

College and university endowments have reported outstanding investment returns in recent years. While annual investment returns averaged around 15.2%, colleges and universities only been spend about 4.6% of their endowment assets each year. This garnered the attention of the Senate Committee on Finance, which recently considered whether endowments should be taxed or regulated. This article analyzes this issue in light of the existing literature on endowments, the rationales for tax exemptions, the justifications for the unrelated business income tax, and the reasoning behind the private foundation minimum distribution requirements. The article concludes that the existing literature would not justify taxing or regulating endowment accumulation and that any attempt to tax or regulate endowments should only be undertaken in light of a fundamental re-imagining of our tax exempt system.