Senate Republicans Nix House's Foundation Tax Increase, Reduce Endowment Tax Tiers

Overview

- The Senate Committee on Finance released its draft of the One Big Beautiful Bill (OB3), which *reduces or eliminates* changes to the taxation of endowments and private foundations compared to the House-approved bill.[1]
    - Reduces the endowment tax tiers, dropping the top rate from 21% to 8%.
    - Removes any proposed increase or modification to the private foundation tax.
- **Reminder:** Bills are revised frequently before becoming legislation, and OB3 is likely to undergo further revisions.
- **Legislative Process**: This draft is the beginning of the negotiations within the Senate, which still needs to vote on the revised bill. In the Senate, Republicans have a 53-47 majority. If approved, the bill will return to the House for another vote. The final step is obtaining President Trump's signature.
- **Timing**: President Trump has requested Congress to finish OB3 before July 4th.

Endowment Tax Tiers Reduced

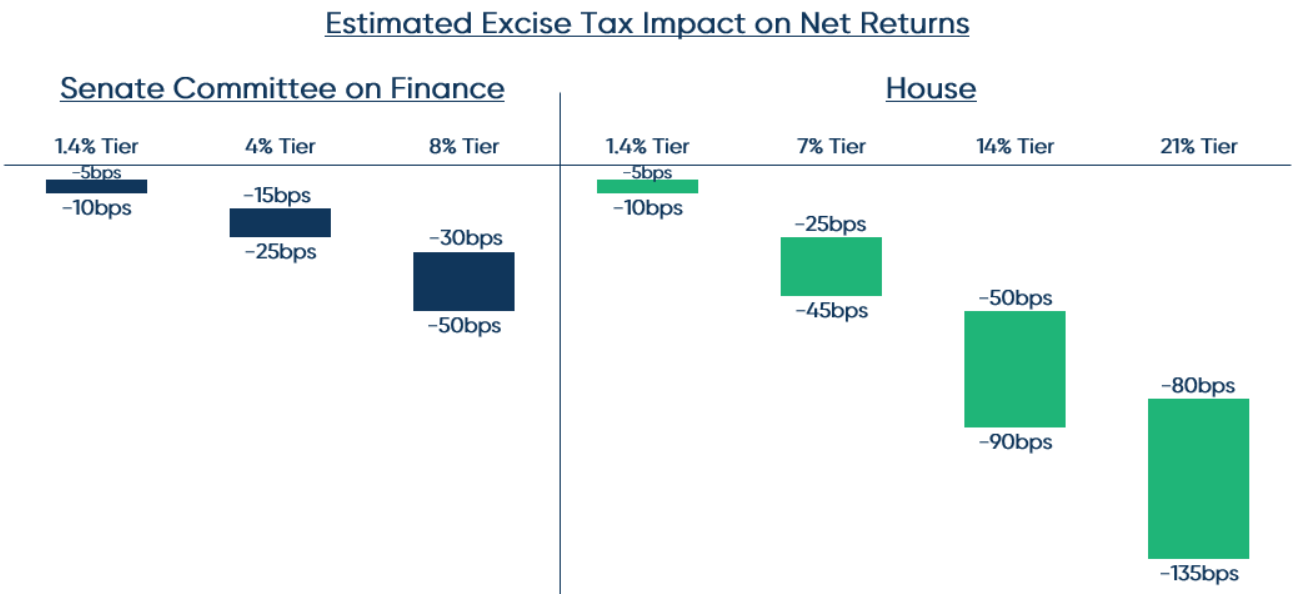
The Senate Finance Committee has reduced the tax rates within the tiers, dropping the top rate of 21% to 8%. The current rate is 1.4%.

Proposed Endowed Assets per Student	Current	House	Senate Committee on Finance
Between $500,000 and $750,000	1.4%	1.4%	1.4%
Between $750,000 and $1,250,000		7%	4%
Between $1,250,000 and $2,000,000		14%	
Above $2,000,000		21%	8%

Both the Senate and the House bills exclude[2]:

- **Religious institutions** (e.g., Notre Dame University) from taxation.
- **International students** in the tax tier calculation (e.g., assets per eligible student). Without the inclusion of international students, higher education institutions with larger international student populations will be more likely to be pushed into a higher tax tier.

The investment impact at Senate tax tier levels is well below those of the House tax tiers, which will influence how much impacted endowments adjust their investment strategies and budgets.



Source: TIFF Internal Analysis.

No Private Foundation Tax Changes; Remain at 1.39%

Unlike the House version, the Senate Finance Committee has removed any proposed changes to private foundation tax.[3] As a result, all private foundations would remain at the 1.39% excise tax on net investment income.

While the private foundation tax has received less media attention than the endowment tax, it is actually more financially meaningful ($15.9B vs. $6.7B in 10-year revenue[4]) as it is applied to all private foundations vs. the endowment tax which applies to a select number of private universities. This would be a benefit to private foundations to maintain their current tax rate, allowing these nonprofits to focus on funding their philanthropic missions.

Summary

These changes are a meaningful departure from the House-approved OB3 and are beneficial to both endowments and private foundations. For impacted endowments, the tax burden at the highest proposed rate of 8% is more manageable and under the Senate's new language, private foundations will be subject to no change to their current tax obligations.

TIFF remains committed to closely monitoring these developments and advising clients accordingly.

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Footnotes

1. https://www.finance.senate.gov/imo/media/doc/finance_committee_section-by-sectio

n_title_vii3.pdf

2. https://www.insidehighered.com/news/government/politics-elections/2025/06/16/senate-outlines-plans-endowment-tax-hike
3. https://www.wsj.com/politics/policy/senate-trump-tax-bill-salt-medicaid-72ad5fa9
4. Joint Committee on Taxation, May 25, 2025.

TIFF Investment Management



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