

THOUGHT LEADERSHIP

LEGAL UPDATES

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One Big Beautiful Bill Act's Tax Impact on Nonprofit, Tax-Exempt Organizations

On July 4, 2025, the One Big Beautiful Bill Act (OBBBA) overcame considerable debate and became law. Notwithstanding significant (to say the least) funding changes to Medicaid, Medicare, and the Affordable Care Act marketplaces for nonprofit, tax-exempt organizations, new tax provisions are scattered throughout the legislation. There are new limitations on corporate giving, but arguably, new provisions may encourage individual charitable giving on a smaller scale. The higher excise taxes on private foundations—and in particular universities with large endowments—will have broad-based impacts, likely forcing these entities to reallocate resources elsewhere to pay the new higher taxes.

General tax provisions impacting nonprofits

Revamped charitable deduction expansions for minor donors; limitations for major donors starting in 2026

While OBBBA introduces some encouraging developments for nonprofits, it also contains less favorable changes—particularly concerning charitable donations—that are likely to prompt nonprofits to reassess their donor targets. Notable provisions include:

1. Beginning in the 2026 calendar year, a new universal charitable deduction permits individuals who do not itemize charitable deductions to get tax deductions for such contributions up to \$1,000 for unmarried individuals and \$2,000 for joint filers. Previously, charitable deductions only benefited itemizers. These charitable deductions must be made to public charities and not private foundations or donor advised funds. Arguably this can encourage those who previously did not make significant charitable deductions to

contribute more. Public charities may wish to emphasize this point in their fundraising.

2. Under OBBBA, individuals who itemize charitable contributions face diminished tax benefits. There is now a 0.5% adjusted gross income (AGI) floor, meaning itemizers can only get a benefit for charitable deductions over 0.5% of their AGI. The actual impact remains to be seen—the truly generous may not be thinking about the AGI floor in assessing worthy recipients of their generosity. But there is a concern that this may result in individuals with strict budgeting requirements for charitable contributions modifying donation behavior, delaying donations to exceed the 0.5% AGI floor in a subsequent year.
3. The individual itemized deduction cap is a tax benefit of 35%, reduced from 37%. This could create a disincentive for donors to make donations that exceed their 35% cap. It may not necessarily concern the truly generous philanthropic donors, but their tax advisors should at least monitor the cap during tax planning preparations.
4. Corporate (non-individual) donors now have a 1% AGI floor, making the corporate charitable contribution beneficial only when donations exceed 1% of AGI. As with the above floor for individuals, this may change the timing decisions for corporate donors that are not currently making donations above the 1% AGI floor already but are near it.

Excise tax for highly compensated nonprofit employees

For taxable years beginning after December 31, 2025, tax-exempt organizations subject to the 21% excise tax under Section 4960 on compensation over \$1 million paid to employees now must pay the excise tax on all employees paid over such amounts, not just the five highest paid employees. For example, if a tax-exempt organization has 10 employees receiving over \$1 million, the excise tax is paid with respect to all such employees. This can be significant for large nonprofit healthcare and higher education institutions that have multiple highly paid individuals.

Importantly, the OBBBA did not amend Section 4960(c)(3)(B), which provides that “remuneration” does not include the portion of any remuneration paid to a licensed medical professional (including a veterinarian) which is for the performance of medical or veterinary services by such professional. This means that compensation paid to a physician for performing medical services is excluded from the calculation of remuneration subject to the excise tax. However, compensation paid for non-medical services (such as administrative, management, or teaching duties) is not excluded and must be included in the calculation.

Tax provisions impacting higher education

Increased college and university endowment taxes

Previously, private colleges and universities that had at least 500 tuition-paying students and at least \$500,000 in assets per student paid an excise tax of 1.4% on their net investment income. Under OBBBA, for tax years beginning after December 31, 2025, a new tiered tax structure is created for private colleges and universities that have at least 3,000 tuition-paying students and at least \$500,000 in their student-adjusted endowments (generally the school's investment assets divided by the number of eligible students).

1. For private colleges and universities with a student adjusted endowment between \$500,000 and \$750,000, the tax rate is 1.4%.
2. For private colleges and universities with a student adjusted endowment between \$750,000 and \$2,000,000, the tax rate is 4%.
3. For private colleges and universities with a student adjusted endowment above \$2,000,000, the tax rate is 8%.

The consequences of these increased taxes will cause endowments to visit with financial advisors to possibly adjust the asset mix to hold more investments in assets which defer taxable gains, such as high-turnover investments which generate realized gain. Endowments on the edge of a higher rate could consider reducing the numbers by offloading funds to separate parts of the institution or spending down some of the endowment. Either way, tuition hikes may be likely for institutions impacted by the higher tax.

Tax credit for elementary and secondary school scholarship granting organizations

Beginning in 2027, a new income tax credit is created for charitable cash contributions made to "scholarship granting organizations," generally defined as tax-exempt organizations that provide scholarships to elementary and secondary school students. Notably, the credit allowed to a taxpayer is limited to \$1,700. Students who benefit from the scholarships must be members of a household with an income not greater than 300% of their area's median gross income (determined by the Department of Housing and Urban Development) and be eligible to enroll in a public elementary or secondary school. This is a tax credit, not a charitable contribution. Any organization that makes scholarships to elementary and secondary schools may wish to review their financial qualifications and determine if room exists to reserve such scholarships for those who meet those gross income standards.

Education funding changes created by the OBBBA

The OBBBA expands tax benefits for individuals planning for higher education. For 529 plans, the definition of "qualified expenses" for Section 529 reimbursement has expanded: non-tuition expenses for elementary, secondary, religious, and private school expenses are now allowed, as are expenses for

acquiring and maintaining professional credentials. Beginning in 2026, a 529 account can also be used to pay up to \$20,000 for elementary or secondary tuition (up from \$10,000 currently).

Additionally, employers can provide up to \$5,250 of educational assistance to employees tax-free, with this limit subject to inflation adjustments after 2026. While the inclusion of student loan payments was scheduled to expire after 2025, the bill has made that inclusion permanent.

What this means to you

Nonprofits should assess the variety of ways OBBBA changed the tax benefits of individuals and corporations and ensure their fundraisers are cognizant of such changes. For large higher education institutions, OBBBA's new endowment tax regime and increased Section 4960 penalties will require early assessment of tax liabilities once they take effect.

Contact us

If you have questions regarding the OBBBA's tax-related provisions, please contact Albert Lin or your Husch Blackwell attorney.