American Council on Education®

Bill Summary

One Big Beautiful Bill Act (H.R. 1)

On July 3, 2025, the House passed the Senate version of the One Big Beautiful Bill Act (H.R. 1) and sent it to the president for his signature. This reconciliation bill makes enormous changes to the U.S. tax code, as well as federal programs that receive mandatory funding, such as federal student loans.

Below is a summary of the tax and education provisions impacting institutions of higher education. The Senate Committee on the Budget also has provided a section-by-section summary of the various portions of the bill.

Title VII: Committee on Finance

Modification of the endowment tax on certain private colleges and universities (Section 70415)

The provision replaces the current 1.4 percent excise tax on net investment income ("endowment tax") with a three-tiered system based on an institution's student-adjusted endowment as follows:

- 1.4 percent for institutions with an endowment of $500,000 to less than $750,000 per student;
- 4 percent for institutions with an endowment of more than $750,000 and less than $2,000,000 per student; and
- 8 percent for institutions with an endowment of more than $2,000,000 per student.

In addition to the new three tiers, the tax would be changed in other important ways: 1) The excise tax only applies to institutions enrolling at least 3,000 tuition paying students; and, 2) The calculation of a school's net investment income subject to the tax includes student loan interest income and any royalty income derived from federally-subsidized research, development and/or intellectual property. *(Raises $761 million over 10 years; effective for tax years beginning after December 31, 2025)*.

Impact on Charitable Giving (Secs. 70102, 70424, 70425 & 70426)

The tax package will impact charitable giving with new provisions, including:

- Makes permanent the standard deduction for individuals and couples enacted in the Tax Cuts and Jobs Act (2017), while also permanently increasing the standard deduction for individuals and couples (the increase in the standard deduction reduced the number of taxpayers who itemize, significantly reducing the value of the charitable deduction, and led to a drop in donations to colleges and universities);
- In part to mitigate the decline in charitable giving since 2017, the proposal creates a permanent deduction for non-itemizing taxpayers up to $1,000 for individuals and $2,000 for couples;
- Beginning in January 2026, it will impose a 0.5-percent floor on charitable contributions for taxpayers who itemize; and
- Beginning in January 2026, it will impose a 1 percent floor on charitable contributions by corporations. *(Raises $6 billion over 10 years; effective for tax years beginning after December 31, 2025)*.

Employer Provided Educational Assistance (Sec. 70412)

This provision makes two important changes to Sec. 127: indexes for inflation tax-free employer provided educational assistance which will result in an increase over time of the current $5,250; and makes permanent student loan repayments by employers of up to $5,250 tax-free per year. *(Costs $11.2 billion over 10 years; effective for payments made after December 31, 2025)*.

Extension of exclusion from gross income of student loans discharged on account of death or disability (Sec. 70119)

This provision permanently extends current law which provides that any income resulting from the discharge of student debt on account of death or total disability of the student is excluded from taxable income. *(Costs $386 million over 10 years; effective for discharges after December 31, 2025)*.

Certain postsecondary credentialing expenses treated as qualified higher education expenses for purposes of 529 accounts (Sec. 70414)

This provision allows tax-exempt distributions from 529 college savings plans to be used for additional qualified higher education expenses, including "qualified postsecondary credentialing expenses" in connection with "recognized postsecondary credential programs" and "recognized postsecondary credentials." (Costs $997 million over 10 years - shall apply to distributions made after the date of the enactment of the OBBB).

Higher Education Tax Credits – Social Security number requirement for American Opportunity Tax Credit (AOTC) and Lifetime Learning Tax Credits (LLC) (Sec. 70606)

This provision adds requirements for taxpayers to include their Social Security number on their tax return to access the AOTC or LLC. *(Raises $639 million over 10 years; effective for tax years beginning after December 31, 2025)*.

Tax Exempt Compensation – Expanding tax on excess compensation within tax-exempt organizations (Sec. 70416)

The provision imposes an excise tax on executive compensation above $1 million annually, paid to certain highly compensated employees by applicable tax-exempt organizations from 2017 onward. *(Raises $3.8 billion over 10 years; effective for tax years beginning after December 31, 2025)*.

Title VIII: Committee on Health, Education, Labor and Pensions

Subtitle A: Exemption of Certain Assets

Section 80001 of the bill addresses student eligibility for federal student aid.

- Beginning on July 1, 2026, with the 2026-2027 award year, the federal student aid formula will exclude the assets of family farms; small businesses with no more than 100 full-time or full-time equivalent employees owned by a family; or a commercial fishing businesses and related expenses, including fishing vessels and permits owned and controlled by the family, when determining need for federal student aid.

Subtitle B: Loan Limits

This section addresses the various changes in the bill to the student loan limits.

- Terminates Grad PLUS loans for graduate and professional students beginning July 1, 2026.

- Sets an annual loan limit for parent borrowers at $20,000.
- Caps Parent PLUS loans at $65,000 regardless of any loans that may have been repaid, forgiven, canceled, or discharged beginning on July 1, 2026.
- Grandfathers in current student loan borrowers who participate in the PLUS loan program if they have no more than three academic years left to complete their program, or any lesser period of time as determined by the program length and amount of the program they still have yet to complete as of June 30, 2026. Sets annual loan limits for graduate students at $20,500 and $50,000 for professional students beginning on July 1, 2026.
- Decreases aggregate loan limits, beginning on July 1, 2026, for graduate borrowers from $138,500 to $100,000 if they are enrolling in a graduate degree program and have not been previously enrolled in a program as a professional student.
- Increases aggregate loan limits, beginning July 1, 2026, for:
    - Graduate borrowers from $138,500 to $200,000 if they are enrolling in a graduate degree program and were previously enrolled as a professional student. This amount is reduced by what was borrowed for their previous graduate credential;
    - Graduate borrowers who are considered professional students and have not previously enrolled in a program as a graduate student from $138,500 to $200,000; and
    - Graduate borrowers who are considered professional students and have previously enrolled in a program as a graduate student from $138,500 to $200,000. This amount is reduced by the amount borrowed for the previous graduate credential.
- Allows students enrolled less than half time to borrow proportionate to their enrollment intensity.
- Sets the maximum borrowing limit for all students at $257,500 beginning July 1, 2026.
- Allows institutions of higher education to limit the total amount of loans made for an academic year for a student and a parent as long as it is applied consistently to all students enrolled in the same program of study.

Subtitle C: Loan Repayment

This section of the bill addresses new student loan repayment programs for borrowers and changes to the Public Service Loan Forgiveness program.

- Before July 1, 2028, allows borrowers to select a student loan repayment plan consisting of the new repayment assistance plan; the statutory income-based repayment plan; or the current standard, graduated repayment, extended repayment, income contingent repayment, and income-based plan that began on July 1, 2009.
- Beginning on July 1, 2028, requires a borrower to repay their student loans based on the repayment plan they identified. They are also able to start repaying their loans under their selected plan sooner than July 1, 2028, if they so choose. If a borrower fails to select a plan, the Secretary of Education is required to place the borrower in the new income-based repayment assistance plan or the statutory income-based repayment plan.
- Allows borrowers who took out a loan prior to July 1, 2026, to continue to utilize the standard, graduated

repayment, and extended repayment plans.

- Allows borrowers who took out a loan prior to June 30, 2028, to continue to utilize the income contingent repayment plan.

- Creates an income-based repayment assistance plan beginning July 1, 2026. Any borrower with PLUS loans, or a consolidation loan that is repaying a PLUS loan, will not be able to repay those loans under the new income-based repayment assistance plan, and borrowers can repay these loans separately from any other loans they may have.

- Requires a borrower who defaults on their loans to repay their loans either under the income-based repayment assistance plan or the statutory income-based plan.

- Terminates all current student loan repayment options, including the statutory income-based repayment plan, after July 1, 2026.

    - The new income-based repayment plan will require borrowers to make minimum monthly payments of at least $10 for 30 years and allows for some assistance from the secretary to reduce loan balances by no more than $50 a month in certain circumstances. The base pay of the monthly payment amounts that are due is set to a sliding scale from $120 to 10 percent of the borrower's adjusted gross income.

- Modifies the standard repayment plan to allow borrowers to pay a fixed amount from 10 to 25 years depending on their student loan balance.

- After July 1, 2026, requires a borrower to enroll in the standard repayment plan if they do not actively select a repayment plan.

- Requires a borrower with a PLUS loan on July 1, 2026, or who receives a Parent PLUS loan after July 1, 2026, to repay the loan under a standard repayment plan and borrowers can accelerate payments without penalty.

- Allows a borrower to switch between the standard repayment plan and the income-based repayment assistance plan at any time.

- Repeals the income contingent authority in the Higher Education Act that allows the Secretary of Education to create student loan repayment plans.

- Terminates partial financial hardship for the statutory income-based repayment plan.

- Mandates that students certify their income if they are enrolled in an income-based repayment plan.

- Beginning July 1, 2027, eliminates economic hardship and unemployment deferments. It also reduces forbearances from 12 months at a time, for a maximum of three years, to nine months at a time during any 24-month period. Borrowers who are participating in a medical or dental internship or residency program may be eligible for forbearance in which no interest will accrue for the first four 12-month intervals. Interest will begin to accrue for any subsequent 12-month interval.

- Allows students to rehabilitate their loans twice but with a minimum payment amount of $10 beginning July 1, 2027.

- Students enrolled in Public Service Loan Forgiveness would need to be enrolled in the new income-based repayment assistance plan.

- Obligates $1 billion to the Secretary of Education for administrative costs.

Subtitle D: Pell Grants

This section makes changes to the federal Pell Grant program. Beginning July 1, 2026:

- Mandates foreign income be counted in the adjusted gross income of dependent and independent students for Pell Grant determinations only. A student aid administrator could no longer evaluate the student's Free Application for Federal Student Aid and determine whether it is appropriate to make an adjustment for the student's ability to receive the maximum Pell Grant based on their foreign income; and

- Prohibits students from accessing the Pell Grant if they have received grant aid from other sources in an amount that meets, or exceeds, the cost of attendance. The total Pell Grant eligibility period is reduced by any period that the student was ineligible for the Pell Grant due to grant funding from other sources equaling, or exceeding, the cost of attendance.

- Establishes workforce Pell Grants for students.

- Addresses the Pell Grant shortfall by adding an additional $10.5 billion of mandatory funds in 2026.

Subtitle E: Accountability

This section establishes an accountability framework based on the earnings of graduates (both undergraduate and graduates). The bill amends program participation agreements (PPAs) to require institutions to comply with the new accountability proposal beginning July 1, 2026.

For undergraduate programs:

- Earnings for bachelor's degrees, or less, is captured four years after a student completes the program;

- Cohorts only include working students (graduate students are not penalized);

- Student loan eligibility for an institution is lost if median earnings are less than those working adults aged 25-34 with a high school diploma for two of the three preceding years when the data was calculated;

- Earnings data from the U.S. Census Bureau is used at the state level first and then nationally if fewer than 50 percent of students reside in the state; and

- Institutions are able to appeal the earnings data.

For graduate/professional degree programs:

- Earnings data is captured four years after a student completes a graduate or professional degree program;

- Student loan eligibility is lost if median earnings are less than those working adults aged 25- 34 with a bachelor's degree for 2 of the 3 preceding years when the data was calculated;

- To determine median earnings, the median earnings is based on data from the Bureau of the Census. The bill proposes to take the lowest median earnings (based on data from the Bureau of the Census) of –

    - a working adult in the state that the institution is located;

    - a working adult in the same field of study (based on 2-digit CIP code) in the state in which the institution is located; or

- a working adult in the same field of study (based on 2-digit CIP code) in the entire United States.

- If fewer than 50 percent of the students enrolled reside in the state, The bill proposes to take the lowest median earnings of
  - a working adult in the entire United States; or
  - a working adult in the same field of study (based on 2-digit CIP code) in the entire United States.
- If a cohort is smaller than 30 individuals, the Secretary Education is required to aggregate additional years of programmatic data until 30 individuals are reached.

Institutions are able to appeal the data and the Secretary of Education may allow the institution to continue to participate in student loans during the appeal. Institutions of higher education must warn their students in the years that they don't pass the earnings test. An institution of higher education can reapply after at least 2 years of being ineligible.

Subtitle F: Regulatory Relief

This section delays the borrower defense rule from the Biden Administration until July 1, 2035, and restores the regulations that took effect July 1, 2020. Also delays the closed school discharge regulations until July 1, 2035, but restores these regulations to those in effect on June 30, 2023.