
Tax Implications of the Big Beautiful Bill on Nonprofits

Description

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The One Big Beautiful Bill Act (OBBBA) introduces sweeping tax changes that will significantly impact nonprofit organizations. While the law aims to encourage charitable giving through a new universal deduction available to all taxpayers, including those who do not itemize, it simultaneously imposes new and higher excise taxes on private foundations and universities with large endowments. Corporations will face stricter limits on deductible charitable contributions, potentially reducing corporate philanthropy. It also imposes significantly higher excise taxes on college and university endowments, particularly targeting institutions with large “student-adjusted endowments,” which may reduce funds available for educational programs and financial aid. These changes could reduce the resources nonprofits rely on to fulfill their missions and require strategic adjustments in financial planning and donor engagement.

Key provisions of the OBBBA include:

- **Corporate Giving Limits:** The OBBBA introduces a 1% floor on the deduction for charitable contributions made by corporations, allowing any disallowed deductions to be carried forward for up to five years. Additionally, the bill caps itemized deductions for high-income taxpayers, reducing the effective value of charitable deductions for those in the top 37% tax bracket to approximately 35%, potentially further lowered by state and local tax deductions. These limitations may discourage corporate philanthropy by artificially restricting the tax benefits of charitable giving.
- **Universal Charitable Deduction:** The OBBBA makes permanent a universal charitable deduction available to all taxpayers, including non-itemizers. The bill increases this incentive, offering deductions up to \$1,000 for individuals and \$2,000 for married couples, aiming to broaden charitable participation.
- **Permanency of AGI Deduction:** The OBBBA makes permanent the ability for individuals to deduct cash gifts to public charities up to 60% of their adjusted gross income (AGI), beyond its current scheduled sunset after 2025. This incentivizes donors to make large cash contributions, increasing fundraising potential for public charities.
- **College and University Endowment Taxes:** The bill significantly increases excise taxes on college and university endowments through a tiered system. Institutions with a “student-adjusted endowment” between \$500,000 to \$750,000 would face a 1.4% tax, \$750,000 to \$2 million would be taxed at 4%, escalating to 8% for endowments exceeding \$2 million per student. This roughly doubles current tax rates for highly endowed institutions, reducing funds available for educational programs and resources.
- **Tax Credit for Donations to Scholarship-Granting Organizations:** The legislation introduces a nonrefundable tax credit of up to \$1,700 for contributions to state-approved scholarship-granting organizations. This credit is effective December 31, 2026.
- **Estate and Gift Tax:** The bill permanently extends the estate and lifetime gift tax exemption at \$15 million for single filers and \$30 million for married couples beginning in 2026, with future adjustments indexed for inflation.
- **Excise Tax for Highly Compensated Nonprofit Employees:** The 21% excise tax on excess compensation paid by nonprofits is significantly expanded. Currently, this excise tax applies only to the top five highest-paid employees earning over \$1 million annually. The bill would remove this top-five-earners limitation and instead apply the tax to all current and former employees who receive compensation exceeding \$1 million in a taxable year.
- **Expanded Taxable Benefits:** New corporate-level taxes would apply to certain employee benefits, including parking and transportation fringe benefits. These changes could increase operational costs for nonprofits.

In summary, the OBBA offers both incentives and challenges for nonprofits. While the permanent universal charitable deduction encourages giving, increased excise taxes on endowments, limits on corporate donations, and expanded taxes on employee benefits may reduce nonprofit resources. Organizations should review their financial and fundraising strategies carefully and stay informed as the bill progresses to effectively manage these changes.

To learn more about how these changes may impact your organization and how to proactively adjust your strategies, please reach out to our experienced [Nonprofit & Tax-Exempt](#) attorneys – Partner & Nonprofit Chair [Elizabeth Manchester](#), Madeline Ursini, or [Kelley J. Decena](#). They are ready to help you navigate these complex developments and ensure your organization remains positioned for success.

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