

OBBBA Subjects More Income Types to Endowment Tax

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A small group of private colleges and universities is facing a modified tax on certain royalty income and student loan interest because of an expanded definition of net investment income in the new tax law.

The One Big Beautiful Bill Act (OBBBA, [P.L. 119-21](#)), signed by President Trump on July 4, will replace a 1.4 percent tax on NII with a three-tiered rate structure based on the size of the school's endowment and the number of tuition-paying students.

Starting next year, schools with student-adjusted endowments between \$500,000 and \$750,000 will still face a 1.4 percent excise tax. But those with endowments worth between \$750,000 and \$2 million per student will see a 4 percent tax on their NII. And an 8 percent tax will be levied on schools with endowments worth more than \$2 million per student.

The new, expanded definition of NII has drawn less attention than the rate change. Under the new law, it will include interest income paid on institutional loans the school made to its students.

Federally subsidized royalty income will also be taken into account. This includes proceeds from any patent, copyright, or other intellectual or intangible property that resulted from work of students or faculty members that used federal money to fund their research, according to the legislation.

The new law applies to schools that enroll at least 3,000 students, up from the 500-student threshold set by the [Tax Cuts and Jobs Act](#), which first imposed an endowment tax. International students are no longer excluded from the count.

The American Enterprise Institute [estimated](#) that 20 institutions will be subject to the endowment tax next year. It found that Harvard, Yale, Princeton, and Stanford universities and the Massachusetts Institute of Technology are the five schools that would likely face the highest tax liabilities.

Research Institutions Targeted

The new law will likely have a bigger impact on universities that conduct research and license the resulting product — whether a drug or new technology — to startups or small businesses.

For context, U.S. colleges spun off 19,000 startups between 1996 and 2020, according to the Association of University Technology Managers.

The tax will apply retroactively to any federal funding, according to David G. Shapiro of Saul Ewing LLP.

The law doesn't address when the funding was received or how much. As a result, an institution could be subject to the tax if it is currently receiving royalties from a project that was funded by a federal grant many years ago.

"If you had a federally funded pencil that was used to take lab notes, that's enough," according to Shapiro, who said that universities may have taken "federal funding a decade ago without any idea this would be the consequence."

Potential Impact

Most donations made to an endowment are made with a restricted purpose, according to the American Council on Education. That will make it difficult for institutions to spend down their endowments faster as a way to reduce the tax liability on their NII.

The legislation also instructs the Treasury Department to issue guidance to make it hard for colleges to avoid paying the tax — specifically through "the restructuring of endowment funds or other arrangements."

The change to the endowment tax isn't the only way the Trump administration may affect how academic research is funded. It has also terminated some federal grants or otherwise delayed delivering the funding to colleges and universities. Johns Hopkins University, for example, [said](#) that it had lost more than \$50 million in federal research funding between January and June.

Still, it's worth noting that the top 8 percent tax created by the OBBBA is significantly lower than the top 21 percent rate originally proposed by the House as the bill made its way through Congress.

Yale University said it expects to pay an estimated \$280 million due in endowment taxes in 2026 and more in following years.

"Taxing universities undermines the education and research that fuel life-saving medical breakthroughs, life-changing innovations, and economic growth in communities across the country and around the globe," Yale said in [a statement](#) July 3.

The changes to the endowment tax are expected to raise an additional \$761 million in federal tax revenue through 2034, according to the [Joint Committee on Taxation](#).