

Big-Money Universities Will Have To Pay Up Under Tax Bill

Rob Shimshock

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Big-money universities will soon have their endowments taxed under the bill that GOP lawmakers passed in December.

Approximately 20 to 30 of the wealthiest universities will be subject to a 1.4 percent excise tax on their endowments, according to Neil McCluskey, a director at the pro-liberty Cato Institute who spoke with The Daily Caller News Foundation Thursday.

The 1.4 percent excise tax will be levied on universities with endowments totaling more than \$500,000 per student and will include prestigious Ivy League institutions like Harvard University, which has a \$35.7 billion endowment, and Yale University, with a \$25.4 billion endowment.

“It would be shocking if schools didn’t find a way to move or reclassify [endowments],” McCluskey, director of Cato’s center for educational freedom, told TheDCNF.

“There’s a lot of uncertainty about how this will actually be done and we probably won’t know until the regulations are written,” he said. The director explained that the bill technically uses the term “net investment income,” which he believes refers to the earnings that schools make on their endowments, as opposed to the total endowment.

Previous university endowment proposals stipulated that if a school did not spend a certain amount of the fund each year, it would be taxed.

McCluskey said that universities typically use endowments to build various centers or fund scholarships for certain disciplines. He contrasted the funds with University of Virginia’s \$2.3 billion “slush fund,” which he described as an amount not dedicated to any particular initiative. But he still raised questions concerning some endowment uses.

“Should we be encouraging through the tax code someone giving \$100 million...to study medieval art?” he asked. “Everyone has all sorts of definitions about what is important.”

The director remarked that although he personally does not approve of the tax, “Republicans, in particular, aren’t big fans of higher education and they sure don’t like the really rich schools.” **(RELATED: Majority Of Republicans Think Higher Education Is Bad For America)**

While high-income students make up a large proportion of the student populations for many of the effected schools, Berea College, a Christian school in Kentucky, is a bit of an outlier, reported Politico. Berea charges no tuition and explicitly recruits low-income students.

“It seems so unfortunate that the political strife over tax reform in our country will result in greater difficulty for colleges seeking to serve low-income students,” Lyle Roelofs, president of Berea, told Politico.

McCluskey estimated that the federal government would accrue around \$20 million from the endowment provision.