The One Big Beautiful Bill: Top Tax Takeaways for Nonprofits

President Trump's sweeping package of domestic legislation, H.R. 1 (originally titled the *One Big Beautiful Bill Act* (the "OBBB")), became law on July 4, 2025. In addition to dramatically reshaping the landscape for charitable organizations working in education, the environment, social services, and immigration, the OBBB has significant implications for the whole of U.S. philanthropy — donors as well as the tax-exempt organizations they support.

In this summary, we highlight key tax provisions expected to have substantial impacts across the board on exempt organizations and charitable giving.

A chart at the end of this article summarizes the changes in law described below and includes information on effective dates.

Taxes on Exempt Organizations

1. Expansion of Excise Tax on Excess Compensation of Certain Tax-Exempt Organizations

The OBBB expands the scope of applicability of the existing 21% excise tax imposed by Section 4960 of the Internal Revenue Code (the "Code") on "excess compensation" paid by charities, social welfare organizations, and certain other applicable tax-exempt organizations. Starting with tax years beginning after December 31, 2025, the tax will generally be imposed with respect to "excess compensation" paid to *any* employee, not just the five highest-paid employees as was previously the case.

- *What is the tax on excess compensation?* Since 2018, the Section 4960 tax has been imposed on charities, social welfare organizations, and other applicable tax-exempt organizations for certain excess compensation they paid to certain "covered employees," namely, current employees and certain former employees receiving total annual compensation in excess of $1 million and those receiving excess parachute payments.

- *Which employees are covered by the tax?* Under law applicable to tax years ending on or before December 31, 2025, the term "covered employee" is limited to (a) the tax-exempt organization's top five highest compensated employees for the taxable year, as well as (b) any person who was previously a covered employee of the tax-exempt employer during any taxable year starting in 2017. The OBBB expands this definition to include *any* current or former employee of the tax-exempt organization during any tax year starting in 2017. As a result, the OBBB increases the scope of an organization's "covered employees" whose excess compensation or excess parachute payments may trigger the Section 4960 tax to include: (a) current employees who are not among the five highest compensated, as well as (b) former employees in a taxable year beginning after December 31, 2016 who were not covered employees in those prior years. These changes will increase the overall tax on excess compensation paid by many exempt organizations.

For more detailed analysis of this provision and other changes the OBBB makes to employee benefits provisions generally, see our client alert here.

2. Amended Excise Tax on Investment Income of Private Colleges and Universities

The OBBB modifies the existing investment income tax imposed on certain private colleges and universities under Code Section 4968. These amendments raise the applicable tax rates for certain institutions and broaden the scope of taxable income, while at the same time excluding certain smaller institutions that were previously subject to the Section 4968 tax.

- *What are the new tax rates?* For tax years beginning after December 31, 2025, the OBBB introduces a tiered system for imposing the net investment income tax based on an institution's "student-adjusted endowment," a new metric calculated by dividing the total fair market value of the institution's investment assets by the number of its full-time students. For example, an institution with an endowment valued for these purposes at $6.5 billion and with 4,000 students would have a student-adjusted endowment of $1,650,000 ($6,500,000,000/4,000) and, under the new rates, would face tax on its net investment income at a 4% rate.

Student-adjusted endowment	Tax Rate
$500,000 - $749,999	1.4% (current rate)
$750,000 - $1,999,999	4%
$2,000,000+	8%

- *Which institutions are subject to the tax?* The OBBB narrows the existing criteria for imposing the tax on institutions by requiring that they have at least 3,000 tuition-paying students during the preceding taxable year, up from 500 previously. This change will reduce the number of institutions subject to the tax. The other criteria have not changed: impacted institutions are those colleges and universities that are not state colleges or universities, have more than 50% of their tuition-paying students located in the United States, and have student-adjusted endowments of at least $500,000.

- *Which types of income are subject to the tax?* The Section 4968 tax is levied on an institution's "net investment income," which generally includes gross income from interest, dividends, rents, and royalties, and net capital gain from the sale or disposition of property held for investment, reduced by expenses directly connected with earning such income. The OBBB expands the scope of investment income subject to the tax to include interest income on student loans and royalty income from intellectual property whose development was federally subsidized.

- *What are the other key features of the amendment?* The OBBB expressly authorizes the Treasury to issue guidance to prevent tax avoidance, such as the restructuring of endowment funds or other arrangements that may reduce or eliminate the value of the net investment income or assets subject to the tax. It also requires institutions to report certain information about their student enrollment on IRS Form 990. It is not clear when or to what extent the existing Treasury Regulations under Section 4968 will be modified to address the changes in the statute.

Tax Credits and Deductions for Charitable Giving

3. New Tax Credit for Gifts to "Scholarship Granting Organizations"

Starting in 2027, the OBBB permits individual taxpayers to claim a dollar-for-dollar tax credit worth up to $1,700 per year per taxpayer under Code Section 25F for cash donations to scholarship granting organizations ("SGOs"), a type of charitable intermediary that exists to aggregate contributions to provide scholarships to qualified K-12 students to pay for qualified school expenses, which most notably include private school tuition. This federal credit is reduced by the amount of any similar credit allowed under state law, a limitation that is relevant to taxpayers in the 20 states that currently already offer such scholarship contribution credits.

- *What is an SGO?*
  An SGO is a type of Code Section 501(c)(3) public charity that exists to receive and aggregate contributions from donors and then distribute them in the form of scholarships to eligible students. To qualify as an SGO, the organization must be officially designated by the state in which it operates, under a process by which each state that has voluntarily elected to participate in this federal program submits a list of qualifying SGOs to the U.S. Department of the Treasury each year. To be an SGO, an organization must meet certain requirements, including that it is a public charity that provides scholarships to at least 10 students at more than one school, spends at least 90% of its revenue on scholarships, and does not engage in earmarking of scholarships or award any scholarship to a disqualified person (such as a substantial contributor to the SGO).

- *Who are eligible scholarship recipients and how are they taxed on the scholarship?*
  To qualify for a scholarship from an SGO, a student must be eligible to enroll in a public elementary or secondary school and be a member of a household with income for the calendar year prior to application for a scholarship that is not greater than three times the area median gross income as defined in Code Section 42. Eligible students generally are not taxed on scholarships they receive from SGOs.

- *What expenses are covered by SGO scholarships?*
  An SGO scholarship may be used only for qualified expenses, namely, expenses for tuition, fees, tutoring, special needs services, books, supplies, and other equipment incurred in connection with enrollment at an elementary or secondary public, private, or religious school. Qualified expenses also include room and board, uniforms, and certain transportation expenses, as well as computer technology or equipment, educational software, and internet access.

- *What other notable rules apply?*
  Taxpayers are barred from claiming a charitable deduction for a contribution for which the tax credit is allowed. Contributions in excess of the $1,700 per taxpayer annual limit on the credit may be carried forward and used to offset federal income tax liability for a maximum of five additional years.

4. Expansion and Extension of Deduction for Charitable Contribution Deductions for Non-Itemizers

Beginning in 2026, non-itemizing taxpayers will be eligible to claim a charitable deduction for gifts of up to $1,000 for single filers or $2,000 for joint filers, if their gifts were made in cash to public charities (other than Section 509(a)(3) supporting organizations and donor advised fund sponsors). Code Section 170(p) as amended raises the dollar-amount limits that were applicable in 2018 through 2025 and makes the non-itemizer deduction a "permanent" feature of the Code (this summary uses the term "permanent" to refer to instances in which the OBBB removes an expiration date that was previously applicable—the term "permanent" does not mean that provision may not be amended further).

5. New 0.5% Floor on Individual Charitable Contribution Deductions

Starting in 2026, the OBBB establishes a 0.5% floor for income tax charitable contribution deductions claimed by individual taxpayers who itemize their deductions. Under the amended Code Section 170(b)(1), these deductions are allowed only to the extent that an individual taxpayer's total contributions exceed 0.5% of the individual's "contribution base," which is equal to the individual's adjusted gross income ("AGI"), computed without regard to any net operating loss carryback for the tax year. The Senate Finance Committee's report explained that under this change, an individual's charitable contributions for the year must be reduced by 0.5% of the individual's contribution base, confirming that the 0.5% is a true "floor" that limits the availability and amount of the deduction, rather than a mere "hurdle" that must be cleared before deducting the full amount of a charitable gift.

- *Example:* If an individual taxpayer itemizes deductions and has a contribution base of $100,000 (AGI of $100,000 and no net operating loss carrybacks), the individual would be permitted to claim a charitable deduction only for gifts to charity *over $500 in the aggregate* (0.5% of their contribution base). If their total charitable contributions for the year are $300, the individual would not be able to claim *any* charitable deduction. On the other hand, if total charitable contributions are $1,200, the deduction is reduced by the $500 floor, allowing a deduction of only $700.

Prior to this change, itemizing individual taxpayers could claim charitable deductions with no minimum or floor.

6. New 1% Floor on Corporate Charitable Contribution Deductions

For tax years beginning after December 31, 2025, the OBBB establishes a 1% floor on corporate charitable deductions. Code Section 170(b)(2)(A) as amended provides that corporate taxpayers may claim a charitable deduction for any taxable year only to the extent that the aggregate of total contributions exceeds 1% of the corporation's taxable income and does not exceed 10% of its taxable income (subject to applicable carry-forwards). As with the 0.5% floor for individual charitable deductions, this provision limits both the availability and amount of the corporate deduction.

- *Example:* If a corporation has taxable income of $1,000,000, it would be able to claim a charitable deduction only for gifts to charity aggregating more than $10,000 (1% of taxable income). If the corporation made a contribution of $3,000, it would not be able to claim *any* charitable deduction. If it made a contribution of $12,000, the deduction would be reduced by the $10,000 floor, allowing the corporation to deduct only $2,000.

Prior to this change, corporations could claim charitable deductions with no minimum or floor.

7. Permanent Increase in Deduction Limit for Cash Gifts to Certain Charities

Beginning in 2018, under Code Section 170(b)(1)(G), individuals making gifts exclusively of cash to public charities, private operating foundations, and pass-through foundations described in Code Section 170(b)(1)(A) could claim an annual deduction up to 60% of their contribution base. That rule was set to expire at the end of 2025, but the OBBB makes it permanent.

8. Other Tax Changes That May Reduce Incentives for Charitable Giving

The OBBB has provisions of general applicability to individual taxpayers that, as a practical matter, may create disincentives for charitable giving:

- *New 35% limit on the value of all itemized deductions (including charitable deductions).* For individual taxpayers in the highest tax bracket (37%), all itemized deductions will be capped beginning in 2026 at a value of $0.35 for every dollar spent.

- *Extension of individual tax rates introduced by the TCJA and increase of the standard deduction.* The 2017 Tax Cuts and Jobs Act ("TCJA") temporarily lowered the rates for five of the seven individual income tax brackets (including lowering the highest rate from 39.6% to 37%), adjusted the bracket widths, nearly doubled the standard deduction, and eliminated the personal exemption. The OBBB makes those changes permanent starting in 2025, and it also further increases the standard deduction ($15,750 for single filers and $31,500 for joint filers, indexed for inflation).

- *Extension and expansion of the estate tax and lifetime gift tax exemption.* The OBBB extends the higher estate and lifetime gift tax exemption introduced by the TCJA that was set to expire at the end of 2025 and increases the amount of the exemption to $15 million for single filers and $30 million for married filing jointly, indexed for inflation.

Quick Reference Chart of Key Tax Provisions in the *One Big Beautiful Bill* Impacting the Nonprofit Sector

Provision	Description	Effective date
Taxes on Charities and Other Exempt Organizations		
Tax on excess compensation of certain tax-exempt organizations	Expands the 21% tax on excess compensation over $1 million paid by applicable tax-exempt organizations to *any* current or former employee during any tax year starting in 2017	Tax years beginning after 12/31/2025
Tax on investment income of certain colleges and universities	Increases the tax rates on investment income of certain private colleges and universities (up to a maximum of 8%), broadens the scope of taxable income, and excludes certain smaller institutions	Tax years beginning after 12/31/2025
Tax Credits and Deductions for Charitable Giving		
Tax credits for gifts to Scholarship Granting Organizations ("SGOs")	Individual taxpayers may claim an annual tax credit of up to $1,700 for cash gifts to SGOs	Tax years ending after 12/31/2026
Charitable deduction for non-itemizers	Individual taxpayers who do not itemize may claim charitable deductions for gifts of up to $1,000 for single filers or $2,000 for joint filers	Tax years beginning after 12/31/2025
0.5% floor on individual charitable deductions	Individual taxpayers who itemize may claim an income tax charitable deduction only to the extent their total gifts to charity exceed 0.5% of their "contribution base" (i.e., adjusted gross income computed without regard to any net operating loss carryback for the tax year)	Tax years beginning after 12/31/2025
1% floor on corporate charitable deductions	Corporate taxpayers may claim an income tax charitable deduction only to the extent that their total gifts to charity exceed 1% of their taxable income and do not exceed 10% of their taxable income	Tax years beginning after 12/31/2025
60% contribution base limit for individual cash gifts to certain charities	Individual taxpayers may deduct charitable contributions made in cash to eligible organizations (i.e., public charities, private operating foundations, and pass-through foundations) of up to 60% of the taxpayer's contribution base for the tax year	Tax years beginning after 12/31/2025
Other Tax Changes That Remove Incentives for Charitable Giving		
35% limit on value of all itemized deductions (including charitable)	Individual taxpayers in the highest tax bracket who itemize are subject to a cap of 35% on the value of all deductions (e.g., $0.35 for every $1), including charitable deductions	Tax years beginning after 12/31/2025
Lower individual tax rates and increased standard deduction	Expiration dates are lifted for tax brackets and rates that took effect in 2018. Standard deduction is increased to $15,750 for single filers and $31,500 for joint filers (indexed for inflation)	Tax years beginning after 12/31/2024
Estate tax and lifetime gift tax exemption	Estate and lifetime gift tax exemption is increased to $15 million for single filers and $30 million for married filing jointly (indexed for inflation)	Gifts and bequests made after 12/31/2025

Key Tax Provisions Excluded from Final Law

The OBBB did not include provisions that Congress considered in draft bills, including provisions that would have:

- Increased the tax rate on private foundations' net investment income.
- Allowed the Treasury Secretary to suspend the tax-exempt status of organizations designated by the Secretary as "terrorist supporting organizations."
- Expanded the definition of "unrelated business taxable income" to include certain types of income from the sale or licensing of an organization's name/logo, amounts paid or incurred for qualified transportation fringe/parking facilities, and certain research income.

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