

One Big Beautiful Bill: Key Implications for Higher Education and Nonprofit Institutions

July 29, 2025

On July 4, 2025, President Donald Trump signed into law the One Big Beautiful Bill Act (OBBBA), making the most significant changes to the US tax code since the Tax Cuts and Jobs Act of 2017 (TCJA). The new law has important impacts for higher education and nonprofit institutions related to endowment-related taxes, the compensation excise tax, charitable giving and financial aid. The following are brief explanations of changes relevant to higher education and nonprofit institutions.

Loan Limits

The law imposes new limits to the amount of federal student loans available for graduate and professional studies. Loans available for most graduate programs, including most master's degree and PhD programs, will be capped at an annual limit of \$20,500 and lifetime student limit of \$100,000. Loans for professional degree programs, such as medicine, dentistry, and law, will be capped at \$50,000 per year and lifetime student limit of \$200,000. Colleges may set lower annual loan limits for particular programs if they so choose. Observers have noted that the new loan caps could drive students toward the private loan market.

Changes to Pell Grants for Low-Income College Students

Beginning July 1, 2026, the OBBA expands Pell Grants, which help low-income students pay for college, to include job-training programs. Providers must be accredited and authorized to receive Title IV funds (as in the existing Pell Grant program). The law allows students who have already obtained a bachelor's degree to use funds for these very-short-term programs. Students with bachelor's degrees cannot use Pell funds for other types of programs.

Providers are required to meet certain eligibility requirements, some of which are to be determined by state officials and others of which are to be determined by the U.S. Department of Education. Students who have a full-ride scholarship will no longer be eligible to receive Pell Grants. In response to a projected funding shortfall, the OBBBA allocates an additional \$10.5 billion in mandatory funding for the Pell Grant program for fiscal year 2026.

Financial Aid for Higher Education

The OBBA significantly changes higher educational financial aid for undergraduate and graduate students. The subsidized loan program for most undergraduate students - where the government currently pays the interest while the student is in school and for six months after graduation - will be eliminated effective July 1, 2026. This means that going forward, the financial aid offered to undergraduate students to cover educational costs will be offered as unsubsidized loans where interest will accrue immediately for undergraduates and graduate students.

Additionally, the Graduate PLUS loan program, one of the primary ways students finance their graduate education, will be eliminated for new graduate borrowers starting in the 2026–2027 academic year and will be eliminated entirely for the 2029 - 2030 academic year. Eliminating Graduate PLUS Loans could severely limit access to graduate education, particularly for students who cannot secure student loans from the commercial market.

Institutional Accountability: Restricted Access to Federal Loans for Low-Earning Programs

The new law establishes accountability standards for student income levels after graduation. Specifically, the government measures the median earnings of students in individual degree programs relative to the average earnings of adults with only a high school diploma. If the cohort of program completers does not earn more than adults without a college degree two out of any three years, then the program becomes ineligible for federal loans for at least two years (though students in the program may continue to access Pell Grants).

Key Charitable Giving Provisions

Several key provisions related to charitable giving in the OBBA are set to go into effect in the 2026 tax year:

Corporations

Corporations can only deduct charitable contributions that exceed 1% of their taxable income, while the existing 10% ceiling on corporate charitable contributions remains in place. Excess contributions (those exceeding the standard 10% deduction limit) can be carried forward for up to five years, but amounts disallowed solely due to falling below the 1% floor can only be carried forward if the corporation's aggregate contributions exceed the 10% ceiling in the carryforward year. In simpler terms, even if a corporation's contributions exceed the 1% floor, if they do not surpass the 10% overall limit, then the amount disallowed under the 1% floor cannot be carried forward to future years. These limitations may discourage corporate philanthropy by artificially restricting the tax benefits of charitable giving.

Individuals

Individuals who do not itemize can claim a separate deduction for cash contributions to eligible public charities, limited to \$1,000 for single filers and \$2,000 for married couples filing jointly. This aims to broaden charitable participation by offering a tax incentive to those who do not typically itemize their deductions.

For itemizing taxpayers, charitable contribution deductions will only be allowed for the portion exceeding 0.5% of their adjusted gross income starting in 2026. Itemizing taxpayers in the top 37% tax bracket will see the tax

benefit from charitable deductions capped at 35% of the donation's value.

Increased Information Reporting and Backup Withholding Thresholds

For payments made after December 31, 2025, the OBBBA increases the \$600 threshold for reporting payments made to independent contractors and other individuals for services rendered (Forms 1099-NEC or 1099-MISC). This threshold had been in place for decades and was not indexed for inflation. Effective for payments made after December 31, 2025, the threshold for filing information returns under sections 6041 and 6041A has been raised from \$600 to \$2,000. The OBBBA also indexes the reporting threshold for inflation for years after calendar year 2026.

Endowment-Related Taxes

Beginning January 1, 2018, the TCJA imposed a 1.4% tax on the net investment income of endowments for colleges and universities with assets of at least \$500,000 per student and at least 500 tuition-paying students. For taxable years beginning after 2025, the OBBA expands the endowment tax with a tiered rate structure based on size of the endowment per student.

- Institutions with an endowment between \$500,000 and \$750,000 per student will still be taxed at 1.4%.
- Institutions with an endowment between \$750,000 and \$2 million per student will face a 4% tax.
- Institutions with endowments exceeding \$2 million per student will be taxed at the top rate of 8%.

Institutions that serve fewer than 3,000 students are exempt from the endowment tax. There is no exemption from the endowment tax for religious schools.

In addition, the OBBA expands the definition of "net investment income" subject to the endowment tax to include interest income from student loans made or held by the institution or any related organizations and royalties derived from federally funded intellectual property developed by faculty or students. Institutions must also comply with enhanced reporting obligations, including disclosure of student headcount and endowment valuation methodology.

Expansion of Executive Compensation Excise Tax

For taxable years beginning after December 31, 2025, the OBBA expands the group of individuals covered by the 21% excise tax on compensation above \$1 million paid by certain tax-exempt organizations under Section 4960 to include all employees and former employees of the organization, not just the top five most highly compensated employees of the organization in the current year and prior years.

Should you have any questions about the impact of this guidance on your institution, please contact Maureen Monaghan (MMonaghan@cullenllp.com) at (212) 701-4112, Dina Vespia (DVespia@cullenllp.com) at (516) 357-3726, Nicole Donatich (NDonatich@cullenllp.com) at (516)-296-9116, or summer associate Ashley Croker (ACroker@cullenllp.com) at (516) 296-9103.

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