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# Revenue: How to Tax Private Higher Education

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Urban Democracy Lab Working Papers are circulated for discussion and comment. They reflect ongoing research and analysis and may be revised. These papers emerge from discussion with community partners but have not gone through a process of community review as is our practice. This paper is part of a series that responds to a rare political opening: the chance to rebuild city governance around affordability, dignity, and democratic control. The papers are designed as practical tools for transition and early governing, with companion briefs for rapid circulation and working-paper versions that provide full rationale, evidence, and implementation detail. They reflect our Real Utopian orientation: feasible design of transformative institutions and policies that are egalitarian, durable, and sustainable.

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## Executive Summary

This working paper examines how New York City and its allies can secure meaningful revenue from wealthy private universities and other tax-exempt institutions that control vast property and endowments while contributing little to local budgets. It documents the scale of the problem, showing how Columbia and NYU alone avoid hundreds of millions in property taxes each year under New York's broad nonprofit exemption, even as public services and CUNY/SUNY face austerity.

The paper evaluates three main pathways: (1) reclassifying portions of nonprofit activity as for-profit through targeted litigation, following New Jersey hospital and Princeton precedents; (2) expanding Payments and Services in Lieu of Taxes (PILOTs/SILOTs), which today are voluntary and marginal; and (3) taxing endowments, building on the federal Tax Cuts and Jobs Act and the new "Big Beautiful Bill." It concludes that a strengthened federal endowment tax, paired with clearer authority for municipal endowment or UBIT-style taxes, offers the most promising route to durable, equitable revenue.

## Introduction

Since 2000, growing economic inequality in urban centers throughout the United States has posed many issues for local residents, especially within marginalized communities. In addition, policymakers and residents alike have pointed to universities and other private institutions as mountains of wealth that do not contribute equally to the local communities that they impact. Time and time again, multi-billion dollar endowments enrich wealthy university administrations, but do not contribute meaningfully to the community because of their tax-exempt status as non-profits. Hoarding real estate and not paying property taxes, private institutions classified as non-profits avoid accountability to the public through this loophole. In New York City, communities of color are disproportionately impacted by this wealth inequality. In addition, public institutions like CUNY and SUNY that are meant to benefit New York residents do not reap the same benefits as private universities like NYU and Columbia. This brief originates from the intent to level the playing field in New York City, one of the cities with the largest wealth inequalities in the country.

Local government fiscal pressures and other factors have led many localities to consider ways to raise revenue from tax-exempt nonprofits, including Payments in Lieu of Taxes (PILOTs) and Services in Lieu of Taxes (SILOTs).<sup>1</sup> PILOTs are voluntary payments made by tax-exempt private nonprofits as a substitute for property taxes. SILOTs offer services to local governments in the absence of tax revenue. Evidence suggests that these payments may be growing in popularity in other cities. In New York, the state constitution poses a thorny problem to establishing these types of programs. From other successful cases throughout the country, this brief suggests that New York could target challenging individual tax-exemption statuses, establish PILOT and SILOT programs in order to work around the non-profit exemption in the state constitution, and institute a federal endowment tax.

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<sup>1</sup> Adam H. Langley, Daphne A. Kenyon, and Patricia C. Bailin. "Payments in Lieu of Taxes by Nonprofits: Which Nonprofits Make PILOTs and Which Localities Receive Them." Lincoln Institute of Land Policy (2012).

## The Problem in New York

For New York, the main issue to tackle is the state constitution that allows private institutions such as universities and museums to be excluded from paying property taxes. According to the 2014 Not-for-Profit Corporation (NPC) Law, a corporation is defined as “exclusively for a purpose or purposes, not for pecuniary profit or financial gain” and under which “no part of the assets, income or profit of which is distributable to, or enures to the benefit of, its members, directors or officers except to the extent permitted under this statute.”<sup>2</sup> Due to the framework of academic grants as apolitical, universities have been able to benefit from certain tax incentives without much criticism from the public. This has allowed universities in New York to acquire real estate at a cheaper price and to not be held accountable to the public.

New York University and Columbia University are the two of the largest real estate owners in New York City. According to the New York Times, Columbia University became the city’s largest real estate owner in 2023.<sup>3</sup> Extending far beyond their main campus in Morningside Heights, Columbia owns 320 properties throughout the city valued nearly at \$4 billion. Each year, Columbia saves \$182 million in property taxes due to the loophole in the state constitution. Fifteen years ago they were only saving \$34 million a year in property taxes. This jump shows that in the last fifteen years this wealth inequality has become staggering. With a \$14.3 billion endowment, paying \$182 million would be a drop in a bucket. For NYU’s campuses in Greenwich Village and Downtown Brooklyn, the university escapes paying \$145 million a year in taxes. Although their endowment is \$6.7 billion, NYU makes the case that they contribute to the city in other ways, largely through services in lieu of taxes or SILOTs.

With an annual budget of nearly \$116 billion dollars, New York City supports the lives of over 8 million people. After the COVID-19 pandemic, city budgets for social programs to benefit inmates at Rikers Island or free preschool for 3 year-olds were cut.<sup>4</sup> Multiple

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<sup>2</sup> <https://www.nysenate.gov/legislation/laws/NPC>

<sup>3</sup> <https://www.nytimes.com/2023/09/26/nyregion/columbia-university-property-tax-nyc.html?smid=url-share>

<sup>4</sup> <https://www.nytimes.com/2023/09/26/nyregion/columbia-university-property-tax-nyc.html?smid=url-share>

local and community stakeholders throughout New York City have expressed their concern about this inequality and called for contributions. This has become especially important considering how NY state and Columbia condemned Black-owned neighborhoods in Manhattanville in 2009 for their campus expansion. Columbia and other institutions have responded by saying that they make \$170 million in contributions to the community. However, these are wholly inadequate and are distributed based on the interests of Columbia, and not the needs of local communities.

## Three Solutions

There are three options through which to pursue taxing non-profit institutions. The first is showing how their activities are for-profit driven through the courts. The second is to obligate them to make contributions to the local economy and community through PILOT and SILOT programs. The third is through a federal endowment tax.

### 1) Reclassifying Non-Profits

In 2011, 27 private residents in Princeton, New Jersey sued the university in order to reclassify 170 campus buildings as for-profit ventures because of faculty commercial licensing and royalties. According to the 2016 settlement, part of the money would go to the town of Princeton as well as the Witherspoon Jackson Development Corp to benefit local residents. In the agreement, the university made sure to incorporate a “clawback” clause that specifically prohibited new lawsuits being brought against the university that were not settled in 120 days. According to New Jersey law, organizations that serve charitable, educational, religious, or cemetery purposes are exempted from paying property taxes based on a three-part test as established by state laws and court rulings. However, in 2015, *AHS Hospital Corp. v. Morristown* denied a hospital its non-profit exemption after ruling many of its for-profit activities as violating state law. Since then, this case has opened more opportunities to challenge non-profit classifications for hospitals in New Jersey.

## 2) PILOTs and SILOTs

At this moment, most PILOT and SILOT programs are voluntary. Boston's PILOT program is the most robust in the United States and its contributions are entirely voluntary. In Boston, the government played an instrumental role in establishing the PILOT program in order to generate more revenue for city infrastructure. The PILOT program was more feasible in Boston for two reasons. The first being that private non-profit institutions are not automatically exempt from property taxes like in New York, but have to file an annual application and be considered a charitable, educational, or religious institution, according to the Massachusetts General Laws, Chapter 59, Section 5. The second reason is that Boston contains a large amount of private educational and medical institutions that own real estate so it became more attainable to organize since this wealth inequality is a major feature of the city today.

In Philadelphia, Drexel University pays between \$25 to \$50 million per year in programs and services that benefit the city, depending on the year.<sup>5</sup> However, according to the Lincoln Institute, PILOTs generate little revenue in most localities – accounting for less than 1 percent of total general revenue in 165 out of 181 localities that have information available. Localities use a variety of methods to receive PILOTs; the most common are long-term contracts (used by 58 percent of localities) and routine annual payments (34 percent).<sup>6</sup> In summary, regardless of state constitutions, PILOT and SILOT programs have been able to procure funds from non-profit organizations, but the contributions have been marginal. Because contributions are voluntary and not commensurate with the wealth that private research and educational institutions garner from tuition, private, and public funds, state and local governments should secure more funding from PILOT and SILOT programs through mandatory contributions that are proportionate to university endowments.

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<sup>5</sup> <https://drexel.edu/news/archive/2020/november/q-and-a-pilots-and-silots/>

<sup>6</sup> Adam H. Langley, Daphne A. Kenyon, and Patricia C. Bailin. "Payments in Lieu of Taxes by Nonprofits: Which Nonprofits Make PILOTs and Which Localities Receive Them." Lincoln Institute of Land Policy (2012).

### 3) Federal Endowment Tax

Higher education institutions are generally registered with the state as not-for-profit corporations. As such, these institutions enjoy certain privileges, including an exemption from tax on all purchases and on some sales. Generally, sales that directly relate to the purpose of educational institutions are exempt from taxes; there are few exceptions.<sup>7</sup> However, at the core of the state's protection of these institutions is the idea that they operate without profit and that their activities are in furtherance of charitable purposes. Specifically, exemptions are granted with the presumption that the institution does not conduct business for pecuniary or financial gain, "whether or not in furtherance of its corporate purposes, except to the extent that such activity supports its other lawful activities then being conducted".<sup>8</sup>

Contrary to this central tenant is the accumulation of wealth by these institutions in the form of endowments. This significant hoarding of capital, raises the question of "whether these wealthy institutions actually use their resources to further society's educational goals in a meaningful way."<sup>9</sup> The issue motivated the federal government to enact the Tax Cuts and Jobs Act of 2017 (TCJA). The TCJA imposes a tax of 1.4% on the net investment income of higher education institutions enrolling at least 500 students that have endowment assets exceeding \$500,000 per student. This law found its footing on the tradition of imposing excise taxes on the net investment income of private foundations – historically set at 2%. The Tax Policy Center, reports that the tax which took effect in 2019 raised \$244 million from 58 institutions in 2022. In 2023, 56 universities paid the tax, including Harvard University, Yale University, and Brown University, raising around \$380 million in revenue.<sup>10</sup>

Building on that initial impact, in 2025, Congress passed a federal bill that expands the reach of the endowment tax. Under the "Big Beautiful Bill", higher education institutions "with more than 3,000 tuition-paying students and with assets that exceed:

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<sup>7</sup> <https://www.tax.ny.gov/pdf/publications/sales/pub843.pdf>

<sup>8</sup> <https://www.nysenate.gov/legislation/laws/NPC/204>

<sup>9</sup> <https://taxpolicycenter.org/briefing-book/what-tax-treatment-college-and-university-endowments>

<sup>10</sup> <https://www.columbiaspectator.com/news/2025/07/28/columbia-set-to-avoid-big-beautiful-bill-endowment-tax-hike/>

- between \$500,000 and \$750,000 per student are subject to a 1.4% tax;
- between \$750,000 and \$2 million per student are subject to a 4% tax; and
- \$2,000,000 per student is subject to a 8% tax; on a wider range of assets, including student loan interest and royalties.<sup>11</sup>

### Case Study — Columbia University

Columbia University has largely avoided the endowment tax. That is because in 2024, although Columbia’s endowment valued \$14.8 billion, student-adjusted endowment was approximately \$470,000, placing the University below the \$500,000 minimum taxable threshold.<sup>12</sup>

Room for avoidance could also be found in the definition of eligible institutions as those with more than 50 percent of the tuition-paying students of which are located in the United States. This definition raises the question of international students. For example, there are reports that “in projections that exclude international students, Columbia’s student body count for that semester would drop to 21,726 students. Compared with endowment figures from the 2024 fiscal year, the University’s per-student endowment would rise to approximately \$681,000, placing it above the \$500,000 threshold and subject to the 1.4 percent tax for the last fiscal year”.

## Support for Municipal Endowment Tax

The implementation of an endowment tax at the federal level provides precedential support for the taxation of endowments and similar assets by municipalities which face the costs of externalities caused by these institutions' activities.

Support is also found at the state level. In that, although there is no equivalent to the TCJA at the state level, the state has long imposed an Unrelated Business Income Tax (“UBIT”). However, it is unclear whether gaining from endowments is unrelated

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<sup>11</sup> <https://finance.harvard.edu/endowment-tax-faqs>; see also <https://president.yale.edu/posts/2025-07-03-update-on-tax-legislation>

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<https://www.columbiaspectator.com/news/2025/07/28/columbia-set-to-avoid-big-beautiful-bill-endowment-tax-hike/>

business. In the case of Columbia University, “in fiscal year 2024, 31 percent of the endowment was dedicated to faculty and research, 24 percent was allocated to “student support,” 26 percent was categorized as “multipurpose/other,” and 19 percent was “unrestricted.” The University reported that \$648.4 million from the endowment was distributed “in support of students, faculty and University activities, for a 5.2% effective spending rate.”

Additionally, the difficulty in understanding whether accumulation of these assets are not for pecuniary or financial gain or are unrelated is furthered in the case of quasi-endowments which contain budget surpluses and may be more freely spent.

**If it is determined that the endowment does not fall within the limitation on activities imposed by the New York Not-for-Profit Corporation law, then taxation of such activity, either by imposing an endowment tax or expanding the state unrelated business tax, would not directly conflict state law.**

## Constitutional Analysis

Home Rule provides that municipalities enjoy all powers of the state that are explicitly held back. Under the NYS Constitution, the power of taxation is squarely within the state’s powers. Taken at face value, Article XVI § 1 would have the effect of invalidating local taxes. Since that is clearly not the case, the constitution must therefore be read against causing that absurd effect. As such, a reasonable assumption is that home rule bestows upon local governments the powers and privileges of taxation in Article XVI § 1. This permissive interpretation is supported, for example, in the locality of New York City, by the existence of city specific taxes.<sup>13</sup>

Furthermore, if the additional tax on investment income of higher education institutions falls within the bounds of the state’s UBIT, then it follows that such a tax is not inconsistent with the state’s constitution.

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<sup>13</sup> Survey NYC local taxes.

However, Home Rule requires that the locality articulate the powers assumed from the state in its charter. Therefore, an expansion of this power would require charter revision. Nonetheless, no revision is required if the new taxes fall within the current powers articulated in the city charter.

## **Conclusion: Case for NYC**

Projecting this to New York, proving how institutions classified as non-profits like NYU and Columbia function as for-profit institutions in certain activities is a way through which to tax them. Today, defense contractors such as Lockheed maintain close ties to prestigious universities that benefit from government defense contracting funds. NYU is no exception to this common practice. Professor Stefano Martiniani's Center for Soft Physics at NYU is currently doing research on materials that can resist infrared radar detection with the benefit of defense contracting funds. Pioneering materials and methods that can later be commercially licensed should be considered a for-profit activity under New York state law. The main issue with this approach is that it does not change state law and requires litigation that is time- and resource-consuming.

PILOTs and SILOTs offer another solution that poses some problems. In their current iteration, they are voluntary and account for less than 1 percent of total general revenue in 165 out of 181 localities. They would need to be instituted with mandatory participation which is impossible without amending the state constitution. In addition, their contributions have been largely marginal compared to the size of university endowments.

In order to obtain a more reliable and long-lasting solution, we recommend pursuing a federal endowment tax. A federal endowment tax offers another route that remains in line with the state constitution and seeks to tax universities based on the Tax Cuts and Jobs Act of 2017 (TCJA). The TCJA imposes a tax of 1.4% on the net investment income of higher education institutions enrolling at least 500 students that have endowment assets exceeding \$500,000 per student. With support at the state level, the

likelihood of garnering support from multiple levels of government is higher since this would benefit public universities and other publicly-funded institutions. Although this would require passing a law at the federal level, this would ideally provide the first step moving towards equitable distribution of wealth and resources in New York City and beyond.