

EXCISE TAX

Excise Tax on College Asset Growth

April 15, 2025

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of S.F. 3194 (Putnam) as Proposed to be Amended (SCS3194A-1)

	Fund Impact			
	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>	<u>F.Y. 2028</u>	<u>F.Y. 2029</u>
		(000s)		
General Fund	\$0	\$118,300	\$124,900	\$131,700

Effective beginning tax year 2026.

EXPLANATION OF THE BILL

The proposal establishes an annual excise tax on the asset growth of an applicable educational institution. Asset growth is defined as the positive difference between the value of the assets at the end of the current taxable year and the value of the assets at the end of the preceding taxable year.

The tax rate is as follows, based on the value of per-student assets for each applicable educational institution:

- Less than \$75,000 of assets per student, the tax is \$0.
- Between \$75,000 and \$150,000 of assets per student, the tax is 15% of the growth in assets.
- Between \$150,001 and \$250,000 of assets per student, the tax is 20% of the growth in assets.
- Over \$250,000 of assets per student, the tax is 25% of the growth in assets.

Assets means assets not used directly in carrying out an applicable educational institution's exempt purpose, namely assets held to produce income or investment, e.g., stocks, bonds, endowment funds, as well as property used to manage endowment funds.

An applicable educational institution is a college or university accredited by the U.S. Department of Education to participate in federal student financial aid programs, including public, nonprofit, and for-profit institutions. To be subject to the excise tax, the institution's assets must exceed \$100,000,000 at any time during a taxable year, must have at least 500 tuition-paying students during the preceding taxable year, and must have more than 50% of those students located in Minnesota.

"Per-student assets" means the value of an applicable educational institution's assets at the close of the current tax year divided by the number of tuition-paying students at the close of the current tax year.

The proposal also establishes a "Higher Education Assets Growth Account" in the special revenue fund. The excise tax revenues will be deposited into the account to be appropriated by the Commissioner of Revenue for the Minnesota state grant program. The Minnesota state grant program helps students from low- to moderate-income families pay for educational expenses at eligible Minnesota colleges/universities.

EXPLANATION OF THE BILL (CONT.)

Money remaining in the account at the end of the fiscal year is not canceled to the general fund and remains available until fully expended.

REVENUE ANALYSIS DETAIL

- Based on data from the Minnesota Office of Higher Education and Minnesota State, there are about 75 colleges and universities in Minnesota.
- Based on enrollment data from College Navigator, 56 of those institutions meet the proposal's requirements for the number of tuition-paying students and the percentage of students living in Minnesota.
- Seven of those 56 colleges and universities have endowments large enough to be subject to this excise tax, based on a National Association of College and University Business Officers (NACUBO) 2024 study of endowments.
- Based on NACUBO 20-year annualized returns average from the higher education endowment funds from across the United States, Minnesota colleges/universities' assets are assumed to have an average 5.5% annual growth rate.
- Since capital gains can vary widely from year to year, revenue from the tax could be volatile. Historically, since 2006, the S&P 500 stock index grew in 16 years and declined in three years. In years of decline, the excise tax revenue would be zero.
- Tax year impacts are allocated to the following fiscal year.

Minnesota Department of Revenue
Tax Research Division
<https://www.revenue.state.mn.us/revenue-analyses>