institutions, however, have small rainy-day funds.

Proposing a related measure, Mark Schneider suggests that if endowment growth and income were steady, the endowment should be just large enough to make the necessary payout every year while expanding the principal at the same rate the budget grows.11

Proposals to tax endowments or the income they generate are generally rooted in the idea that colleges and universities have “too much” set aside. There is a sense that at least the institutions with the largest endowments could carry on with smaller endowments. Some college and university endowments are large enough to cover more than 10 years of expenditures (table 1).
### TABLE 1
Endowment Value Relative to Total Annual Spending

<table>
<thead>
<tr>
<th>Institution</th>
<th>Endowment/total spending</th>
<th>Institution</th>
<th>Endowment/total spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soka</td>
<td>18.3</td>
<td>Bowdoin</td>
<td>7.0</td>
</tr>
<tr>
<td>Princeton</td>
<td>11.6</td>
<td>Cooper Union</td>
<td>7.0</td>
</tr>
<tr>
<td>Grinnell</td>
<td>9.9</td>
<td>Principia</td>
<td>6.7</td>
</tr>
<tr>
<td>Pomona</td>
<td>9.7</td>
<td>Wellesley</td>
<td>6.3</td>
</tr>
<tr>
<td>Swarthmore</td>
<td>9.7</td>
<td>Notre Dame</td>
<td>6.3</td>
</tr>
<tr>
<td>Amherst</td>
<td>8.0</td>
<td>Richmond</td>
<td>6.1</td>
</tr>
<tr>
<td>Washington and Lee</td>
<td>7.5</td>
<td>Claremont McKenna</td>
<td>5.6</td>
</tr>
<tr>
<td>Williams</td>
<td>7.4</td>
<td>Smith</td>
<td>5.6</td>
</tr>
<tr>
<td>Berea</td>
<td>7.3</td>
<td>Stanford</td>
<td>4.4</td>
</tr>
<tr>
<td>Rice</td>
<td>7.0</td>
<td>Dartmouth</td>
<td>4.2</td>
</tr>
<tr>
<td>Yale</td>
<td>7.0</td>
<td>Massachusetts Institute of Technology</td>
<td>3.6</td>
</tr>
<tr>
<td>Harvard</td>
<td>7.0</td>
<td>California Institute of Technology</td>
<td>0.9</td>
</tr>
</tbody>
</table>

**Source:** Authors’ calculations from Integrated Postsecondary Education Data System data.

**Note:** Includes private nonprofit institutions with the highest endowments per student.

The ratios in table 1 underestimate the number of years for which institutions could cover their expenses before depleting their endowments unless growth in expenditures exceeds the return on the endowment investments. But for many institutions, the endowment protects against the future by producing income that will eliminate the need to spend down principal in hard times, in addition to regularly covering a steady share of expenses.

Because most colleges and universities have small endowments, those in the private nonprofit sector cover most of their budgets with tuition revenues, with small supplements from endowment income, which covers less than 10 percent of the total. At the other end of the spectrum, Harvard and Yale cover about one-third of their annual budgets, and Pomona College covers about 40 percent of its budget, with the earnings from their endowments (Harvard University 2018, 3; Pomona College 2017, 4; Yale University 2018, 8).

Covering expenditures out of the income from the endowment, as opposed to by depleting the endowment, would require a higher ratio of endowment value to total expenditures. An institution with a ratio of 20 could cover all expenditures out of the income in perpetuity from an endowment yielding an average compound 5 percent real return, assuming no growth in expenditures and no new donations. At an approximate payout rate of 5 percent, covering one-third of the annual budget with endowment income implies an endowment at least seven times annual expenditures.

Given the merits of considering endowments relative to the expenditures they support, it is worth asking what has happened to the ratio of endowment values to institutional budgets. It requires, of
course, subjective judgments to determine the extent to which growth in expenditures is allowing educational institutions to offer expanded and higher-quality activities with high social value, as opposed to simply spending more on what they have been doing. Nonetheless, growth in this ratio might better measure whether endowments are growing relative to the activities they support than growth in either total endowment values or endowment per student.

Jeffrey Brown and coauthors (2014) found that endowments grew relative to doctoral university budgets between 1986 and 2009. They found that endowments and expenditures grew at similar rates from 1986 through 1994 but that endowments grew more rapidly than expenditures from 1994 through 2009.

Has this trend continued or become sharper, leading to increased public policy attention on large endowments? Figure 1 illustrates the trends for private nonprofit research universities and bachelor’s colleges, as well as for public research universities, from 1990 to 2015, a period during which public-sector enrollment grew by one-third and the number of students attending private nonprofit institutions increased by almost 50 percent. Figure 1 also looks separately at the institutions with the largest endowments each year. Endowment-to-expenditure rates in the private nonprofit sectors fell measurably in 2008 and have not risen to their prerecession levels, although average endowment values were higher in 2015 than in 2007.
FIGURE 1A
Endowment Assets Relative to Total Institutional Expenditures at Private Nonprofit Research Universities, 1990 to 2015

All

Endowment/expenditures

Endowment value

Top 12

Endowment/expenditures

Endowment value

Source: Authors’ calculations from Integrated Postsecondary Education Data System data.
Notes: The institutions included in the top 12 graph are those with the largest endowments each year. Data are not available for private nonprofit institution endowments from 1997 through 2002.
FIGURE 1B
Endowment Assets Relative to Total Institutional Expenditures
at Private Nonprofit Bachelor’s Colleges, 1990 to 2015

All

Endowment/expenditures
Endowment value

Top 20

Endowment/expenditures
Endowment value

Source: Authors’ calculations from Integrated Postsecondary Education Data System data.
Notes: The institutions included in the top 20 graph are those with the largest endowments each year. Data are not available for private nonprofit institution endowments from 1997 through 2002.
FIGURE 1C
Endowment Assets Relative to Total Institutional Expenditures at Public Research Universities, 1990 to 2015

All

Source: Authors’ calculations from Integrated Postsecondary Education Data System data.

Note: The institutions included in the top 12 graph are those with the largest endowments each year.
TABLE 2
Average Annual Growth Rates of Endowments and Expenditures, 1990 to 2015

<table>
<thead>
<tr>
<th></th>
<th>All Private Nonprofit Research Universities</th>
<th>Top 12 Private Nonprofit Research Universities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Endowment</td>
<td>Expenditures</td>
</tr>
<tr>
<td>1990 to 1995</td>
<td>9.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>1995 to 2005</td>
<td>10.1%</td>
<td>7.2%</td>
</tr>
<tr>
<td>2005 to 2010</td>
<td>1.0%</td>
<td>3.6%</td>
</tr>
<tr>
<td>2010 to 2015</td>
<td>2.6%</td>
<td>2.6%</td>
</tr>
<tr>
<td></td>
<td>All Private Bachelor’s Colleges</td>
<td>Top 20 Private Nonprofit Bachelor's Colleges</td>
</tr>
<tr>
<td></td>
<td>Endowment</td>
<td>Expenditures</td>
</tr>
<tr>
<td>1990 to 1995</td>
<td>8.1%</td>
<td>5.0%</td>
</tr>
<tr>
<td>1995 to 2005</td>
<td>6.7%</td>
<td>9.3%</td>
</tr>
<tr>
<td>2005 to 2010</td>
<td>0.4%</td>
<td>2.7%</td>
</tr>
<tr>
<td>2010 to 2015</td>
<td>1.4%</td>
<td>1.9%</td>
</tr>
<tr>
<td></td>
<td>All Public Research Universities</td>
<td>Top 12 Public Research Universities</td>
</tr>
<tr>
<td></td>
<td>Endowment</td>
<td>Expenditures</td>
</tr>
<tr>
<td>1990 to 1995</td>
<td>10.2%</td>
<td>2.1%</td>
</tr>
<tr>
<td>1995 to 2005</td>
<td>9.1%</td>
<td>4.9%</td>
</tr>
<tr>
<td>2005 to 2010</td>
<td>6.6%</td>
<td>6.1%</td>
</tr>
<tr>
<td>2010 to 2015</td>
<td>5.8%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on Integrated Postsecondary Education Data System data.
Note: Data on endowments are not available for 2000.

According to these estimates, the ratio of endowment to expenditures increased in the early 1990s and in the run-up to the 2008 crash, but there has not been any upward trend in the ratio from 1990 to 2015. Endowments grew more slowly in all sectors between 2005 and 2015 than in earlier years.

At public research universities, endowments have grown more rapidly than expenditures, as public appropriations have covered a declining share of the cost of education. Growth in the endowment-to-expenditure ratio suggests that the share of expenditures covered by tuition revenues would have grown even more without the development of endowments, which are smaller at public research universities than in the private nonprofit sector.

At private nonprofit research universities, both overall and among the 12 with the largest endowments, endowments grew more rapidly than expenditures between 1990 and 2005, with the endowment-to-expenditure ratio rising from 1.5 to 2.5 for the sector as a whole and from 2.9 to 4.6 for the 12 wealthiest institutions, but not between 2005 and 2015. In other words, endowments have not grown relative to expenditures in recent years.
In contrast, at private nonprofit bachelor’s colleges, both overall and among the 20 with the largest
endowments, expenditures grew more rapidly than endowments over the 25-year period, with
endowment-to-expenditure ratios falling from 3.0 to 2.4 for the sector as a whole and from 8.2 to 6.8
for the 20 wealthiest institutions. Most of the decline occurred before 2003. As for private nonprofit
research universities, the ratios were almost the same in 2015 as in 2003.

Despite the growth in endowments in the private nonprofit sector, on average, these institutions do
not appear to be accumulating endowments that are growing in proportion to their activities. But even
among the wealthiest universities, whose endowments support options for expanding their activities,
there is considerable variation across institutions. Harvard’s endowment was about seven times its
annual expenditures in both 1990 and 2015, having fallen to a ratio of about 5 from 1991 through 1993
and peaked in the 10 to 11 range in 2006 and 2007. In contrast, Princeton’s endowment was also about
7 times its annual expenditures in 1990 but was 12 times annual expenditures in 2015. There, the
endowment grew more rapidly than expenditures. Fully understanding these differences and their
implications would require further exploration.

The Distribution of Endowment Assets, Enrollment of Low-Income Students, and Net Prices

At the end of academic year 2015–16, US colleges and universities held endowment assets totaling
$532 billion. About 40 percent of these assets belonged to 20 private nonprofit research universities,
and 20 percent of the total belonged to just four institutions.

The concentration of endowment assets at a small number of institutions means that most colleges
and universities cannot count on this income to significantly support their operations. About half of all
private nonprofit research universities have endowments per student that are less than 1.5 percent of
the largest endowment in the sector, and about half of private bachelor’s colleges have endowments per
student that are less than 2 percent of the largest in the sector.

Based on typical annual spending rates of about 4.5 percent of the endowment value, the
endowments of the 11 wealthiest private research universities, enrolling 10 percent of students in the
sector, provide an average of $66,800 per student per year, more than the average published tuition
and fee price. But the institutions with the lowest endowments, where half of this sector’s students are
enrolled, average less than $2,000 per student in income to the annual budget from this source.
Endowment wealth at private bachelor’s colleges is similarly skewed. At master’s universities, where
there is less wealth and the gaps are smaller, average endowment income in the top 10 percent is still almost nine times the average for the bottom half.

The endowments of the wealthiest public research universities, enrolling 10 percent of students in the sector, provide about $6,200 per student per year. Those in the lower half of the distribution ranked by endowment per student, where 50 percent of this sector’s students are enrolled, have, on average, about $400 per year per student to spend from this source.

In both public and private institutions, endowment wealth is negatively correlated with the share of students whose low incomes qualify them for federal Pell grants. In the private nonprofit four-year sector, nearly half of students at institutions in the lowest decile based on endowment per student receive Pell grants. In contrast, 15 percent of students at the wealthiest colleges and universities are low income. The pattern is the same at public four-year institutions, though the range is smaller (figure 2).

The share of Pell grant recipients among undergraduates at an institution is an imperfect measure of the share of low-income students because it excludes international students and undocumented students who are not eligible for federal aid. Moreover, though Pell grants are well targeted to students with limited ability to pay, the range of eligible incomes extends far above the federal poverty level. And students just above the eligibility level face financial constraints similar to those just below the cutoff. Nonetheless, it is clear that students attending institutions with large endowments are disproportionately academically well-prepared students from affluent households. There may be limits on how much individual institutions can change this pattern without dramatic changes in their admissions criteria, but there is strong evidence that a significant number of qualified low-income students are not enrolling in the selective institutions for which they would qualify (Hoxby and Avery 2013; Pallais and Turner 2006; Winston and Hill 2005).
FIGURE 2A
Share of Students Receiving Pell Grants, by Deciles of Endowment
Assets per Student, Private Nonprofit Four-Year Institutions

FIGURE 2B
Share of Students Receiving Pell Grants, by Deciles of Endowment
Assets per Student, Public Four-Year Institutions

Note: FTE = full-time equivalent.
The share of Pell grant recipients, even if it were a perfect measure of the share of low-income students on campus, would not adequately measure how well colleges and universities subsidize low- and moderate-income students. Institutions with large per student endowments spend more on education than less well-resourced institutions, offering opportunities not available to most college students. They draw income from their endowments to add to their operating budgets, providing significant subsidies to all enrolled students, including those who pay the full sticker price without financial aid and those who can afford to attend only with generous financial aid.

Moreover, the wealthiest institutions provide generous need-based aid to their high-need students, charging considerably lower net prices to low-income students than they would pay at other colleges and universities (figure 3). High-endowment schools charge different net prices to low-income and high-income students. High-income students at the wealthiest schools pay more than $40,000, on average, for tuition and fees, books and supplies, room and board, and other living expenses, but the lowest-income students at the same institutions pay less than $7,000, on average. The pattern in the public sector is similar. Low-income students who enroll at wealthy, selective institutions pay less than their more affluent peers and less than they would pay at public institutions with smaller endowments.
Spending from the Endowment

Colleges and universities set rules for determining how much revenue from the endowment to add to the operating budget each year. Not all institutions have the same rules, but most attempt to balance preserving the endowment’s purchasing power over the long run with minimizing fluctuations in annual spending in response to fluctuations in financial markets. A common practice is to set a target spending rate—usually between 4 and 5.5 percent of the endowment’s value at the beginning of the year—and apply it to a moving average of the endowment values over the past three to five years. At some
institutions, spending is based on adjustments of the previous year's endowment draw or a combination of these factors (Sedlacek and Jarvis 2010).

A view of the average rates of return to endowment assets over the past decade makes clear the importance of smoothing spending and of not assuming that a high rate of return one year should be the basis of future plans. Between fiscal year 2008 and fiscal year 2017, average annual rates of return averaged 4.9 percent but ranged from -18.7 percent to 19.2 percent (figure 4) (NACUBO and Commonfund 2018a).

**FIGURE 4**
Average Annual Total Net Returns on Endowments

![Graph showing average annual total net returns on endowments from 2008 to 2017.](Image)

A significant share of endowment funds are restricted to donor-specified uses. If a donor funds an endowed professorship, the university cannot use the income from that portion of the endowment for financial aid or any other activity. Not all endowment funds have these strings attached, and the restrictions limit institutional options in a meaningful way only if they require more spending in a certain area than the institution would otherwise choose (Baum, Hill, and Schwartz 2018). For example, few colleges have more funds restricted to financial aid than they would otherwise spend on aid.

The average spending rate from endowments in 2017 was 4.6 percent at private colleges and universities, where the average ranged from 4.3 percent to 4.8 percent from 2008 through 2017. The
spending rate was 4.1 percent at public institutions, where the average ranged from 4.0 percent to 4.5 percent from 2008 to 2017. Although this pattern has not been entirely consistent, in 2017, the average spending rate rose with endowment size, ranging from 4.0 percent for institutions with endowments smaller than $25 million to 4.8 percent for those with endowments over $1 billion (NACUBO and Commonfund 2018b). The differences in spending across endowment sizes are small, but from 2009 through 2011, institutions with small endowments lowered their spending rates, while those with larger endowments increased their spending rates. In other words, from 2009 to 2011, institutions with the largest endowments increased their endowment spending to ease the downward pressure on spending that the recession produced.

FIGURE 5
Endowment Spending Rates, Fiscal Year 2008 to Fiscal Year 2017

Note: Values are rounded to the nearest million.

But examining endowments and spending patterns at doctoral universities from 1987 to 2009, Jeffrey Brown and his coauthors (2014) found that universities respond asymmetrically, leaving spending unchanged when their endowments experience high rates of return but cutting spending in
the face of negative shocks to the endowment. They did not find that universities adjust their endowment spending patterns to compensate for changes in other revenue sources. The authors describe the patterns they observe as “endowment hoarding.” Their data indicate that when the endowment declines, universities decrease the number of tenure-track faculty.

Colleges and Universities as Charitable Organizations

The educational missions of colleges and universities define these institutions as charitable organizations. Improving the circumstances of the less privileged members of society contributes to, but does not determine, this status. Public subsidies to museums, orchestras, operas, and other cultural organizations serve an important purpose, but these organizations do not target the neediest members of American society.

Critiques of endowments, which come from various political perspectives, frequently focus on tuition prices and student aid. The perceived problem is that wealthy educational institutions are not doing enough to make college affordable and enroll a reasonable number of low-income students. Whatever the merits of this criticism, it ignores the reality that colleges and universities have broad missions, and their benefit to society cannot be measured solely in terms of the demographics of their undergraduate students. These institutions also educate graduate students, produce and disseminate research, promote intellectual inquiry and cultural engagement, and contribute to their communities. Attempts to use federal policy to reallocate their expenditures from one goal to another are not likely to be the most effective way to increase educational opportunities.

Because they do not have the kinds of endowments top-tier colleges and universities have accumulated, other charitable organizations would be less affected by a modification in the way these private organizations are subsidized. A recent study of endowments across all types of nonprofit organizations found that colleges and universities, which constitute 6 percent of nonprofit organizations, hold 54 percent of the assets. The mean nonprofit endowment size is $27.2 million, with a median of $1.2 million. Harvard’s endowment is the largest across all nonprofit sectors. Outside the education sector, the largest fund is the $7.3 billion endowment of the Shriners Hospitals for Children (as of 2014) (Dahiya and Yermack 2018).

Charitable organizations are eligible to receive tax-deductible donations, and they have been exempted from income taxation as long as there has been an income tax. The Tariff Act of 1894, which established a flat 2 percent tax on corporate income (later declared unconstitutional), explicitly...
exempted entities organized and conducted solely for "charitable, religious, or educational purposes, including fraternal beneficiary associations." The War Revenue Act of 1917 introduced the individual income tax deduction for charitable donations. Other laws enacted between 1894 and 1969 established basic principles and requirements for charitable organizations, the income from which cannot be used to benefit individuals associated with the organization (Arnsberger et al., n.d.).

**Providing Social Benefits**

Supporting their exemption from income taxes, as well as property and sales taxes, advocates for higher education point to the value of their activity in terms of the external social benefits of education and the benefits of cutting-edge research performed at universities. Endowments support these activities with funds being used to allow students who cannot pay on their own to enroll and to subsidize research and public service activities. The benefits extend to the communities in which colleges and universities are located and to the country as a whole, offsetting forgone tax revenues.

Tuition prices have risen more rapidly than average prices in the economy for decades. But most colleges and universities, particularly those with sizeable endowments, subsidize all their students by charging prices lower than the full cost of education. Private nonprofit institutions make up the difference with annual giving and endowment income. Public institutions combine any revenues from these sources with state and local appropriations. Notably, in 2015–16, net tuition and fee revenue covered, on average, only 54 percent of education and related expenditures at private research universities, where endowments averaged $206,000 per student (with a median of $55,000). Students received a subsidy covering the remaining 46 percent. In contrast, at private master’s universities, where endowments averaged only $21,000 per student (with a median of $14,000), tuition and fees covered 84 percent of education and related expenditures, and students received a subsidy covering only 14 percent of the total (Ma et al. 2018, figures 18 and 19).

Critics argue that tuition prices are too high; that wealthy, selective institutions enroll too few low- and moderate-income students; and that the amounts of wealth some institutions have accumulated cannot possibly be in the public interest and should not receive public subsidy.

But this debate cannot reasonably be resolved. Colleges and universities have clear social benefits. Providing education is a core function central to all definitions of charitable organizations that should not be taxed. There is abundant evidence of the importance of an educated workforce for economic productivity and growth. And most students pay less than the full cost of their education.
It is hard to deny that the public benefits produced by colleges and universities justify some level of public subsidy, but quantifying these contributions is difficult. It is not just enrolling low-income students and charging them lower than the full tuition price that qualifies as a charitable contribution. Research has positive spillover effects, and contributing to social welfare is the central purpose of public services such as extension services, community gathering places, and free clinics provided by universities. Even defining the social benefits of undergraduate education so narrowly is questionable. Providing high-achieving undergraduates whose parents can pay for their education with the broad opportunities available at well-resourced institutions may make them better citizens and more productive workers in ways that benefit the broader society. Parents paying the full cost of their children’s education might eliminate some aspects of a broad liberal education that have less visible and immediate relevance to the labor market, diminishing the potential for students to become well-rounded innovators and contributors to society. Students who pay full price at elite institutions are not more deserving of public subsidies than students at institutions that do not have as much wealth or receive donations that generate significant subsidies. But positing the existence of social benefits to the liberal education of these students does not require this sort of comparison.

But this compelling evidence does not, of course, mean that every dollar every college or university spends increases social welfare or that marginal dollars of endowment income, which might, under a different policy regime, be taxed away, are central to the social mission of higher education.

Measuring Charitable Activities

Charities providing education and health care receive most of their revenue from private payments for service. They also get revenue from donations, which may be in the form of tax-deductible donations from individuals or corporations, services provided by volunteers or by employees working for below-market wages, or the additional return to investments resulting from tax-exempt status. Some of these donated resources are spent immediately on service provision. Others may be saved to support future activities. These charitable resources are not necessarily separated from the resources collected through the sale of services that parallels the activities of for-profit organizations. Public and nonprofit institutions are subject to an unrelated business income tax on activities that are not substantially related to their tax-exempt mission but not on the revenues generated by the sale of their educational services.

Eugene Steuerle notes that in a social balance sheet, the value of the charitable benefits an organization generates should equal the revenues it receives through charitable donations, tax

THE ROLE OF COLLEGE AND UNIVERSITY ENDOWMENTS
preferences, and volunteer or below-cost labor. That is, sources equal uses (Steuerle 2007a, 2007b). In higher education, this standard would imply not that every dollar a college spends should have charitable impact but that the expenditures on clearly charitable functions should, over time, at least equal the revenues that would not be available if the organization were subject to taxation.

Table 3 provides a rough estimate of some of the numbers that would go into an evaluation using this type of accounting. It is based on annual revenues and expenditures. It does not include the value of property and sales tax exemptions but defines the relevant subsidy generously as at least equal to the sum of the savings from not paying the 21 percent corporate income tax on investment income (averaged over five years) and average annual private donations. It includes the entire charitable donations—not just the tax subsidy to those donations—assuming that the donations are made to support charitable activities, not in exchange for any benefit provided to the donors.

The most relevant comparison would be to the value of the services provided above and beyond the amount students and others pay for those services. Given the difficulty of making such an estimate, these calculations rely on expenditures on education, research, and public service, activities with a clear public benefit. The ratio of estimated subsidies to expenditures suggests the share of these activities that would have to qualify as charitable to satisfy Steuerle's metric. If this measure is appealing, further analysis in this direction might be constructive.

In most sectors, the average share of total expenditures covered by savings from tax exemptions is less than 25 percent. At high-endowment private nonprofit institutions, close to half of expenditures may be covered by the savings. These estimates suggest that a significant portion—but far from all—of these institutions' budgets would have to be devoted to charitable activities to justify the government subsidy.
TABLE 3
Estimated Revenues from Donations and Exemption from Corporate Income Tax Relative to Selected Expenditures

<table>
<thead>
<tr>
<th></th>
<th>Implicit subsidy from exemption of income from endowments from federal corporate income tax</th>
<th>Corporate income tax exemption plus private gifts</th>
<th>Expenditures on education and related activities, research, and public service</th>
<th>Subsidy/expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public research universities</td>
<td>$894</td>
<td>$6,704</td>
<td>$115,882</td>
<td>6%</td>
</tr>
<tr>
<td>Private nonprofit research universities</td>
<td>$3,887</td>
<td>$15,181</td>
<td>$71,139</td>
<td>21%</td>
</tr>
<tr>
<td>Private nonprofit master’s universities</td>
<td>$289</td>
<td>$2,597</td>
<td>$26,877</td>
<td>10%</td>
</tr>
<tr>
<td>Private nonprofit bachelor’s colleges</td>
<td>$799</td>
<td>$4,564</td>
<td>$18,681</td>
<td>24%</td>
</tr>
<tr>
<td>Average of sample of highest-endowment private nonprofit institutions</td>
<td>$217</td>
<td>$529</td>
<td>$1,140</td>
<td>46%</td>
</tr>
</tbody>
</table>

Source: Author’s calculations from Integrated Postsecondary Education Data System data.
Note: Values are in millions of dollars.

Changing Public Policy

Proposals for taxing endowments—or the income from endowments—come from various political perspectives. The stated motivation for Congress’ imposition of a tax on the endowment incomes of a small number of private colleges and universities included in the Tax Cuts and Jobs Act of 2017 was to induce the affected institutions to make college more affordable. But the current tax is unrelated to the prices charged and the level of aid offered to students, and some observers have argued that the tax is designed to send a political message, punishing institutions viewed by many conservatives as too liberal.\(^{17}\) Calling the tax “vandalism,” columnist George Will views the tax, which affects only colleges and universities, not other charitable institutions, as a dangerous violation of long-held principles.\(^{18}\) The Cato Institute’s Neal McCluskey characterizes the tax as “little more than a politicized ‘Take That, Harvard!’.”\(^{19}\)

A 2015 op-ed in Slate suggested that “we’d all like to spend a little less money sending other people’s kids to Harvard.”\(^{20}\) The notion that Republicans want to punish what they perceive to be left-leaning institutions does not allow us to dismiss this critique or the views of those who wish to tax endowments as a strategy for reducing inequality and increasing social mobility.
Some proposed policies directed at colleges and universities with large endowments are designed to provide incentives for institutions to change their behavior. They may impose lower taxes on those that enroll more low-income students, provide more financial aid, or charge lower tuition prices. Other proposed policies, such as the tax included in the TCJA, simply transfer funds from institutions to the government. Some proposals would earmark the revenue generated by endowments for spending designed to increase educational opportunities.

**Potential Policy Options**

An extreme option would be to impose a tax on endowment earnings similar to the current 21 percent rate already imposed on tax-exempt entities for earnings from activities not related to their exempt purpose (the unrelated business income tax). Although the subsidy colleges and universities receive through the tax exemption of endowment income may best be measured by estimating how much revenue would be generated by applying the 21 percent corporate tax rate to these earnings, imposing such a tax would upend the long-standing treatment of charitable organizations under the tax code. The many proposals for diminishing the tax preferences for colleges and universities rarely, if ever, make this suggestion.

The discussion below addresses the recently implemented tax on income from selected endowments, alternative proposals for taxing endowment income, and proposals for taxing endowment value. It also reviews the frequently mentioned idea of following the model of private foundations and requiring a minimum endowment payout rate for colleges and universities.

Another option would be to limit the tax deductibility of donations to endowments. This deduction will have less impact, as recent changes in the federal income tax structure reduce the number of filers who itemize deductions. Some proposals would limit the deduction for donations that are to be spent over time, not immediately used for charitable purposes. Congress could, for example, decide that donations are tax-exempt only if they must be spent within a specified period—say, 25 years (Galle 2015; Waldeck 2009). It would, however, be possible for institutions to use the money donated within this restriction for current expenditures and transfer tuition revenues into the endowment. Responses to the new tax law will provide some information about how charitable giving will respond to changes in the associated tax benefits.

Another option for reducing the tax subsidies to wealthy colleges and universities would be directed to the institution’s ownership of real estate rather than financial assets, modifying the local property tax exemption. This exemption helps educational institutions more than most other charitable
organizations, which own little property. Many colleges and universities do make payments in lieu of property taxes (PILOTS), but these payments are voluntary and irregular.\textsuperscript{23}

**The 2017 Tax on Endowment Income**

The TCJA imposed a 1.4 percent tax on endowment income for private colleges with at least 500 students and at least $500,000 in endowment per student.\textsuperscript{24} The law specifies that the tax does not apply to income from assets that “are used directly in carrying out the institutions’ exempt purpose,” a provision that has caused a great deal of confusion for institutions, which are still looking to the Internal Revenue Service for guidance.

Even if there were consensus that at least some endowment income from some colleges and universities should be subject to federal income taxation, the endowment tax in the TCJA is poorly designed, incorporating cliff effects—sharp differences in treatment for institutions in similar circumstances. Table 4 illustrates how a small change in either the endowment value or the number of students enrolled can have a dramatic impact on taxes owed.

**TABLE 4**

<table>
<thead>
<tr>
<th>Endowment</th>
<th>FTE students</th>
<th>Endowment per FTE student</th>
<th>Income (5%)</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>$600,000,000</td>
<td>600</td>
<td>$1,000,000</td>
<td>$30,000,000</td>
<td>$420,000</td>
</tr>
<tr>
<td>$600,000,000</td>
<td>1,000</td>
<td>$600,000</td>
<td>$30,000,000</td>
<td>$420,000</td>
</tr>
<tr>
<td>$600,000,000</td>
<td>1,200</td>
<td>$500,000</td>
<td>$30,000,000</td>
<td>$420,000</td>
</tr>
<tr>
<td>$600,000,000</td>
<td>1,220</td>
<td>$491,803</td>
<td>$30,000,000</td>
<td>$0</td>
</tr>
<tr>
<td>$599,999,000</td>
<td>1,200</td>
<td>$499,999</td>
<td>$29,999,950</td>
<td>$0</td>
</tr>
</tbody>
</table>

*Source: Authors' calculations.*

*Note: FTE = full-time equivalent.*

There is no shortage of real-world examples of this problem. Soka University of America’s $2.6 million in endowment per FTE student is second only to Princeton University, but because Soka enrolls only 430 students and the tax applies only to institutions enrolling at least 500 students, it is excluded from the tax. Any incentive the institution might have had to grow, allowing more students the privilege of benefiting from its resources, is undermined by the tax. Claremont McKenna College’s $709 million endowment supports 1,370 students. Its $518,000 per student endowment would fall beneath the $500,000 threshold if it enrolled an extra 50 students or took $30 million from the endowment for a new building. Its tax would fall from about $500,000 a year to $0. Emory University’s $7 billion endowment supports 14,500 students, about $483,000 per student. If its endowment grows by 6 percent, its tax will leap from $0 to about $5 million a year.
A better-designed tax would exempt a certain amount of endowment dollars per student for all institutions and tax the income on assets above that level—similar to the structure of the income tax—to avoid dramatic cliff effects.

**Other Proposals to Tax Endowment Income**

Both the recently implemented tax on endowment earnings and most proposals for related policies restrict the tax to endowments above a certain total amount or above a per student threshold. They may be based on rolling three-year averages or tied to tuition increases or financial aid spending.

In 2014, then Congressman Dave Camp, a Republican who chaired the House Ways and Means Committee, included a 1 percent tax on the investment earnings of college and university endowments as part of his tax proposals. It would have applied to colleges with endowments larger than $100,000 per student.25

Representative Tom Reed, a Republican from New York, has proposed legislation that would affect colleges and universities with endowments of more than $1 billion. His proposal would require those institutions to take 25 percent of the amount they earn on their endowments annually and pay that money as grants toward students’ cost of attendance. Institutions not meeting this target would face a tax of 30 percent of net investment income: “For those colleges that fail or refuse to reinvest in their students, an immediate 30 percent tax would be applied to their investment income with the possibility of a 100 percent tax for continuing violations if uncorrected. In addition, the failure to comply would result in the school losing their ability to receive charitable contributions” (Reed 2016). A more recent proposal from Reed would waive the newly implemented tax for institutions that meet this financial aid requirement.26

This proposal, unlike the tax implemented by the TCJA, is intended to affect the way colleges and universities spend their money. The fact that the current law does not include any such provision leads to the criticism that no matter how single-minded institutions are in using their resources to subsidize low- and moderate-income students, they cannot escape the tax. But the Reed proposal and others aimed at changing behaviors would not constructively address this issue.

The simplest way to see the problem with requiring that at least a specified share of endowment income be devoted to financial aid is to view the impact of raising both tuition levels and financial aid. Table 5 shows examples of an institution raising both its tuition and fee price and its institutional grant aid per student in a way that holds net tuition revenue—representing both income to the institution
from tuition and the average amount students pay—constant. It is possible to manipulate the share of a given level of endowment income that is spent on aid by raising or lowering both tuition and aid.

**TABLE 5**

Impact of Tuition and Aid Practices on Share of Endowment Income Devoted to Financial Aid

<table>
<thead>
<tr>
<th>TF students</th>
<th>Gross TF</th>
<th>Aid per student</th>
<th>Net TR</th>
<th>Total aid</th>
<th>Endowment income</th>
<th>Aid/ endowment income</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000</td>
<td>1,000</td>
<td>$10,000,000</td>
<td>$1,000</td>
<td>$9,000,000</td>
<td>$1,000,000</td>
<td>$40,000,000</td>
</tr>
<tr>
<td>$11,000</td>
<td>1,000</td>
<td>$11,000,000</td>
<td>$2,000</td>
<td>$9,000,000</td>
<td>$1,000,000</td>
<td>$40,000,000</td>
</tr>
<tr>
<td>$12,000</td>
<td>1,000</td>
<td>$12,000,000</td>
<td>$3,000</td>
<td>$9,000,000</td>
<td>$2,000,000</td>
<td>$40,000,000</td>
</tr>
<tr>
<td>$13,000</td>
<td>1,000</td>
<td>$13,000,000</td>
<td>$4,000</td>
<td>$9,000,000</td>
<td>$3,000,000</td>
<td>$40,000,000</td>
</tr>
<tr>
<td>$14,000</td>
<td>1,000</td>
<td>$14,000,000</td>
<td>$5,000</td>
<td>$9,000,000</td>
<td>$4,000,000</td>
<td>$40,000,000</td>
</tr>
<tr>
<td>$15,000</td>
<td>1,000</td>
<td>$15,000,000</td>
<td>$6,000</td>
<td>$9,000,000</td>
<td>$5,000,000</td>
<td>$40,000,000</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations.

Note: FTE = full-time equivalent; TF = tuition and fees; TR = tuition revenue.

Several other proposals take different approaches to designing a tax on endowment income as a strategy to convince institutions to do more to make college affordable or to increase socioeconomic diversity. Aaron Klein and Richard Reeves at the Brookings Institution believe an endowment tax could be designed to reduce inequality and increase social mobility, providing incentives for wealthy institutions to be more inclusive. They would impose a tax but exempt institutions that enroll large shares of Pell grant recipients and possibly those that abandon such practices as admission preferences for legacy students. They suggest excluding the share of endowments restricted to aid for low-income students and would dedicate tax revenues directly to efforts proven to increase educational attainment among disadvantaged populations.

Another proposal that attempts to provide incentives for specific behaviors would tax a university’s endowment income when the endowment grows during the same year that tuition increases faster than inflation. Universities could accumulate endowment income tax-free as long as their tuition increases did not outpace inflation. The argument is that such a tax would discourage tuition hikes without encouraging wasteful spending. It would not necessarily discourage endowment growth or require cuts to current levels of funding for other important academic pursuits, such as research. Congress could use what little funding the measure might produce to develop a revenue-sharing plan to benefit the neediest institutions (Willie 2012).

It is not clear that it would be feasible to implement proposals such as these or that it would be in the social interest for high-endowment schools to be rewarded for spending more on financial aid. Low-income students pay significantly lower net prices at high-endowment schools than at less wealthy
institutions and significantly lower net prices than their more affluent classmates (figure 3). The institutions with endowments large enough to garner attention frequently promise students from families with incomes below a certain level that they will have their entire tuition and fees covered and possibly a significant portion of their room, board, and other expenses as well. Harvard’s website announces that more than 20 percent of its students’ families pay nothing, with no loans required. They require no contribution from families with incomes below $65,000. Similarly, Princeton covers 100 percent of tuition, room, and board for students from families earning up to $65,000 a year. In other words, 43 percent of all families—and 33 percent of those ages 45 to 54—could send their children to Harvard and Princeton for free if they were admitted. Because these institutions and many others with sizeable endowments meet measured financial need of all accepted candidates, increasing their aid budgets would be constructive for increasing affordability for students with limited ability to pay only if they were to enroll more low- and moderate-income students, not if they were to be even more generous to the students they already enroll.

Many colleges and universities with significant endowment assets have need-aware admissions. They deny admission to some students at the margin of admissibility because of their financial need. These schools could admit more low-income students if they drew down more of the income from their endowments. The schools with the largest endowments per student are, however, need-blind, accepting students without regard to financial circumstances. None of this means that it would be impossible for these schools to find more qualified students with financial need and to spend more of their resources on educating those students. But it does mean that simply requiring more spending on financial aid is unlikely to yield the desired effects.

Linking an endowment tax to tuition levels or to tuition increases would also be problematic. Proponents of such a policy do not address the reality that many institutions do not have just one tuition price. They may charge higher prices to students in programs that are more expensive to offer, such as engineering or nursing; they may charge different prices to students in their first two years of college and those in their last two years; and there are a variety of ways of structuring tuition for students enrolling for different numbers of courses.

Even more significant than these pragmatic issues, objections to the published tuition prices charged by colleges and universities with large endowments do not account for the net prices students pay. If Harvard, Yale, and Williams College were to reduce their published prices, only students who pay full price, who come from affluent families, would pay less than they now do. It is difficult to argue that this change would have a meaningful positive impact on the educational opportunities available to students with limited resources.
These proposals may be appealing in their explicit efforts to promote changes that would increase educational opportunities for disadvantaged students. But in addition to representing questionable intrusion into the operation of private nonprofit institutions, they would be ineffective. As noted, the share of income devoted to financial aid can be misleading. And focusing on published tuition prices as opposed to the net prices students actually pay misses the fundamental realities of college affordability. Any such provisions are likely to create a bureaucratic morass that adds to colleges’ administrative costs without generating any new meaningful educational opportunities.

It is possible to put too much weight on the important issue of the share of low-income students at high-endowment institutions. Modifying this pattern is only one of the multiple social missions of colleges and universities with endowment resources. It is one thing to argue that this effort should receive more attention and more resources. It is another thing to assume that using endowment resources for other purposes—such as research, cultural contributions, public and community service, and educating students who will become active leaders and civic participants—is not a charitable activity serving the public interest.

These arguments do not diminish the importance of reducing inequalities in educational opportunities based on socioeconomic background. There is no question that well-resourced institutions and government at all levels have a responsibility to more effectively address this problem. But attempts to use federal policy to reallocate institutional expenditures from one goal to another are not likely to be the most effective way to increase equity.

**Taxing the Endowment**

Although a tax on the investment earnings from endowments would be more consistent with the current tax system, which taxes income, not wealth, some proposals would tax the entire value of college and university endowments.

Mark Schneider and Jorge Klor de Alva (a former president of Phoenix University) propose a progressive tax on private college endowments worth more than $500 million—not just the income from those endowments—equal to 0.5 to 2 percent of their total value, which would amount to a larger tax than the one recently imposed on endowment income. (A 1.4 percent tax on income would be equivalent to a tax rate of 0.07 percent at a 5 percent rate of return on endowment and a rate of 0.14 percent at a 10 percent rate of return.) By their calculations, that would raise about $5 billion a year, which could be spent supporting cash-strapped community colleges. About 95 schools would be
affected, and they would be allowed to cut their tax bills by deducting dollars spent toward financial aid (Klor de Alva and Schneider 2015).

Jay Gonzalez, a 2018 candidate for governor of Massachusetts, proposed a 1.6 percent state tax on the value of endowments exceeding $1 billion to help fund child care, preschool, public schools and universities, and transit infrastructure. Again, this tax would have been more than 10 times as large as the new federal tax on endowment income.

**Treat Colleges Like Foundations**

In 1965, the Treasury Department issued a report identifying six major problems with private foundations, one of which was the delay in accomplishing charitable missions. Treasury’s solution was to recommend a mandatory payout (Committee on Finance 1965). The Tax Reform Act of 1969 included such a requirement. Foundations that fail to distribute at least 5 percent of their assets for charitable purposes are taxed at 15 percent of the undistributed amount.

The private foundation excise tax was, at least in part, intended to pay for the cost of oversight (Joint Committee 1970, 29).

Private foundations are generally closely tied to families or other small groups of people and have less well-defined missions than colleges and universities. The tax was a response to perceived abuse of this tax-exempt structure (Arnsberger et al., n.d.).

Senator Charles Grassley, Republican of Iowa, has supported a 5 percent payout requirement for college and university endowments analogous to the policy applying to private foundations. According to the senator, the questions regarding college endowments are the same as those relating to private foundations. He contends that institutions charging high tuition prices and not adequately supporting their students despite having large endowments are not performing their public mission. The proposed requirement would be close to the current spending patterns of most institutions.

A University of San Diego law professor recently proposed a higher payout requirement than the one to which private foundations are subject, an 8 percent payout requirement for endowments exceeding $100 million. He argued that “instead of holding down tuition or expanding faculty research, endowments are hoarding money” and contended that such a policy would rein in tuition increases, increase support for faculty research, and improve campus facilities.
The logic behind these proposals is questionable. Universities are more similar to operating foundations—which apply their assets directly to their charitable activities rather than making grants to other organizations—than to other private foundations. Although like other private foundations, operating foundations must pay a 2 percent excise tax on net investment income, they are not subject to the 5 percent spending rule.

Moreover, a payout requirement would be unlikely to increase college affordability. The institutions with the largest endowments already provide the most generous financial aid and charge low-income students the lowest net prices. Even though they generally enroll small shares of low-income students, high-endowment institutions are affordable to those who enroll. If they were required to spend more each year, they might spend more on activities that could strengthen educational programs, enhance research activities, expand and update facilities, or provide more amenities. Requiring that the funds be spent on financial aid is unlikely to be effective.

Law journals contain numerous critiques of unlimited endowment accumulation and of continuing the tax exemptions for these endowments. But these critiques do not generally support the idea of treating educational institutions like private foundations and instituting a minimum payout rate (Waldeck 2009). The general consensus is that there is a risk that private foundations will operate in their own interest rather than for the public good, but colleges and universities have wider circles of accountability. Unlike private foundations, colleges and universities are already accountable to students, parents, faculty and staff, alumni, donors, trustees, accrediting agencies, credit-rating agencies, the media, local communities, state governments, and the Internal Revenue Service. The oversight function of the rules for private foundations is not relevant. Moreover, some researchers believe the payout rate could end up being a ceiling, not just a floor. If required to spend, for example, 5 percent of their endowment value every year, institutions might never spend more than that amount.

Potential Institutional Responses

It is not easy to predict how the new tax on endowment income will affect institutional behavior or how colleges and universities would respond to related policies that might be implemented. But exploring this issue is important for evaluating different proposals, particularly those ostensibly designed to increase college access and affordability.

Two economic concepts that provide some framework for the inquiry are the income effect and the substitution effect. If a person’s hourly wage goes up, will she work less because she can earn the same
total income with fewer hours of work (income effect), or will she work more because the cost of leisure time will have increased (substitution effect)? Both forces are likely to be in play, and the question is which one will be stronger. Similarly, if endowment income is taxed, the income effect suggests that institutions seeking to maintain the size of their endowments are likely to reduce their current spending from the endowment, paying the tax with dollars that might otherwise have gone to financial aid or other activities. They might work harder to solicit donations and add them to the endowment because they now need a larger endowment to generate the after-tax income they have been counting on to supplement their institutions’ annual budgets.

On the other hand, the cost of saving for the future instead of spending in the present will rise. An institution could use a donated dollar immediately or add it to the endowment so it could generate income and support more than a dollar of spending in the future. But the premium for saving is lower in the face of a tax, so there will be motivation to substitute some present spending for future spending.

Institutions paying the tax might increase revenues by, for example, raising tuition or cutting expenditures, rather than withdrawing more funds from their endowments than they otherwise would have.

Differences in spending patterns across institutions with varying endowment levels could provide some insight into how spending patterns might change. Accounting practices limit the detailed comparisons possible, but institutions report on the major functional categories of instruction, student services, academic support, institutional support, and auxiliary enterprises. Examining the expenditure patterns of some high-endowment institutions reveals a lack of consistency that suggests that each institution might respond differently. For example, the California Institute of Technology reports devoting only 9 percent of its total expenditures to instruction, compared with 25 percent for Harvard and Princeton and 45 percent for Yale. Princeton reports that 14 percent of its expenditures go to grant aid for students, compared with 7 percent for Stanford. Swarthmore College reports spending 18 percent on student aid compared with 28 percent at Grinnell.

Private nonprofit bachelor’s colleges provide the most straightforward comparisons across institutions because they enroll almost exclusively undergraduate students and have a narrower range of activities than universities. Comparing per student expenditures across institutions with different endowment levels reveals that private nonprofit bachelor’s colleges with endowments per student of $800,000 or higher (the six wealthiest colleges) spent an average of over $7,000 more than those with endowments per student between $500,000 and $800,000 (nine colleges) on both instruction and institutional support in fiscal year 2016. This second-wealthiest group spent more than $4,000 more
per student in both these areas than the average for the 81 colleges with endowments between $100,000 and $500,000 per student. But as a share of the total of the expenditure categories in table 6, institutions at all endowment levels spent 35 to 38 percent on instruction and 17 to 21 percent on institutional support.

These data do not provide clues about where institutions would most likely make cuts if their net endowment income were to decline permanently because of a tax. The fact that the shares of the budget devoted to different expenditure categories are similar across endowment groups suggests institutions might cut spending across many areas if they had less net income from their endowments.

**TABLE 6**

<table>
<thead>
<tr>
<th>Endowment value per FTE student</th>
<th>Instruction</th>
<th>Academic support</th>
<th>Student services</th>
<th>Institutional support</th>
<th>Auxiliary enterprises</th>
<th>Other expenses</th>
<th>Total</th>
</tr>
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<td>$800,000+</td>
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<td>$400</td>
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<table>
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<th>Academic support</th>
<th>Student services</th>
<th>Institutional support</th>
<th>Auxiliary enterprises</th>
<th>Other expenses</th>
<th>Total</th>
</tr>
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<td>8%</td>
<td>18%</td>
<td>21%</td>
<td>17%</td>
<td>2%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Integrated Postsecondary Education Data System.

Note: FTE = full-time equivalent.

**Case Study: Harvard University**

Much of the public concern about large college and university endowments is the result of media focus on a small number of wealthy institutions. Reporting in 2018 on Harvard’s successful $9.6 billion campaign, the *Chronicle of Higher Education* asked what the university might be able to do with this amount of money. It suggested, for example, covering the estimated yearly cost of attendance for the
college’s 6,700 undergraduates for roughly the next 18 years or paying for the entire city of Boston to take 19 classes each at nearby Roxbury Community College.³⁹

Fanciful as these suggestions might be, it is not difficult to understand why there are questions about whether, given the shortage of funding for meaningful educational opportunities for a broad segment of American society, it makes sense for taxpayers to subsidize Harvard’s addition of these funds to its $38 billion endowment.

But is $38 billion the right number to have in mind when thinking about the uses of Harvard’s endowment? Harvard’s $38 billion endowment is the largest but not the largest per student. Princeton ($2.6 million), Soka University of America ($2.6 million), Yale ($1.8 million), and Stanford ($1.5 million), exceeded Harvard’s $1.4 million per student in fiscal year 2016.⁴⁰ Income from operations or payment for services—not charitable donations or tax-exempt earnings—is the largest revenue source for Harvard’s budget, accounting for 36 percent of operating revenue in fiscal year 2016, and higher shares for certain units (e.g., 51 percent of Faculty of Arts and Sciences, or FAS, income in that year).

Most of the institutions with large endowments are research universities. Their missions are broader than only educating undergraduate students. Harvard enrolled 9,965 undergraduate and 21,155 graduate students in fall 2017.⁴¹ It is divided into 12 colleges, each with its own endowment. More than 90 percent of the endowment funds are restricted to a particular college.⁴² Harvard College—the highly selective undergraduate college most people focus on when thinking of who goes to Harvard—is part of FAS, which also includes the School of Engineering and Applied Sciences, the Division of Continuing Education, and academic resources such as libraries and museums. FAS includes institutes, such as the Center for American Political Studies and the Center for Brain Science, that engage in research and hold public events. FAS supports Harvard’s PhD students in all fields, providing virtually all of them with funding to cover both tuition and fee costs and living expenses. These subsidies have no impact on measures of financial support to undergraduate students.

The endowment available to FAS is about $15 billion, not $38 billion. The rest of the university’s endowment belongs to the business school, the medical school, the law school, and other parts of the university. If these were separate entities, the external vision of what Harvard could do for undergraduates with its endowment would be more modest. That said, with about 12,000 full-time equivalent students, the FAS endowment per student is about $1.2 million, somewhat smaller than the $1.4 million per student overall but larger than all but a handful of other endowments.
Conclusion

The political opponents of higher education, the advocates for a laser focus on subsidizing low-income students, and the higher education community striving to protect its tax-exempt status could all benefit from thinking in a nuanced way about endowments and public policy.

Efforts are under way to repeal the recently implemented endowment tax. But whatever the outcome, questions about the justification for college and university endowments, the way those endowments are used, and the extent to which their tax-exempt status is appropriate or how it should be changed will remain active.

Most proposals for taxing endowments claim to have the goal of increasing educational opportunities for low-income students. Educational institutions can and should share this goal and act accordingly, but this is not the only criterion for measuring their charitable contributions. Research and public service activities, as well as subsidies to graduate students and to undergraduates who are not low income, also have significant social benefits.

The proposed taxes are unlikely to achieve the desired goals. There would be a social benefit to increasing the number of low- and moderate-income students enrolled at high-endowment institutions that offer unique educational opportunities and award credentials that are well-rewarded in the labor market, but it is less credible that lower net prices at these institutions would be of social value. The net price of attendance is frequently lower at these institutions than even at community colleges for students with the most limited financial resources. Moreover, with few exceptions, the students who attend these institutions do well after college, regardless of their socioeconomic background, so providing this select group more support is not likely to significantly reduce inequality or increase social mobility (Chetty et al. 2017). Lowering the published tuition and fee price would benefit only students who pay full price—those whose family incomes make it feasible for them to spend $70,000 or more per year for college and associated expenses. It is not easy to argue that lowering the price for these students is the most urgent social problem related to college access and affordability, but it would be welcomed by a politically influential segment of affluent families.

Changes in pricing and aid policies of the few wealthiest institutions in the nation will not make a dent in the gaps in educational opportunity facing students from disadvantaged backgrounds. Although colleges and universities with significant financial resources could do more to address inequality, taxing them is not the most constructive way to accomplish this important social goal. Other public policy strategies must carry this weight. Federal expenditures are a more reasonable approach to furthering this effort.
Perhaps the most compelling argument for modifying public subsidies to colleges and universities through the tax system is that taxpayers are providing large subsidies to wealthy institutions that educate predominantly students from affluent backgrounds and almost exclusively students with strong academic backgrounds who are likely to end up doing well financially. The tax system does not provide the same subsidies to students at less well-endowed private nonprofit and public institutions, which educate most students from less privileged backgrounds, many of whom struggle even to complete college.

The question is not whether it should be a high social priority to increase educational opportunities for disadvantaged students. Rather, the question is whether extracting funds from the few institutions with large endowments or inducing them to modify their enrollment and spending patterns is the best strategy for achieving this goal and for reducing the inequality in resources across institutions and students.

This problem might be addressed by taxing wealthy institutions and redistributing the funds to other postsecondary institutions or their students, but the revenues from such a tax are unlikely to be large, and in any case, it is difficult to imagine that they would be totally devoted to subsidizing higher education for low- and moderate-income students. Increasing the number of students—and the share of those students from low- and moderate-income households—who are enrolled in the wealthier institutions is a worthy goal, which might be furthered by a shift away from future spending and toward current spending at these institutions. But more generous public funding of underresourced institutions and their students, through increases in the Pell grant program or funding for institutions through new federal support programs, are likely more promising solutions.
Notes


5 Some gifts carry implicit obligations such as admissions preferences, but even in this area, financial security makes institutions less vulnerable.


9 The average debt-to-endowment ratio for the five highest-endowment private nonprofit research universities is under 20 percent. The average for the next 10 institutions is almost 40 percent. Figures are based on the annual financial statements of individual institutions.

10 US Department of Education, College Navigator.


12 Subtracting the typical endowment draw of 4.5 percent of the value of the endowment from expenditures to eliminate the changes in spending that are the direct result of changes in the value of the endowment increases the ratio of endowment value to expenditures but does not measurably change the shape of the patterns over time.

13 Authors’ calculations from Integrated Postsecondary Education Data System data.

14 Research universities offer both undergraduate and graduate education. To be in this category, they must award 50 or more doctoral degrees per year across at least 15 fields. Master’s universities award 40 or more master’s degrees per year across at least three fields. Bachelor’s colleges may enroll some graduate students, but they focus on undergraduate education.


Institutions are subject to the unrelated business income tax on revenue from such activities as sales of noneducational materials (e.g., CDs, DVDs, and other gift items by a campus bookstore), industry-sponsored research if the results are not made available to the public or directed toward benefiting the public, rental of laboratory facilities to nonuniversity users, sale of child care or restaurant services to nonuniversity users, or sale of recreation center membership cards to alumni and the general public.

The Joint Committee on Taxation estimates the value of the tax expenditure for the tax deduction of charitable contributions to education institutions (not all of which are postsecondary institutions) at $9.2 billion for fiscal year 2018, declining to $7.2 billion in fiscal year 2019, as fewer taxpayers itemize their deductions (Joint Committee 2018, 28).

Only about half of nonprofits own any real property, with less than a third owning property worth more than $100,000 and about a fifth owning property worth more than $500,000 (Cordes 2012). Colleges and universities are an exception and get a disproportionate share of the property tax savings (Cordes, Gantz, and Pollak 2002, tables 4–6). A significant share of this property is used for on-campus student housing. If property taxes were assessed, room prices would likely increase, and colleges might reduce the amount of dormitory space offered, with potential negative effects for both students and the surrounding communities. In 2011, Boston sent letters to 40 nonprofit organizations, including hospitals and cultural centers, in addition to universities, requesting that they make payments equal to 25 percent of the property taxes they would pay if they were not tax-exempt, to cover the cost of city services. This system would distribute the burden more equitably across nonprofit institutions paying divergent PILOT amounts (see Michael Rezendes, “City Sends ‘Tax’ Bills to Major Nonprofits,” Boston Globe, April 24, 2011, http://archive.boston.com/news/local/massachusetts/articles/2011/04/24/boston_sends_tax_bills_to_major_nonprofits/?page=2).


Harvard University estimates that this tax would have cost the school about $550 million a year, almost 14 times the cost of the new federal tax.


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Internal Revenue Code, section 4942.


Hill (2010) argues that distribution requirements will not increase the affordability of higher education or its operating costs. See also Wolf (2011).

Instruction includes general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution’s students; expenses for both credit and noncredit activities; and departmental research and public service that are not separately budgeted. Institutional support is day-to-day operational support of the institution for general administrative services, executive direction and planning, legal and fiscal operations, administrative computing support, and public relations and development.


Integrated Postsecondary Education Data System.

US Department of Education, College Navigator.

Endowments at most other universities are more centralized than Harvard’s.
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About the Authors

Sandy Baum is a nonresident fellow in the Center on Education Data and Policy at the Urban Institute and professor emerita of economics at Skidmore College. An expert on higher education finance, she speaks and writes extensively about issues relating to college access, college pricing, student aid policy, student debt, and affordability. Baum earned her BA in sociology from Bryn Mawr College, where she serves on the board of trustees, and earned her PhD in economics from Columbia University.

Victoria Lee is a research analyst in the Center on Education Data and Policy. She supports research on K–12 and higher education policy and works on projects about K–12 funding and expenditures and college affordability. Lee received her BA from Wellesley College, majoring in economics and political science.
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