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Navigating the One Big Beautiful Bill Act:

KEY TAX CHANGES FOR EXEMPT ORGANIZATIONS

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The One Big Beautiful Bill, enacted in 2025, introduces significant tax changes affecting tax-exempt organizations and charitable giving, with most provisions effective after December 31, 2025. For attorneys and CPAs advising private foundations and other exempt entities, understanding these shifts is critical to guide clients through a complex landscape. **Below is an outline of the bill's practical implications for the charitable sector:**

Expanded Excise Tax on High Compensation

- The bill amends Internal Revenue Code (IRC) Section 4960, expanding the 21% excise tax on compensation exceeding $1 million. Previously, under the 2017 Tax Cuts and Jobs Act, this tax applied only to the five highest-compensated employees of a tax-exempt organization, current or former, with liability allocated proportionally among the exempt entity and related organizations via Form 4720. Starting in 2026, the tax will cover all employees—current or former—of the tax-exempt organization earning over $1 million who were employees during any taxable year beginning after December 31, 2016.[1] This means that tax-exempt organizations must now review compensation records from 2017 and onward to identify any current or former employees paid over $1 million, even if they weren't among the top five earners in such past years.

For example, a retired executive receiving a $1.2 million deferred payout from a related for-profit subsidiary would trigger the tax, with the subsidiary liable for its share on the $200,000 excess. This broader scope could increase compliance costs and push nonprofits to restructure compensation to avoid tax liability.[2] Advisors should review compensation agreements and related-entity structures to mitigate exposure.

Charitable Deduction Changes

- The bill reshapes charitable deductions for individuals and corporations. For individuals, it establishes a permanent above-the-line deduction for non-itemizers, capped at $1,000 ($2,000 for joint filers), encouraging modest giving among the roughly 90% of filers who don't itemize.[3]
- For itemizers, a new 0.5% floor on adjusted gross income (AGI) applies, meaning only contributions exceeding this threshold are deductible.[4] Carryforwards are also allowed only if this 0.5% floor is met.
- The 60% AGI limit for cash contributions to public charities is made permanent, preserving incentives for larger donations.[5] However, the tax benefit for itemized deductions is capped at 35 cents per dollar, down from 37 cents for top-bracket taxpayers, slightly reducing high-earner incentives.[6]
- For corporations, a 1% floor on taxable income is imposed, so only contributions exceeding this threshold are deductible, up to the existing 10% limit.[7] Independent Sector estimates this could reduce corporate charitable giving by approximately $4.5 billion annually, straining nonprofit budgets, particularly for smaller organizations.[8]
- A new nonrefundable tax credit of up to $1,700, starting in 2027, applies to donations to organizations granting scholarships to private or religious K-12 schools, potentially diverting funds from broader charitable causes.[9]

SALT Cap and Itemization Trends

- The bill raises the SALT deduction cap from $10,000 to $40,000 for filers with modified AGI under $500,000, with a 1% annual increase through 2029 (subject to a phaseout for taxpayers with incomes in excess of $500,000), before reverting to $10,000 in 2030.[10] This could make itemizing more attractive for some, boosting charitable deductions for those who itemize. However, the standard deduction, permanently increased to $15,750 for single filers, $23,625 for heads of household, and $31,500 for joint filers, increased for inflation in future years, likely means that fewer taxpayers will itemize.[11] This trend could reduce the pool of donors claiming charitable deductions, further challenging nonprofit funding.

Endowment Tax Increase

- The bill amends IRC Section 4968, increasing the excise tax on net investment income in a new tiered structure for certain private colleges and universities with endowments exceeding specific per-student thresholds, from 1.4% to as much as 8%, effective after December 31, 2025.[12] This targets wealthier institutions, aiming to curb excess accumulation. The higher tax may pressure affected universities to adjust investment strategies or increase spending on mission-driven programs, though it could strain financial aid budgets.

Implications for the Charitable Sector

- These changes create a mixed outlook. The above-the-line deduction and higher SALT cap may encourage some giving, but the 0.5% and 1% floors, coupled with fewer itemizers, could reduce contributions, with total charitable giving ($557 billion in 2023) at risk of decline.[13] The expanded IRC Section 4960 tax and endowment tax add financial and administrative burdens, particularly for smaller nonprofits and select universities. Advisors should counsel clients on restructuring compensation, optimizing deduction strategies, and monitoring related-entity payments to navigate these rules. The bill's complexity underscores the need for proactive planning to sustain the charitable sector's vitality.

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[1] Pub. L. No. 119-21, One Big Beautiful Bill Act ("Act"), Section 70416.
[2] Loeb & Loeb LLP, "The One Big Beautiful Bill Act: Breaking Down Key Changes," loeb.com, published January 2025, accessed July 2025.
[3] Act Section 70424. See also, Tax Foundation, "One Big Beautiful Bill Act Tax Policies: Details and Analysis," taxfoundation.org, published January 2025, accessed July 2025.
[4] Act Section 70425. See also, Journal of Accountancy, "Tax Provisions in the One Big Beautiful Bill Act," journalofaccountancy.com, published February 2025, accessed July 2025.
[5] Act Section 70425. See also, RSM US, "One Big Beautiful Bill Act," rsmus.com, published January 2025, accessed July 2025.
[6] Act Section 70111. See also, Council on Foundations, "One, Big, Beautiful Bill: Impact on Philanthropy," cof.org, published February 2025, accessed July 2025.
[7] Act Section 70426. See also, Council on Foundations, "One, Big, Beautiful Bill: Impact on Philanthropy," cof.org, published February 2025, accessed July 2025.
[8] Id., citing Independent Sector, "Economic Impact of the One Big Beautiful Bill on Nonprofits," published January 2025.
[9] Act Section 704111. See also, Journal of Accountancy, "Tax Provisions in the One Big Beautiful Bill Act," journalofaccountancy.com, published February 2025, accessed July 2025.
[10] Act Section 27502. See also, Tax Foundation, "One Big Beautiful Bill Act Tax Policies: Details and Analysis," taxfoundation.org, published January 2025, accessed July 2025.
[11] Act Section 27504.
[12] Act Section 70415. See also, Loeb & Loeb LLP, "The One Big Beautiful Bill Act: Breaking Down Key Changes," loeb.com, published January 2025, accessed July 2025.
[13] Tax Policy Center, "One Big, Beautiful Bill Complicates Charitable Giving," taxpolicycenter.org, published February 2025, accessed July 2025.

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