



NONPROFITS: ENDOWMENTS

Renewed Efforts to Rein In College Endowments

03.08.17 | Linda J. Rosenthal, JD



Over the past year or so, there's been significant attention and discussion about the multi-billion-dollar endowments enjoyed by some of the nation's most prominent colleges and universities. There have been "growing concerns in recent years about the massive nest eggs of the nation's most prestigious institutions of higher learning."

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These criticisms arise against a background of record-breaking fundraising. In 2015, for instance, Harvard University, received some \$1.05 billion in charitable donations. This continues a trend in which the wealthiest schools receive a disproportionate share of the philanthropic dollars flowing nationwide into higher education.

Endowments Concerns Raised Previously

Earlier in 2016, the Senate Finance and the House Ways and Means Committee "had issued joint letters to over 50 colleges and universities, each of which has an endowment valued at \$1 billion or more. In that letter, there were 13 endowment-related questions; answers were requested by April 1, 2016."



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This isn't the first time that officials and legislators have raised concerns over these massive endowment funds. In 2008, the IRS sent out compliance questionnaires to approximately 400 colleges and universities in connection with a larger IRS review program focusing on "the growth of endowment funds, the compensation paid to fund managers, and whether more money from such funds should be used to offset the rising tuition rates being charged by educational institutions that are 'charitable' organizations."

Congress was not at all mollified by the responses from these 50 educational institutions. This included the argument that some institutions, including Harvard University, have recently suffered slower-than-usual investment returns on their massive endowment portfolios.

In September 2016, Congressional leaders announced the scheduling of additional hearings for follow-up questions. Though the House Ways and Means Committee proceedings was "nominally about the tax-exempt status of college endowments, ... much of the discussion focused on college affordability — a broader issue clearly on the minds of both Republicans and Democrats on the panel." A spokeswoman for the House committee explained: "This is another step that the committee is taking to understand what colleges are doing to address soaring college costs through their endowments and nonprofit tax status."

Lawmakers also sent an additional round of questions to some of those institutions.

The matter was also raised during the presidential election campaigns; the Democratic platform, for instance, called for free college tuition in some circumstances for certain students.

Current Congressional Action on Endowments

A Congressional proposal raised last year is now being pushed forward again.

New York's Republican Representative Tom Reed had, in early 2016, called for the universities with the largest endowments to "direct 25 percent of their annual endowment income to financial aid for middle- and working-class students – or lose their tax exemption."

As originally set out, this measure would apply to institutions with endowments of \$1 billion or more – estimated to be approximately 100 universities and colleges.

Now that proposal is being given new life, thanks to Rep. Reed who was recently vice chair of the then President elect's transition team, and has moved into a position of greater influence. These institutions with \$100-billion+ endowments would be called on to –



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offer steep discounts to families with annual incomes of between \$24,000 and \$145,000. The proposal also would require all universities receiving federal aid to provide more disclosure about administrative salaries and perks and file “cost-containment plans” designed to keep tuition increases below the inflation rate.

This news has spooked not just the targeted universities but also wealthy donors. “The super-rich often slim their tax bills by swelling the coffers of their alma maters through donations for pet projects. Now, under a tax overhaul in Washington, the tax benefits of such gifts could be curtailed.” These one-percenters and their alma maters argue that this change in the rules regarding college endowments may force them to curtail charitable giving to universities that focus on other areas than general student education.

“This kind of restriction will not address the cost of higher education,” according to University of Southern California president. “At USC, which has a \$4.6 billion endowment, Oracle Corp. co-founder Larry Ellison’s recent \$200 million gift in support of a cancer research center would not be fully deductible under the Reed plan.”

Conclusion

This will be an interesting push-and-pull to watch at the beginning of this new Administration and new Congress. It’s anyone’s guess what the outcome will be.