Talking Points: Endowments

- The "Tax Cuts and Jobs Act" (H.R. 1) fundamentally changes the way nonprofits are treated by creating a new and unprecedented tax on endowments of some private colleges and universities. This provision undermines the very nature of the tax-exempt status of private colleges and universities. While the new excise tax is currently focused on private institutions, we strongly oppose this new excise tax and the precedent it sets for all of higher education.

- Under H.R. 1 potentially large amounts of endowment dollars would be redirected to the federal government, taking them away from providing scholarships to our students and supporting research and education. It also would effectively be a tax on donors' contributions and shift money from the dedicated purpose for the donation.

- Investment income from endowments is used every day to support nearly every aspect of an institution's operations, including all the components vital to its mission and the delivery of a high-quality, affordable education: financial aid, teaching, research, faculty, student retention and success programs, libraries, and facilities. Every dollar spent from the endowment to deliver an education reduces the cost paid by all students and their parents.

- Colleges and universities serve and invest in their communities in multiple ways, and endowments help to make that assistance possible. Institutions support diverse and critical initiatives throughout their communities, from patient care services at academic medical centers to educational programs with local schools.

- An endowment is not a single entity that can be used for any purpose like a checking or savings account. Rather, it is a permanent investment fund consisting of often thousands of separate accounts designed for the needs of the present and the future.

- While income from the fund may be spent, the principal of the fund is preserved. The bulk of university endowments—at many institutions, 70 percent or more—are restricted funds that can only be spent in ways that meet the legally binding terms specified by the donor, enforceable under state contract law and attorneys general. For example, donors may endow a chair in a particular academic field, give money for specific library collections, designate gifts for academic research, or endow student aid for students meeting particular criteria.

- State laws impose important fiduciary duties on college trustees regarding the management of their endowments. Specifically, trustees have a legal responsibility to manage and spend endowment assets consistent with donor intent to ensure both the long- and short-term needs of the institution and its present and anticipated financial requirements. Moreover, they are legally obligated to invest endowment assets prudently while also making every effort to achieve as substantial a return as prudently possible.

- The vast majority of the nation's 4,700 colleges and universities do not have significant endowments. According to the U.S. Department of Education, in 2012–13 the median endowment for private, four-year colleges was $26.2 million and for public, four-year colleges was $25.3 million. According to the National Association of College and University Business Officers, in 2014, only about 600 institutions, or about 13 percent, had endowments over $50 million. Two percent of all colleges and universities—89 institutions—hold approximately three quarters of all endowment assets.

- The few colleges and universities with large endowments already use their endowment resources to provide substantial student financial aid to enhance access, particularly for low- and middle-income students. Moreover, relying on endowment spending and other private resources, a number of colleges and universities are replacing loans with grants as part of their student financial aid packages. These institutions have successfully managed their endowments to provide resources for the benefit of current students and society, while also protecting the needs of future students.

- According to the Times of London, 17 of the world's top 25 universities are American. All of them have significant endowments. These endowments enable them to hire the faculty and staff they need. It allows them to conduct the research they want. They can get the equipment and facilities they need. And they can allow any student to enroll. Money helps build great universities and delivers opportunities.