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One Big Beautiful Bill Effect on Schools

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The One Big Beautiful Bill (OBBB) includes some provisions relevant to private schools and donors who support K-12 education. The bill passed on July 3 and is expected to be signed by President Donald Trump by July 4. Most notably, the excise tax on investment income at private universities will now follow a tiered structure, with rates as high as 8% depending on a school's per-student endowment. Schools with significant investment assets may need to reevaluate how those assets are held and managed.

In addition, a new federal **$1,700 School Choice Credit** has been introduced for donations to qualifying scholarship organizations. Our tax attorneys explain what these changes mean and how schools and donors can prepare.

Increased Rate for Excise Tax on Investment Income of Private Universities

Currently, under Section 4968, private universities with investment assets of $500,000 or more per student must pay an excise tax at a flat rate of 1.4.%.

Under the OBBB, the rate will now be tiered based on the amount of the student adjusted endowment (SAE):

- 4% for schools with an SAE of at least $500,000 up to $750,000.
- 4% for schools with an SAE of at least $750,00 up to $2 million
- 8% for schools with an SAE in excess of $2 million.

The SAE is the fair market value of non-educational assets divided by the number of students at the school. In other words, SAE means the amount of the school's investment assets per student

This tax still only applies to private schools with an SAE of at least $500,000.

Under current law and the OBBB, a school's assets generally include assets held by certain related organizations and a school's net income generally includes income derived from those assets. Because the amount of investment assets determine the rate of tax, schools should monitor the amount of assets held by related entities and perhaps coordinate their investment activity to mitigate exposure.

The House version had required that the calculation of the student adjusted endowment only include students that are U.S. citizens or permanent residents. This provision is not in the final bill and could have increased the number of schools subject to the tax by decreasing the denominator in the calculation of whether the school's SAE exceeded $500,000.

In addition, the Parliamentarian removed an exemption for religious schools from a prior version of the OBBB.

$1700 School Choice Credit

The OBBB creates a new Section 25F which provides a nonrefundable credit for cash or marketable security donations made to 501(c)(3) organizations that provide scholarships for elementary and high school students.

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The credit would be taken instead of a charitable contribution deduction and would be reduced by any amount allowed as a credit on a state tax return.

The recipient organization must:

- Be a 501(c)(3) organization,
- Provide scholarships to 10 or more students who do not all attend the same school,
- Spend not less than 90% of its income on scholarships for eligible students,
- Only provide scholarships for qualified elementary or high school education expenses
- Use the contribution to fund scholarships only within its own state, and
- Not earmark or set aside contributions for any particular student.

Eligible students are students who are eligible to enroll in a public elementary or high school and members of a household with an income which, for the prior year, is not greater than 300 percent of the area median gross income.

Qualified elementary or high school education expenses include tuition, fees, books, room and board, uniforms and computer technology or equipment.

The credit is limited to $1,700, but excess over $1,700 may be carried over for five years.

Should you have any questions on these changes and how they may affect schools, please contact the authors or your Miller Canfield attorney.