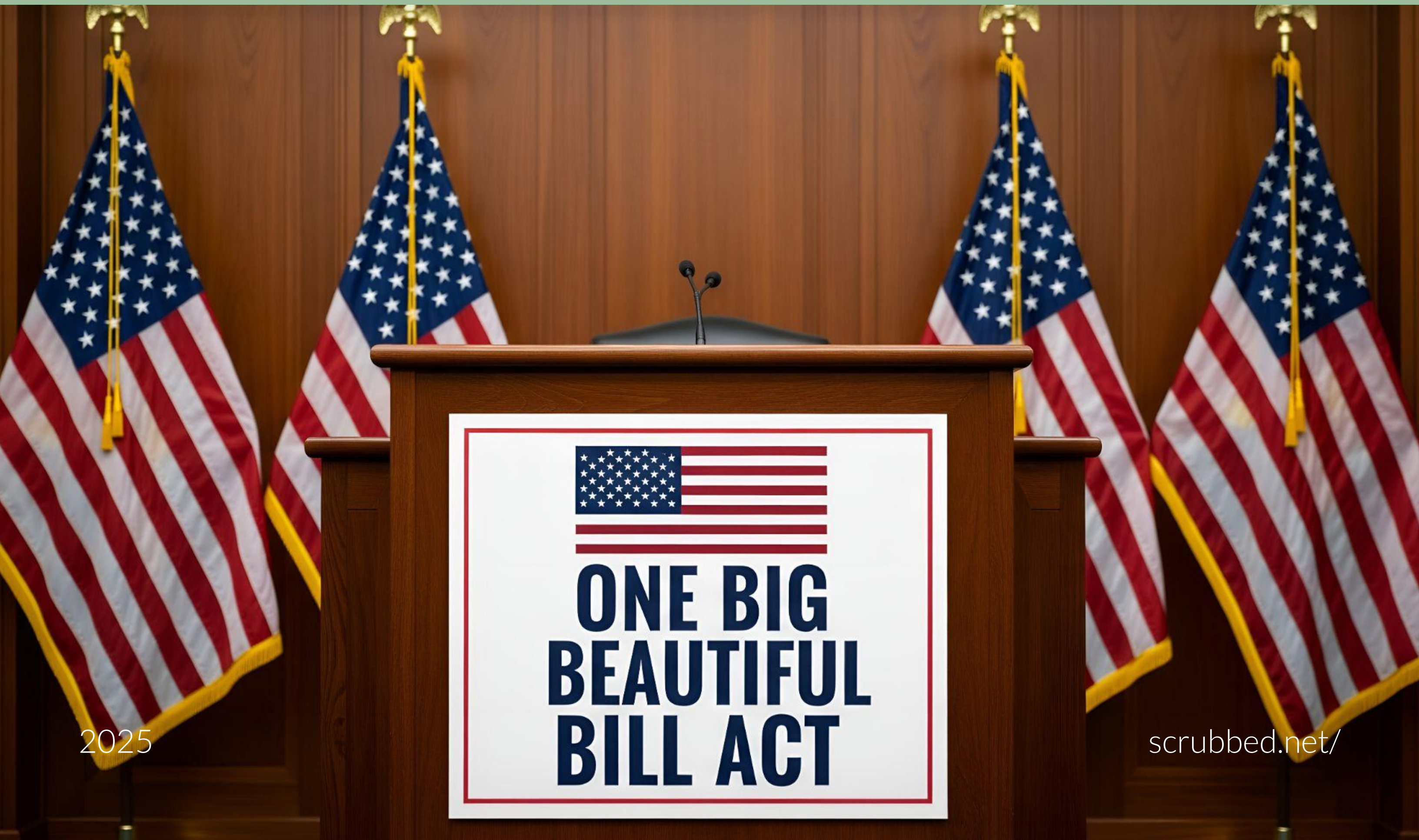
Guide

From Impact to Action

How Non-Profit Leaders Can Navigate the Latest Tax Changes Following the OBBBA



2025

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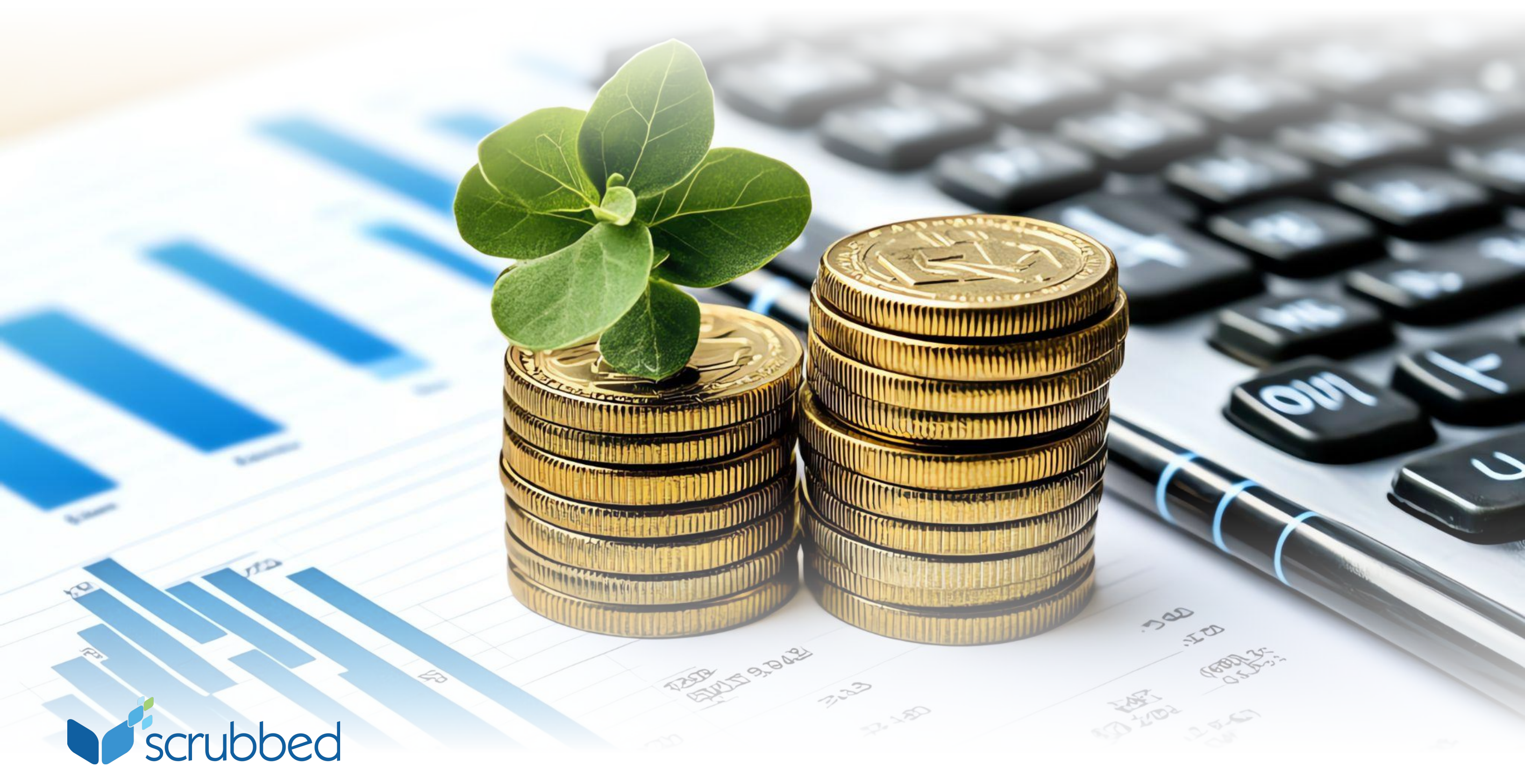
Introduction: A New Chapter for Nonprofit Finances

On July 4, 2025, the United States entered a new fiscal era with the signing of the One Big Beautiful Bill Act (OBBBA). This represents one of the most significant shifts in federal tax policy in recent years, introducing new economic growth initiatives and tax reforms that will significantly affect nonprofit organizations nationwide.

For nonprofit leaders, understanding what the law changes and when these take effect is crucial to prepare for their impact on both short- and long-term operations. This guide will highlight the most important aspects of the OBBBA that apply to nonprofit organizations. We'll also break down the key tax-related updates, explain their effects on accounting and planning, and share recommendations to help your organization adapt to this new regulatory environment.



Tax-Related Changes Affecting Nonprofits

The OBBBA introduces new tax provisions that have a large impact on nonprofit finances. Understanding these changes is essential for staying compliant with the new law and making informed long-term decisions. Here's what you need to know:

New Charitable Contribution Deductions

The OBBBA introduces a two-tiered system for charitable deductions that could significantly influence donor behavior, including:

Above-the-line deductions
Starting in 2026, individual taxpayers who don't itemize can claim a permanent deduction of up to $1,000 or $2,000 for joint filers. This change aims to boost small-dollar donations and increase donor participation.

New floors for itemizers and corporations
Itemizing taxpayers must now contribute at least 0.5% of their Adjusted Gross Income (AGI) to qualify for charitable deductions. Corporations face a 1% floor on taxable income, with an annual cap of 10% remaining unchanged. These changes may reduce the appeal of charitable giving for high-capacity individual and institutional donors.

These new changes to charitable donations will greatly affect the way donors give and to whom. As a result, nonprofit organizations will need to diversify their donor base to offset the potential decline in donations from larger organizations because of the 1% AGI floor, alongside a likely increase in small-dollar donations due to the universal deductions.

Scholarship donation tax credits
Starting 2027, a new, dollar-for-dollar tax credit of up to $1,700 is available for donations to scholarship-granting organizations supporting K–12 education.

To qualify, SGOs must:

- Be 501(c)(3) public charities (not private foundations),
- Spend at least 90% of their receipts on scholarships,
- Meet income verification and scholarship distribution rules,
- Undergo annual independent financial and compliance audits.

SGOs that fail to meet these distribution requirements risk losing credit eligibility in subsequent years, while those that qualify can expect to see an increase in contributions.

Adjustment to whaling-related deductions
The deduction limit for Native Alaskan subsistence whaling expenses increases from $10,000 to $50,000 and applies to certain cultural and community-focused nonprofit activities.

Because whaling is tied to tradition and food security, this change helps nonprofit organizations sustain cultural and community-focused programs without added financial strain.

Expanded Executive Compensation Excise Tax

The OBBBA also significantly **expands the scope of the 21% excise tax on nonprofit executive compensation,** which means the tax now applies to **any current or former employee earning over $1 million annually** since 2017.

Because of this change, organizations, especially in the **healthcare, higher education, and national charities** sectors will now have to review historical and current compensation agreements to identify potential tax exposure and proactively address stakeholder concerns about high executive pay to ensure compliance.

Increased Endowment and Investment Income Taxes

With the OBBBA, a tiered excise tax structure replaces the former flat 1.4% rate. Under the new model, institutions with **high per-student endowment values** (e.g., $500,000 per student or more) will see rates climb **up to 8%**, based on their investment size and income levels.

The OBBBA also expands the definition of "net investment income" to **include royalty revenue and income from related entities.**

Accounting & Financial Planning Impacts

The tax code changes are only the beginning. The effects of OBBBA will also reshape how nonprofits manage their finances, report expenses, and plan for the future.

Here are some of the changes you can expect and what you can do now to prepare:

Update operating budgets and revenue forecasting models: With the expanded excise tax on executive compensation and the tiered endowment tax structure, organizations will have new financial obligations that need to be built into budgets.

Since the law now uses a broader definition of who counts as a "covered employee," nonprofits could face surprise excise taxes if older compensation agreements are overlooked. To avoid penalties, start reviewing records to identify employees who were among the five highest-paid since 2017, since they may now be subject to excise tax, and explore restructuring options as needed.

Reevaluate endowment and investment strategies: Organizations with large endowments or investment portfolios need to keep a closer eye on the new graduated tax rules, as these can reduce their overall returns. For universities nearing the per-student endowment threshold, now is the time to **review how these taxes could affect financial stability.** That may mean adjusting payout levels, changing portfolio allocations, or renegotiating donor restrictions on endowed funds for greater flexibility.

With the law expanding what counts as taxable investment income, educational institutions must **reassess how they categorize income.** For instance, litigation financing and other alternative funding sources may now create tax obligations that did not exist before.

Enhance reporting and audit readiness: Nonprofit organizations will need to ensure that their reporting systems and internal controls are up to date. It's also important to increase the granularity of reporting around **restricted versus unrestricted funds, large non-cash contributions, and fringe benefits**, as these all carry new tax implications.

Some things you can do to stay ahead include:
Updating chart-of-accounts classifications
Improving collaboration between development and finance teams

Automating acknowledgment letters to reflect new tax rules

The Financial and Business Opportunities

A comprehensive ESG strategy embeds sustainability principles throughout the entire company, maximizing positive impact. Some ways in which cleantech companies can take their ESG strategy to the next level include:

- **Build multi-scenario financial models based on new tax exposures:** Instead of relying on a single projection, organizations should **create baseline, optimistic, and pessimistic financial scenarios.** This approach considers changes in executive compensation, endowment tax liabilities, and the potential shifts in donor funds, allowing nonprofit leaders to make more agile and data-driven decisions.

  When making these models, be sure to **track these key indicators**, as these will highlight how the OBBBA affects your organization:

  - Total gifts from non-itemizers are now deductible under the universal deduction
  - Number of donors exceeding deduction floors (individual/corporate)
  - Executive compensation trajectory vs. $1M threshold
  - Excise tax exposure on compensation or endowments (if applicable)
  - UBIT revenue share of total income

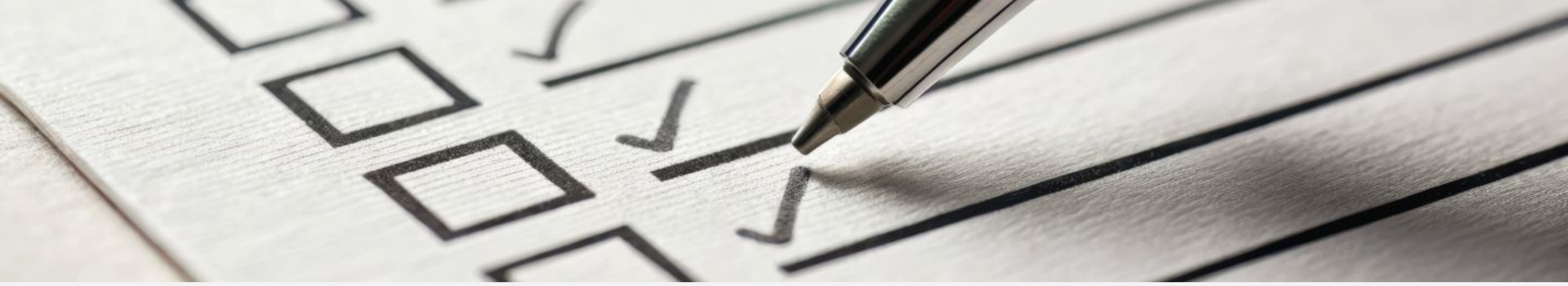
- **Evaluate and restructure compensation and benefit plans:** To stay compliant with OBBBA while making the most of your tax position, it may help to cap or defer compensation to avoid large one-year spikes. Organizations should also consider replacing taxable bonuses with strategic non-taxable benefits.

  If your nonprofit owns a for-profit subsidiary or revenue-heavy unit, consider isolating it for clearer UBIT treatment.

  It's also important to take a fresh look at your overall compensation strategy. Staying competitive and aligned with your mission matters just as much as tax efficiency.

  With fewer options tied to tax incentives, organizations can focus on **offering more meaningful benefits**, including:

  - Flexible work arrangements
  - Wellness stipends
  - Professional development opportunities
  - Deferred compensation for leadership
  - Mission-driven perks, like sabbaticals or paid volunteer days



The OBBBA also secures tax-free treatment of employer-paid student loan assistance under [Internal Revenue Code §127]. This allows employers to provide up to $5,250 per year in student loan repayments without those payments being counted as taxable income.

These kinds of benefits strengthen employee satisfaction and retention while reinforcing your organization's values

- **Adapt fundraising strategies in response to shifting donor incentives:** Appeals should **highlight the permanent above-the-line deduction** to attract taxpayers who might not normally itemize.

  Under the OBBBA, only contributions above the new deduction limits are deductible. So, the messaging should shift for major donors as well; focus on the lasting impact of large gifts rather than on their tax benefits.

  Meanwhile, scholarship-granting organizations face even higher stakes. The new $1,700 federal tax credit can motivate donors, but only if the organization stays compliant with scholarship distribution timelines and audit requirements. A **Q3 review of eligibility criteria and internal controls** can help keep fundraising efforts effective and sustainable.

Actionable Recommendations

Now that the One Big Beautiful Bill Act is law, nonprofit leaders face a clear challenge: move quickly to ensure compliance while protecting financial sustainability and maintaining stakeholder trust.

That starts with a few key steps:

Identify Exposure to New Tax Liabilities

Before you can respond to said changes, it's important to know where your organization is most vulnerable. The best way to do this is **by conducting a focused internal audit of compensation and investment income.**

Executive compensation and investment income from private college and university endowments will be among the top audit priorities for the IRS in 2025. And by identifying and mapping out these risks now, nonprofits can avoid penalties or costly surprises later on.

Communicate Financial Risks

Boards can only lead effectively if they understand the financial impact this new law will have on the organization. However, according to Urban Institute's 2025 survey, nearly half of nonprofit leaders say their boards have not been fully briefed on the risks tied to the new tax code.
This is where financial executives can make a difference. They can **share clear dashboards, impact briefings, and multi-scenario projections** of the potential liabilities and shifts in donor behavior, to give board members a better idea of the financial stakes and allow them to guide the organization more effectively.

Update Internal Policies

Because the OBBBA affects multiple areas of nonprofit organizations, policy updates will need to be done collaboratively. HR teams should **reassess how pay is structured**, especially for high earners with bonuses or deferred compensation. At the same time, finance teams will need to **implement stronger systems for tracking fringe benefits and investment income.** Meanwhile, legal teams should review endowment agreements and confirm that they allow for flexibility under the new tax structure. Doing so will allow nonprofits to respond to OBBBA changes more effectively and avoid any compliance gaps.

Collaborate with Trusted Advisors

Tax advisors and legal experts are crucial for nonprofits facing changes from the OBBBA. They can forecast potential tax liabilities, adjust compensation and benefits, and ensure reporting systems are ready for audits.

Moreover, under the OBBBA, nonprofits risk unintentional noncompliance in how they communicate tax deductibility and issue donation acknowledgments. Organizations might mislead donors by overstating tax benefits or issuing incorrect receipts if they don't update their language and procedures to meet new rules.

Experts can step in here to review acknowledgment templates, ensure donor communications reflect current deductibility limits, and confirm that receipts include all legally required details. They can also train staff on how to avoid misleading statements in fundraising appeals, helping protect both the nonprofit's credibility and its donors' confidence.

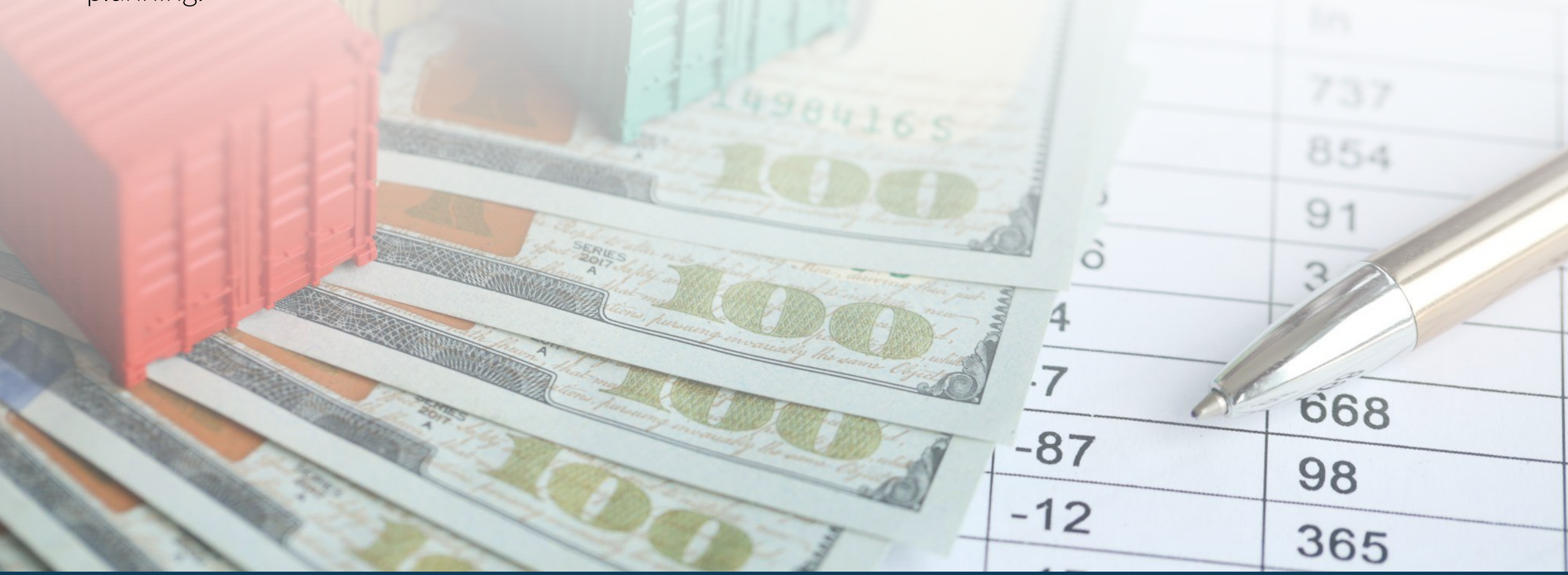
By working with professionals now, nonprofit leaders can **anticipate how the new changes will affect their organization** instead of reacting last minute. This proactive approach also allows them to focus on long-term planning and adapt smoothly to a shifting regulatory environment.

Conclusion

The One Big Beautiful Bill Act introduces both opportunities and challenges for nonprofit organizations and marks a turning point in how they approach financial management, compliance, and long-term planning. Because these changes are not temporary or minor, they call for thoughtful and organization-wide preparation.

Organizations that take time now to evaluate their financial exposure, strengthen reporting, and adjust compensation and investment strategies will be in the strongest position to succeed in this new environment.

Take the first step toward confident decision-making under the new law and schedule a free consultation with our expert team to review how these changes affect your organization and assess your compliance and planning.



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