

One Big Beautiful Bill Act: What Nonprofits Need to Know



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On July 4, 2025, President Trump signed into law the budget reconciliation bill originally named the One Big Beautiful Bill Act, which makes permanent the tax cuts introduced in the Tax Cuts and Jobs Act of 2017. Its [800-plus pages](#) include several provisions related to charitable giving and the nonprofit sector. Let's review some of the highlights.

Employee Retention Credit Deadline Moved Forward

The Exempt Organizations Examinations function of the IRS has been mired in reviews of unpaid employee retention credit (ERC) claims for credit or refund for years.

[Prior IRS guidance](#) on the ERC, a refundable tax credit for certain tax-exempt organizations that had employees and were affected during the COVID-19 pandemic, generally allowed organizations to claim it for 2020 tax periods by April 15, 2024, and 2021 tax periods by April 15, 2025.

The new law states that ERC refund claims filed after January 31, 2024, will be disallowed, regardless of whether the claim was timely filed or valid under prior law. In addition, the statute of limitations has been extended 6 years from the date of the claim.

Form 1099 Reporting Thresholds

For payments made after December 31, 2025, the minimum threshold for reporting income on Form 1099 increases from \$600 to \$2,000. This threshold will adjust annually for inflation beginning in 2027.

Endowment Tax Increase

The law amends Internal Revenue Code Section 4968 by replacing the previous flat 1.4% endowment tax on investment income that applies to certain private colleges and universities with a three-tiered system based on endowed assets per student. This figure is calculated by taking the aggregate fair market value of the institution's assets- excluding assets used directly in carrying out its exempt purpose, like its facility- and dividing it by the number of its students.

Private colleges and universities with endowed assets per student between \$500,000 and \$750,000 will pay 1.4%, and those between \$750,000 and \$1,999,999 will pay 4%. Institutions with \$2 million or more of endowed assets per student will pay 8%. This tax only applies to institutions with 3,000 tuition-paying students or more during the preceding taxable year.

Excess Compensation Tax Expansion

For tax years beginning after December 31, 2025, the new law revises the 21% excise tax imposed by IRC Section 4960 on compensation over \$1,000,000 to make it applicable to all employees and former employees rather than just the five highest compensated current or former employees for the applicable tax year. The look-back period for former employees is limited to taxable years beginning after December 31, 2016.

New Floor on Charitable Deduction for Itemizers

For tax years beginning after December 31, 2025, individuals who itemize may now claim deductions for charitable contributions only to the extent that total contributions exceed 0.5% of their adjusted gross income. For example, if a taxpayer has an AGI of \$400,000, the first \$2,000 ($\$400,000 \times .005$) of their charitable contributions cannot be taken as a deduction. In addition, the AGI limitation for an individual's cash contribution to a public charity is permanently increased to 60%.

New Charitable Deduction for Non-Itemizers

For tax years beginning after December 31, 2025, the law incentivizes non-itemizers to give to charity by providing a permanent tax deduction of up to \$1,000 for single filers and \$2,000 for joint filers.

New Floor on Charitable Deduction for Corporations

For tax years beginning after December 31, 2025, corporations may now claim deductions for charitable contributions only to the extent that total contributions exceed 1% of their taxable income. The 10% limit is unchanged. The result is corporations are required to contribute at least 1% of their taxable income to qualify for a charitable deduction.

New Scholarship Tax Credit

The law creates a new income tax credit for individuals who donate to certain IRC Section 501(c)(3) organizations that provide scholarships to U.S. elementary and secondary school students. The credit, which is capped at \$1,700, aims to help students who are members of households with an income that's not greater than 300% of the area median gross income.

Recipient Section 501(c)(3) organizations must, among other requirements, provide scholarships to 10 or more students who do not all attend the same school, spend 90% of their income on scholarships for eligible students, limit scholarships to qualified elementary or secondary education expenses, and not earmark or set aside contributions for a particular student.

The effective date of this provision begins in 2027.

It is important to note that this article provides a summary of the key items that are expected to affect the tax implications for most nonprofits. However, the specific impact of this new legislation may vary significantly based on your organization's mission, funding model, and operational structure. We strongly advise all nonprofits to consult with their professional advisors to understand the full implications for their specific situation and to develop strategies for navigating these changes.

For additional information on how the bill impacts healthcare, higher education and other industries, click [here](#).

If you have any questions as to how the law may affect your organization, please reach out to your trusted [Dean Dorton advisor](#).