Congress Passes Sweeping Tax Reform with Major Changes for Nonprofits

Client Advisories

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After extensive negotiations, Congress passed the *One Big Beautiful Bill Act* (H.R. 1) ("OBBB"), a comprehensive tax package with significant implications for tax-exempt organizations and charitable giving. The bill was approved by the Senate on July 1, cleared the House on July 3, and was signed by the President on July 4, 2025.

While much of the bill focuses on individual and corporate tax reform, several key provisions directly affect tax-exempt organizations, particularly colleges and universities, nonprofits with highly-compensated employees, and philanthropic donors. Below are the highlights most relevant to the nonprofit sector.

Charitable Giving: Deductions Reshaped for Individuals and Corporations

For individuals:

- **Permanent Deduction for Non-Itemizers**: Taxpayers who take the standard deduction will now permanently be allowed to deduct cash contributions to qualifying charities, up to $1,000 for individuals and $2,000 for joint filers.
- **New Floor for Itemizers**: For those who itemize, charitable contributions must now exceed 0.5% of AGI to be deductible.
- **AGI Cap on Cash Gifts Retained**: The 60% AGI limitation for cash contributions to qualifying public charities has been made permanent.

For corporations:

- **New 1% Floor**: A new 1% floor now applies before charitable contributions become deductible. In other words, no corporate deduction is allowed until total contributions exceed 1% of taxable income.
- **Five-Year Carry Forward**: Unused charitable deductions can now be carried forward for five years.

While these changes are designed to encourage larger gifts, they may also reduce smaller, routine giving, particularly from corporations and mid-income households.

Endowment Excise Tax: Major Overhaul for Colleges and Universities

The controversial excise tax on private college and university endowments has been significantly revised.

- **Graduated Tax Rates**: The flat 1.4% rate has been replaced with a tiered system based on the amount of each institution's so-called "student-adjusted endowment" (the school's endowment divided by the number of eligible students) as follows:

Student-Adjusted Endowment	Tax on Investment Income
$500,000 to $750,000	1.4%
$750,000 – $2 million	4%
Over $2 million	8%

- **Smaller Schools Exempt**: The threshold for being subject to the tax now requires at least 3,000 tuition-paying students, up from 500.
- **Expanded Tax Base**: Items previously excluded from net investment income, such as student loan interest and IP royalties tied to federally funded research, are now taxable.
- **New Reporting Obligations**: Schools must now report tuition-paying student numbers and other data to assess endowment tax liability.
- **Future Guidance**: The IRS is directed to issue guidance to prevent tax avoidance through creative endowment structures.

Expansion of Section 4960: Executive Compensation Tax

Section 4960 currently imposes a 21% excise tax on tax-exempt organizations that pay compensation above $1 million to certain highly-compensated employees. The OBBB changes this as follows:

- **Broader Covered Population**: The tax now applies to all current and former employees, not just the "top five" most highly compensated.
- **Limited Applicability**: This provision is still limited to individuals employed after December 31, 2016.
- **Effective Date**: The tax is effective for tax years beginning after December 31, 2025.

This expansion may require organizations to revisit deferred compensation arrangements, especially in higher education, healthcare, and large philanthropic institutions.

Key Provisions Removed from the OBBB

A number of controversial provisions that were included in earlier drafts of the OBBB did not make it into the final legislation. These provisions would have imposed significant new burdens on tax-exempt organizations. Notably, the final legislation does **not** include:

- **Terrorist Supporting Organizations**: Provisions from H.R. 9495 that would have authorized the Treasury Secretary to revoke the tax-exempt status of organizations newly defined as "terrorist-supporting organizations" with little due process.
- **Increased Private Foundation Tax**: A proposed increase in the private foundation net investment income excise tax that would have increased the tax from the current 1.39% to rates as high as 10%, based on the foundation's assets.
- **UBIT Expansion**: A proposed expansion of unrelated business income tax (UBIT) to tax royalty income derived from the use of a tax-exempt organization's name or logo.
- **The Parking Tax**: A revival of the unpopular rule that would have extended UBIT to certain employer-provided transportation fringe benefits, such as transit passes and parking.

Looking Ahead

While the OBBB represents the most significant federal tax legislation affecting nonprofits in years, much remains to be clarified through Treasury Regulations and IRS guidance. We will continue to monitor developments and will provide updates as additional guidance is issued. If you have questions about how this legislation may affect your organization, please contact the Archer lawyer with whom you usually work, or Noel Fleming at nfleming@archerlaw.com or 267-422-9855, or Kayci Petenko at kpetenko@archerlaw.com or 267-422-9856.

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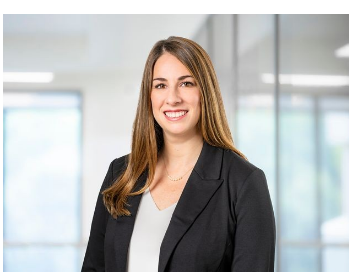

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