

The Nutter logo, featuring the word "Nutter" in a bold, blue, sans-serif font. A stylized blue swoosh is positioned above the letter "t".

Nutter

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**One Big Beautiful Bill Act Changes Are Forthcoming in 2026:
Effects on Charitable Organizations and Their Donors**



One Big Beautiful Bill Act Changes Are Forthcoming in 2026: Effects on Charitable Organizations and Their Donors

Earlier this year, President Trump signed the One Big Beautiful Bill Act (the “OBBB”) into law. The OBBB has had a widespread impact on tax legislation, either amending or repealing many provisions of the Internal Revenue Code (the “Code”) for both businesses and individuals. The charitable sector was not completely spared, with changes to the university “endowment tax” and section 4960 executive compensation rules making the final cut, for example. But the impact to the sector is not as drastic as the original version of the OBBB suggested. In fact, some of the provisions provide additional tax *benefits* for donors to charitable organizations, which encourage charitable giving in 2026 and beyond.

We have put together the overview below to help you understand how the OBBB may affect your charitable organization and donors. The changes discussed below are all set to become effective as of January 1, 2026.

Charitable Organizations

Endowment Tax

The OBBB replaced the 1.4 percent excise tax imposed on the net investment income of private colleges and universities having a certain endowment-per-student amount with the following tiered system:

Student Adjusted Endowment	Applicable Percentage
\$500,000–\$750,000	1.4%
\$750,000–\$2 million	4%
\$2 million+	8%

The new endowment tax applies to private educational institutions with at least 3,000 tuition-paying students during the preceding taxable year, more than 50 percent of whom are located in the United States. Such eligible institutions calculate their student adjusted endowment by dividing the aggregate fair market value of their assets (determined as of the end of the preceding taxable year), other than those assets which are used directly in carrying out the institution’s exempt purpose, by the number of students at the institution.

While the maximum tax rate is significantly higher at 8 percent than the prior 1.4 percent, the taxable thresholds for number of students and student adjusted endowment amount have been raised, so certain institutions that paid the 1.4 percent tax will *not* pay the current tiered tax.



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Executive Compensation Limit

Section 4960 of the Code imposes a 21 percent tax on tax-exempt organization executive compensation. Previously, the tax only applied to the compensation of the five most highly compensated employees of a tax-exempt organization (each a “covered employee”) in excess of \$1 million, plus any excess parachute payment paid by such an organization to such an employee. The section 4960 excise tax applies to the following tax-exempt organizations:

- Organizations exempt under section 501(a) of the Code (e.g., public charities, private foundations, social welfare organizations, and trade associations);
- Farmers’ cooperative organizations;
- Organizations with income excluded from taxation under section 115(a) of the Code; and
- Political organizations described in section 527(e)(1) of the Code.

The OBBB has expanded the definition of “covered employee” to include *any* current or former employee of a tax-exempt organization (or any predecessor of such organization).

Donors

Changes to Charitable Deduction Rules (Individuals)

The OBBB makes permanent an increased contribution limitation for cash gifts made to public charities. An individual’s deduction for charitable contributions of cash to public charities is limited to 60 percent of their adjusted gross income (“AGI”) for their taxable year. If the aggregate amount of contributions exceeds the limit, then the excess can carry forward for five years.

The OBBB also makes permanent and increases the deduction for taxpayers who do not itemize deductions. Taxpayers can claim a deduction of up to \$1,000 (\$2,000 for married taxpayers filing jointly) for qualified charitable contributions without having to itemize their deductions on their tax return.

Finally, for taxpayers who itemize their deductions, the OBBB instates a 0.5 percent floor on charitable contributions. This means taxpayers who itemize can only claim a deduction for charitable contributions if they exceed 0.5 percent of their AGI for a given year. Unlike other provisions in this area, this provision will likely decrease a donor’s tax deductions from charitable giving.

Changes to Charitable Deduction Rules (Corporations)

Like the provision affecting individuals, the OBBB implements a new floor for the deduction of a corporation’s charitable contributions. Currently, a corporation is allowed a deduction for its charitable contributions, up to 10 percent of its taxable income for the year. Excess contributions may be carried forward for five years. This 10 percent limit is unaffected by the OBBB. The new OBBB provision allows a corporate charitable contribution deduction only to the extent that its total charitable contributions exceed 1 percent of its taxable income for the year.



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Tax Credits for Contributions to Scholarship Granting Organizations

The OBBA includes a new personal credit for charitable contributions to certain scholarship granting organizations. If a taxpayer makes a qualified contribution of cash to an organization that issues scholarships to schools that provide scholarships to students in grades K-12, then they may claim a credit of up to \$1,700.

A “scholarship granting organization” is any organization that:

- Is an exempt section 501(c)(3) organization;
- Is not a private foundation;
- Maintains separate accounts exclusively for qualified contributions;
- Satisfies the requirements to qualify as a scholarship granting organization, as in it:
 - Provides scholarships to 10 or more students who do not all attend the same school,
 - Spends not less than 90 percent of its income on scholarships for eligible students,
 - Limits scholarships to qualified elementary or secondary school expenses,
 - Prioritizes scholarships to students awarded scholarships the previous school year and their siblings,
 - Does not earmark or set aside contributions for any particular student, and
 - Verifies the annual household income and family size requirements are met and awards scholarships only to eligible students who meet the household income limit; and
- Is included on the list for the applicable covered state for the applicable year.

A “qualified contribution” is a charitable contribution of cash to such an organization that uses the contribution to fund scholarships for eligible students solely within the state in which the organization is a listed organization. “Covered states” are those states or the District of Columbia that voluntarily elect to participate in and to identify scholarship granting organizations in their state.

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What is Not Included in the OBBB?

In May, we [reported on the version of the OBBB passed by the House of Representatives](#). Many of the provisions that were contained in the House-passed version did not make it into the final OBBB legislation that President Trump signed into law. Notable provisions that did *not* become law are listed below:

1. The OBBB does not increase the excise tax rate on the net investment income of certain private foundations based on asset level. Instead, private foundations remain subject to a flat excise tax of 1.39 percent.
2. The OBBB does not expand the reach of 501(p) of the Code, which allows for the suspension of an organization's tax-exempt status upon its designation by federal authorities as a terrorist organization. In the House's version of the bill, 501(p) was made to apply both to terrorist organizations and terrorist *supporting* organizations, which were defined as any organization designated by the Secretary of the Treasury as having provided, during the three-year period ending on the date of such designation, "material support or resources" to a terrorist organization or another terrorist supporting organization. There were concerns that the OBBB would include such language, which could have been used by the federal government to target the tax-exempt status of certain organizations.
3. The OBBB has not made numerous anticipated changes to unrelated business taxable income ("UBTI") provisions in the Code. Namely, the OBBB does not include expenses for qualified transportation fringe benefits (e.g., employer provided parking) under the umbrella of UBTI. Additionally, it does not treat royalty income generated from the licensing of a tax-exempt organization's name or logo as UBTI. Finally, the OBBB does not exclude the income derived from certain fundamental research from UBTI only in the case that such research is made available to the general public.
4. The OBBB does not amend the Code to make certain non-publicly traded stock from an employee stock ownership plan excluded from a private foundation's excess business holdings under section 4943.

Where Do We Go From Here?

These provisions of the OBBB go into effect for taxable years beginning after December 31, 2025. As the end of 2025 approaches, [Nutter's Nonprofit and Social Impact Practice Group](#) is here to help charities and their donors determine how these changes apply to them. As always, Nutter has been and will continue to monitor the impact of tax legislation on the charitable sector.

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About Nutter's Nonprofit and Social Impact Practice Group

[Nutter's Nonprofit and Social Impact Practice Group](#) provides a wide range of services to nonprofit organizations, individuals, and businesses utilizing an interdisciplinary team approach that focuses on each client's specific needs. We counsel healthcare, educational, human services, religious, and cultural institutions, as well as donor advised funds, corporate and family foundations, and generations of philanthropic families. Our reach expands beyond charitable organizations to include trade associations, chambers of commerce, social welfare organizations, social clubs, and for-profit enterprises intent on developing or enhancing their philanthropic strategies.

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