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This is the only California university facing a huge bill under new Trump-era endowment tax

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Students and visitors walk through the Stanford University campus quad in 2024. Between 2026 and 2030, the university is expected to pay more than \$1 billion under new federal tax rules on private endowments.

Jessica Christian/S.F. Chronicle

New federal rules single out just one California university — Stanford — for a massive tax bill that will grow to more than \$1 billion over the rest of the decade, rather than the \$175 million the school would have otherwise paid.

The higher tax rates are part of the national spending bill President Donald Trump signed into law in July and target private university endowments — the cushions of cash that colleges rely on to spin off funding for everything from student scholarships to infrastructure projects.

Stanford, it turns out, is one of just 19 private universities and the only one in California with a large enough endowment relative to its enrollment to trigger the higher tax hit next year, according to an analysis by the conservative American Enterprise Institute. By 2030, the number could rise to 25.

College endowments were exempt from federal tax before 2017. But during the first Trump administration, private colleges with 500 or more students began paying a 1.4% endowment tax.

The new tax structure that kicks in next year not only includes higher rates, but also taxes more things, such as royalty income from research that ever benefited from a federal grant.

Under the new law, colleges enrolling fewer than 3,000 tuition-paying students are exempt. That means 26 private universities nationwide will no longer pay any federal tax on their endowment, including the California Institute of Technology, Pomona College and Claremont McKenna in California, according to a study by the business magazine Forbes.

As for the rest, schools with per-student endowments of \$500,000 to \$750,000 will remain taxed at 1.4%. Schools with a per-student endowment of \$750,001 to \$2 million will be taxed at 4% a year, while the wealthiest schools like Stanford will be propelled into the highest bracket, 8%.

Five-year endowment tax liability

Projection for U.S. colleges from 2026 to 2030 based on trends in enrollment, endowment value and investment income

University	Five-year total
Harvard University	\$2.1B
Yale University	\$1.6B
Princeton University	\$1.3B
Stanford University	\$1.2B
Massachusetts Institute of Technology	\$1B
University of Notre Dame	\$690M
University of Pennsylvania	\$350M
Northwestern University	\$350M
Washington University in St Louis	\$320M
Duke University	\$270M
Vanderbilt University	\$260M
Johns Hopkins University	\$260M
Dartmouth College	\$190M
Brown University	\$150M
Emory University	\$150M

Table: Nami Sumida/S.F. Chronicle - Source: Mark Schneider and Christopher Robinson, American Enterprise Institute

Extracting more taxes from some of the nation’s most exceptional research universities, including Harvard, Yale and Princeton, raises questions about whether doing so provides a

public service, or whether the universities themselves provide the public good and should therefore keep their minimal tax rate.

“It is preposterous,” said UC Davis Law professor Darien Shanske, a tax expert. “I am not sure why Stanford should pay a tax like this on its wealth, and not wealthy people (who tend to benefit under Trump’s so-called One Big Beautiful Bill). If the idea is to use bad tax policy to punish enemies, then the whole thing is beyond terrible.”

It is no secret that Trump has been waging war against the nation’s top universities, freezing billions of dollars in federal research funds from Harvard, Columbia, [UCLA](#) and other schools to extract concessions in hiring and academic policies. The administration has also canceled grants at many other campuses, including [UC Berkeley](#) and Stanford, saying that the funding supports research that doesn’t align with Trump’s political agenda. Public records show, for example, that the U.S. Department of Health and Human Services terminated a \$49 million grant to develop a synthetic antiviral treatment at Stanford in April, more than a year early.

Stanford’s endowment is \$37.6 billion, and its enrollment is 17,469. That translates to \$2.2 million per student.

Anticipating the hit, Stanford announced in June that it would cut \$140 million from its budget and blamed “reductions in federal research support and an increase in the endowment tax.” Stanford said it will [lay off 363 staff members](#) in October.

The university declined an interview request but said Stanford “remains committed to maintaining its robust financial aid to students, nearly 90% of whom graduate debt free.”

Not all university advocates say it’s wrong for Stanford and other super-rich private schools to pay far more taxes on their substantial nest eggs. Of 1,700 or so private colleges in the U.S., 87 have endowments that top \$1 billion, according to the National Association of College and University Business Officers.

“Many people are comfortable with some way of discouraging the mass accumulation of wealth by already wealthy institutions,” said Christopher Kutz, a UC Berkeley Law professor and the author of a forthcoming book, “Publics in Action,” about societal responses to political and economic pressures.

Kutz’s wife is a Stanford professor. Yet, he favors imposing higher taxes on Stanford’s endowment – just differently from how the Trump administration structured it.

Key features of the new rules include:

- Taxing net investment income, which is an endowment’s gross earnings minus the expense of managing that income.

- Barring universities from deducting expenses, such as most salaries, as corporations do.
- Taxing, for the first time, royalties earned by the school from any research ever funded by federal grant money, as well as income from any student loans issued by a university.

Stanford currently pays about \$35 million a year in endowment taxes. Next year, that will shoot up to more than \$200 million a year.

“I can imagine ways in which taxing endowments could be done wisely and well,” such as allowing the higher taxes to take effect gradually so universities could more easily absorb the cuts, Kutz said. “What the Republican Congress is doing was designed simply to be maximally punitive.”

It could also discourage them from seeking federally funded grants that advance research because of the new tax on royalties, said David Shapiro, head of taxes at Saul Ewing, a Philadelphia law firm that represents research universities around the country. “It’s terrible policy.”

But to Mark Schneider, a former commissioner for the National Center for Education Statistics and an architect of the original 1.4% endowment tax, the new approach is more than fair.

“I was surprised by how few schools hit the trigger” for the new tax tiers, said Schneider, who co-authored the [new analysis](#) with research associate Christopher Robinson for the American Enterprise Institute, where he is a senior fellow.

Schneider said he became interested in endowments about a decade ago and concluded that their tax-free status was, in effect, a publicly funded subsidy benefiting students. He co-authored a study in 2015 comparing the size of such benefits at public and private schools across several states, including California.

The benefit at Fullerton Community College in Orange County, for example, turned out to be \$8,100 for every student, according to the study, “[Rich Schools, Poor Students](#),” by Schneider and Jorge Klor de Alv, president of the nonpartisan Nexus Research and Policy Center.

While Cal State Fullerton saw a \$4,000 per-student benefit, and UC Berkeley’s was \$10,500, the study calculated Stanford’s to be six times higher, at \$63,100 per student.

“In many cases, average taxpayers are subsidizing the education of students in the well-endowed and more selective schools to a far greater extent than they are supporting the

education of their own children, most of whom attend broad-access public institutions," the study said, and argued that large college endowments should therefore be taxed.

In an interview, Schneider called untaxed endowments a "totally hidden subsidy" for universities.

Another hidden subsidy, he argued, is the state property tax exemption for private schools, which would add up to "a whole bunch of money" from Stanford, the largest property owner in Santa Clara County.

Universities are "much more worried about that property tax exemption than the endowment tax," he said.