

Backgrounder: Tax-Exempt Status of Colleges and Universities

Most public and private colleges and universities are tax-exempt under Internal Revenue Code Section 501(c)(3) because of their educational mission—a mission long recognized by the federal government as both a public and private good that benefits individuals, communities, and the nation.¹

- For more than a century, the United States has granted tax-exempt status to colleges and universities in recognition of the public and private benefits of their educational missions.
 - Legislative action in the early 1900s, culminating with the Revenue Acts of 1913 and 1917, created the current tax-exempt status for institutions “organized and operated exclusively for... educational purposes” (among other subjects).²
 - Organizations that receive 501(c)(3) status must have an approved qualifying purpose, including charitable, religious, education, or scientific; not engage in certain activities such as political campaigning; and meet a variety of other requirements.³
- Institutions of higher education—whether research universities, liberal arts colleges, regional universities, faith-based institutions, community colleges, or others—have played a vital role and assumed major responsibilities in building America.
 - A college degree remains one of the most reliable paths to a better life—boosting earnings, career satisfaction, health, and overall well-being.
 - An informed citizenry is vital to a strong democracy, a skilled workforce drives a competitive economy, and innovation fuels improvements in health, security, and quality of life.
 - Research on campuses drives innovation and discovery in critical fields like medicine, AI, and advanced manufacturing.
 - Colleges and universities serve as anchors in their local communities and regions, supporting economic development, and health and public services.
- As the U.S. faces new challenges, colleges and universities remain vital to advancing national priorities and public well-being.

The IRS and the states closely oversee tax-exempt organizations, including universities, to ensure compliance with federal and state law. There are well-defined processes for oversight. Under federal law, demands from outside individuals or entities that the IRS revoke an institution’s 501(c)(3) status runs afoul of the established process and possibly violates the law.

- To keep its tax-exempt status, a college must avoid personal financial gain by its senior leadership, limit lobbying, refrain from endorsing political candidates, not rely too heavily

¹ For more, read about Higher Education as a Public Good: <https://www.acenet.edu/Documents/TPs-Tax-Reform-2025-Public-Good.pdf>

And Higher Education as a Private Good: <https://www.acenet.edu/Documents/TPs-Tax-Reform-2025-Private-Good.pdf>

² See 26 U.S. C. § 501: <https://www.law.cornell.edu/uscode/text/26/501>

³ See IRS’ Exemption requirements - 501(c)(3) organizations: <https://www.irs.gov/charities-non-profits/charitable-organizations/exemption-requirements-501c3-organizations>

on unrelated commercial income, file annual tax forms, and stick to its approved educational mission.

- There are well-defined processes the IRS uses to audit and investigate institutions with 501(c)(3) status.
 - The IRS cannot simply revoke an institution's tax-exempt status without following certain procedures, which include detailed investigations and opportunities for appeal.⁴
 - Under current law, the IRS can only take away a group's tax-exempt status after it investigates the organization, sends a letter saying it plans to revoke the status, and gives the organization a chance to appeal that decision internally within the IRS first and then in federal court.
 - The IRS must demonstrate that the organization is no longer entitled to exemption to remove its 501(c)(3) status.
 - If the IRS revokes a university's tax-exempt status, the institution can challenge the decision in specified federal courts.
- The IRS has rarely revoked a college or university's tax-exempt status—and when it has, it followed a clear, thorough, established process.
 - For example, in 1976, the IRS revoked Bob Jones University's tax-exempt status due to racially discriminatory policies and practices. The Supreme Court upheld the decision in 1983.⁵
 - The IRS did not act unilaterally or politically—it followed its standard legal and administrative procedures.
- Federal law specifically prohibits the president, vice president, and their employees in the White House executive offices, as well as other senior leaders in the executive branch, from either directly or indirectly instructing the IRS to take steps leading to the revocation of an organization's tax-exempt status with potential imposition of fines and imprisonment.⁶

⁴ For more on enforcement procedures: <https://www.tenenbaumlegal.com/nonprofits-under-fire-how-the-irs-can-and-cannot-revoke-federal-tax-exempt-status/>

⁵ Bob Jones University v. United States, 461 U.S. 574 (1983):
<https://supreme.justia.com/cases/federal/us/461/574/>

⁶ See 26 U.S.C. § 7217: <https://www.law.cornell.edu/uscode/text/26/7217>